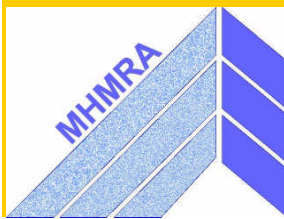


USE OF FLEXIBLE FUNDING ACCOUNTS

Audit Report No. FF0108

**Mental Health, Mental Retardation,
And
Comprehensive Psychiatric Emergency Program Division**

May 1, 2008



**MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY**

Internal Audit Report

AUDITOR'S REPORT

Use of Flexible Funding Accounts

Harris County, Texas

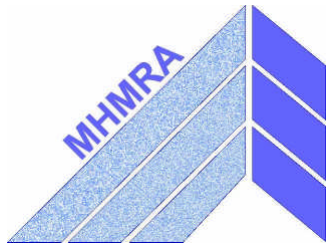
Internal Audit Report

May 1 , 2008

Henry E. Webb, CFE

Internal Auditor





MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY

May 1, 2008

Steven B. Schnee, Ph.D.
Executive Director
MHMRA of Harris County
7011 SW Freeway
Houston, TX 77074

RE: Use of Flexible Funding Accounts
(Report No. FF0108)

Dear Dr. Schnee:

BACKGROUND

The Mental Health and Mental Retardation Authority of Harris County (MHMRA) has established several flexible spending accounts allowing the clinical divisions to provide a means for payment of various qualified services. At times, a quick turn around is required for payment of specific services which are deemed time critical to a client's well being. The traditional accounts payable process is required when time is not a critical factor.

Petty Cash – Flexible Spending Account – This account was established to be accessible by the clinical division only and is to follow the RDM flexible funding guidelines. The petty cash fund is required due to the need for cash and the quick turn around time that is needed to pay for requested services. It has been determined that it is more efficient to distribute the funds in this manner rather than going through the accounts payable process. The funds available are set at \$4,100 with no set limit on the number of times the fund may be replenished.

OBJECTIVES

The overall objectives of the audit were to determine whether the departments:

- Managed and used resources in an efficient, effective, and economical manner
- Administered funds in compliance with applicable laws, regulations, and policies and procedures
- Implemented internal controls to prevent or detect material errors and irregularities

The specific objective in this audit was to:

- Assist management with the assessment of the adequacy of internal controls related to recording, reporting, and safeguarding the Agency's control over the flexible spending accounts.

SCOPE

The scope of the work did not constitute an evaluation of the overall internal control structure of the units. The examination was designed to evaluate and test compliance with established policies and procedures and to test the internal control over tested areas and material. The audit scope was from September 1, 2007 through March 31, 2008.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected in a timely manner. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report. Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. Internal Audit would like to thank management and staff for their cooperation throughout the audit.

METHODOLOGY

In order to meet the objectives, Internal Audit flowcharted and evaluated controls over the use of each flexible spending account, and reviewed policies and procedures for compliance and completeness. MHMRA staff were interviewed and audit tests and procedures were conducted as considered necessary.

The sample size and selection were statistically generated using a desired confidence level of 95%, expected error rate of 5%, and a desired precision of +/-5%. Statistical sampling was used in order to infer the conclusion of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to afford a reasonable basis for the judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. An audit also includes assessing the estimates, judgments, and decisions made by Agency management. It is believed that this audit provides a reasonable basis for the findings, conclusions, and recommendations.

RESULTS

As a result of the audit procedures and surveys conducted, it was determined that controls over the use of the flexible spending accounts are adequate, effective, and provide reasonable assurance that the Mental

Health and Mental Retardation Authority of Harris County's use of the flexible funding accounts are within established guidelines set forth by the Texas Department of State Health Services or the Agency's own internal policies and procedures.

- S -

Henry E. Webb

CC: Rose Childs, MSW, CSWM, Deputy Director, Mental Health Division
Kenneth Collins, LMSW, Deputy Director, Mental Retardation Division
Barbara Dawson, MSE, Deputy Director, Comprehensive Psychiatric Emergency Program Division
Daryl Knox, MD, Medical Director, Comprehensive Psychiatric Emergency Program Division
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 Vicki S. Raynold, CPA
 Bob Borochoff