

FIXED ASSETS/INVENTORY CONTROL

Audit Report No. FA0206

September 8, 2006



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

Internal Audit Report

AUDITOR'S REPORT

Fixed Assets/Inventory Control

Harris County, Texas

Internal Audit Report

September 8, 2006

Henry E. Webb, CFE

Internal Auditor





September 8, 2006

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

Re: Fixed Assets/Inventory Control (Report No. FA0206)

BACKGROUND

The Mental Health and Mental Retardation Authority of Harris County (MHMRA) has formal policies and procedures designed to ensure control and oversight related to recording, valuing, reporting and safeguarding inventory and that fixed assets are adequately accounted for (*Revision Date: October 13, 2005*). These policies and procedures were created to provide a mechanism to monitor, by a centralized fixed asset management system (AssetWin), the accountability, care, and disposition of those assets.

The obligation of a unit director or department head is to ensure that the Agency property within their custody is subject to proper use, care, safe-keeping, and disposition. This is inherent by the assignment to that position at any level and includes ensuring the security of all property with that unit or department, whether idle or in use. Additionally, this includes monitoring subordinates to ensure that their activities contribute to the proper support and accountability of site assigned property.

The obligation of staff entrusted with Agency property is best described as an end-user that ensures its proper use, care, and safekeeping. Direct responsibility results from a documented assignment as the accountable person for that asset.

Personal responsibility or obligation for the asset is inherent by all Agency personnel to exercise reasonable and prudent actions regarding the proper use, care, and safeguarding of Agency property in their physical possession or care. This applies to all property issued, used, acquired, or converted to a person's exclusive use.

The following highlights the provisions found in Policy and Procedures **BUS-R/I: 1.1 – F/B: 3.4:**

- All property and equipment are assigned to a unit location
- If property or equipment is to be used off premises, written approval must be obtained
- Property and/or equipment signed out to an employee becomes the financial responsibility of that employee
- MHMRA property shall be inventoried according to guidelines developed and in compliance with the State Property Law
- The numbering of all MHMRA property is to be done with metal tags, decalcomania transfers, or cloth tabs

- The property will be assigned a unique sequenced number
- The Accounting Department will forward a copy of the Voucher and Invoice to the Fixed Asset Manager (source document)
 - ❑ Numbered Property Tag – Each item is to be assigned a number and an identification tag is affixed.
 - ❑ Non-Numbered Property Tag – A non-numbered identification tag is affixed to items of less than \$5,000 value.
 - ❑ Numbered Property Register – A numerical list of all property is maintained showing inventory number, unit number, location number, description of property, and value of item. The Fixed Asset Manager maintains the location register.
 - ❑ Numerical Listing of All Properties – This is to be furnished to each person responsible for property, at least once a year.
- On an on-going basis, the person responsible for property at the unit will be sent a list of all property that he/she is responsible for on the property records
- There will be a physical inventory on a test basis throughout the year. All units and departments will be inventoried at least once during the year
- The person responsible for numbered property will notify the Fixed Asset Manager and the Purchasing Officer in writing when any property becomes surplus
- The Purchasing Officer will transfer the surplus property to a locked, secured place
- The Purchasing Officer will also be responsible for all salvage property
- Receipts from Agency sales go into the General Fund

Currently, MHMRA utilizes the Fixed Asset System called AssetWin, and maintains all fixed assets and required inventoried items in this system. The State of Texas requires MHMRA to safeguard property as described in the Fiscal Year 2006 Performance Contract:

“ Article 16, Section 16.01 Equipment Purchases. Contractor shall implement a capitalization threshold for personal property at \$5,000. Contractor shall manage controlled assets, to include facsimile machines, telecopiers, stereo systems, cameras, video recorder/laserdisc players, televisions, video cassette recorders, camcorders, desktop and laptop computers, and non-portable printers.”

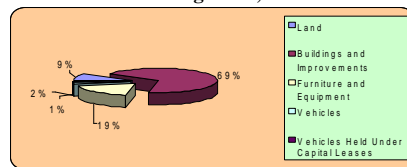
“Section 16.02 Property Inventory. Contractor shall maintain a nonexpendable personal property (i.e., equipment) inventory. Contractor shall administer a program of maintenance, repair, and protection of assets under this Contract so as to assure their full availability and usefulness.”

MHMRA’s approach to asset management is to apply a standard business operating system through AssetWin regarding property control, accountability, responsibility, and general asset management. Additionally, management has tried to provide consistent asset transaction reporting procedures for maintaining and updating site inventory records.

In nearly every case, personnel employed by MHMRA are users of either fixed assets or those assets which require tracking. The policy and procedures provides specific guidance and procedures towards the proper use and care of such assets, including the disposition of stolen, lost, damaged or destroyed property. It further defines the accountability, responsibility, and liability of Agency personnel regarding property use, including the reporting of transactions necessary for the effective record maintenance of AssetWin.

Exhibit 1. Presents total fixed assets as a percentage (%) by group.

Exhibit 1
MHMRA of Harris County
Total Fixed Assets as a Percentage (%) by Group
As of August 31, 2005



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, 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, valuing, reporting, and safeguarding the Agency's inventory and fixed assets.

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 January 1, 2006 through July 31, 2006.

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 acquisition, accounting, transfer and disposal of assets, and reviewed policies and procedures for compliance and completeness. MHMRA staff was 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 conclusions 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 decision 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 inventory and fixed assets are inadequate, ineffective, and do not provide reasonable assurance that the Mental Health and Mental Retardation Authority of Harris County's fixed assets and inventory are accurately recorded, valued, reported, and adequately safeguarded.

FINDING

Data Reliability

The most expensive part of implementing an asset management system is creating the original data base, and one of the most important aspects of effective asset management is the accuracy of the underlying data. In order to enable proper management and monitoring of Agency property, MHMRA employees should not be allowed to discard, donate, remove, sell, give away, or transfer any asset item unless proper forms have been filled out and properly authorized.

In our review of the equipment listing database obtained from the AssetWin fixed assets system, we noted the following incomplete or missing information:

- 24 out of 65 (37%) samples selected during our physical inspection of assets from the floor to AssetWin database were not recorded in AssetWin.
- 14 out of 78 (18%) samples selected during our physical inspection of assets from the AssetWin database to the floor were not located.
- Software totaled approximately \$2,439,401 in AssetWin and \$3,078,347 in the Information Technology database for a variance of \$638,946.
- 32 items entered into AssetWin as 'sold' and having been physically removed from Agency property by a contracted vendor were located in Agency storage.

RECOMMENDATION

- Fixed Assets and Information Technology staff should meet to determine the correct software information that should be entered into the AssetWin database.
- Property responsibility is the obligation of all MHMRA personnel to ensure that Agency property under his/her possession is properly used and that proper custody and safekeeping is provided. This includes enforcing all security, safety, and accounting requirements necessary to track and maintain property accountability, responsibility, and control. It is recommended that the Agency provide additional training on internal policy and procedures stressing the importance of completing asset tracking forms when assets are relocated for *any* reason, and consider disciplinary action when items have been moved without property forms being filled out.
- It is recommended that all staff be reminded of the need for data that is accurate and reliable. The integrity of the final destination of the data (AssetWin) is only as good as information provided for input.

- Management should adopt the practice of selecting a percentage of assets on a monthly basis for research and verification. The percent selected for each month when added, should equal 100% documentation/verification at all assets of the conclusion of a fiscal year.

Management Response

“Will need to revise the P&P to include transfer of assets in and to other units – not just going into stock or surplus. IT and facilities will require that the proper paperwork be completed by the department prior to any moves taken place. The IT department will take the completed forms, have the appropriate person at the unit level sign the transfer form and ensure that the form is turned into Accounting for data entry into AssetWin. It is recommended that the departments fixed asset designee (FAD) be the same person as their super user.”

“Board discussion - we will request that as the agency moves into more to a “stores” type functioning for the fixed assets – that no department be allowed to maintain their own stock regardless of funding source. That the IT related items be maintained in the stock and will be separated and identified at that level. This will require the appropriate amount of space to handle enough stock and effectively keep items properly identified – until a decision has been reached and the granting agency gives their written approval on what to do with the assets.”

“The agency will identify two areas – stock and surplus. No other assets are to be allowed to be in that area and those two will not be co-mingled. Additionally, there will be only one stock area and one surplus area – located in the 7011 building. IT is in the process of identifying space and moving assets – an inventory will be taken once the assets have been moved into their proper location. This should be completed by the end of the month.”

“The group is in the process of reviewing the software items in AssetWin and reconciling to what IT has shown as software. The issue is to get the definitions for:

Software

Licenses

Maintenance agreements

Server software vs servers

As well as understanding the disposal policy surrounding these assets.”

FINDING

Asset Reconciliation and Tracking

MHMRA of Harris County has not reconciled asset items in AssetWin with a value of less than \$5,000 to the General ledger as of the Third Quarter, Fiscal Year 2006. As a Contractor to the State of Texas, MHMRA is required to manage such controlled assets, which includes facsimile machines, telecopiers, stereo systems, cameras, video recorder/laserdisc players, televisions, video cassette recorders, camcorders, desktop and laptop computers, and non-portable printers.

MHMRA internal policy and procedure requires that *“The Controller or designated staff will record adjusted inventory amounts to the appropriate general ledger accounts. The Accounting and Finance Department will reconcile the assets between AssetWin and the general ledger quarterly.”* This should include both capitalized and inventoried assets.

MHMRA of Harris County maintains a separate fixed asset sub ledger that does not automatically update the General ledger “ROSS.” With two separate systems to maintain, it becomes paramount that the systems are reconciled on a timely basis to provide accurate and timely financial information.

RECOMMENDATION

The Agency should improve their process involved in accounting for inventoried assets by:

- Updating the fixed asset subsidiary ledger throughout the year with additions and deletions, and reconciling with the control accounts on a quarterly basis. This process will aid in substantiating insurance claims for lost or damaged items and assist in the performance of routine physical verification of assets.
- Adequately research, obtain explanations, and review supporting documentation and approvals before adjustments are recorded in the general ledger control accounts and the subsidiary ledger.
- Maintain separate general ledger expense accounts to record expenditures that will be inventoried (tracked), or capitalized, and reconcile these accounts as outlined in the Agency policy and procedures (Quarterly).
- The AssetWin database should be reviewed and reconciled to the General ledger accounts. Items identified as not locatable should be removed from AssetWin and written off the general ledger.
- The Fixed Asset Manager should develop a comprehensive time line which provides dates and “deliverables” for implementing the full range of capabilities available in AssetWin. This would include the use of bar code scanners, digital image incorporation, automated journal entries, and on-line reconciliation reporting.

Management Response

“We agree with the findings and believe that quarterly and even monthly reconciliations to the GL can be completed. The group must address issues in regard to setting clear definitions on which items will be tracked as assets and agree on a naming convention for such items. From the time the asset is ordered to the data entry into AssetWin, the understanding of which asset category the asset should be placed in, is not obvious with its “name” that we have given it on the add sheet or as shown on the invoice. Due to the technical nature of certain devices, this requires IT staff to double check the entries and assist accounting with this process.”

“In order to reduce the data entry errors and maintain timely and accurate reconciliations, the Fixed Assets group agreed to meet on a monthly basis to go over facility projects, asset purchases, transfers, deletions, and GL reconciliation – assets acquired over \$5,000 and all other assets to be tracked below that threshold.”

“Accounting is in the process of hiring a Systems Analyst with primary responsibility of fixed assets. This position will encompass maintaining AssetWin, training and doing department reviews on a biweekly basis.”

“The group will review and recommend account listings that will enable reconciliations to be done easier without adding more complexity to the process. Additionally, the group will review the process and review AssetWin capabilities and develop a timeline of implementing the capabilities in AssetWin”

FINDING

Staffing

Current staff (FTE) available to maintain Agency Fixed Assets is not a full time FTE, and is not adequate at this time, to maintain a level of accuracy of fixed assets required by the FY'06 Performance Contract, or Agency standards. Until the process is functioning properly, adequate resources should be devoted to aggressively maintaining, educating and continually evaluating the Fixed Assets process of the Agency.

RECOMMENDATION

- The Agency should consider a full time FTE position with an accounting and Fixed Assets background until such time that the Fixed Asset process is functioning as per Agency policy.

- Fixed Asset staff should consider attending and presenting at all New Employee Orientations, an overview of employee responsibility for assigned equipment and forms.
- Prepare training classes on fixed assets to field staff.
- Develop a timeline for full functionality of AssetWin: i.e., use of scanners, digital inclusion, field level entry of data, and verification.

Management Response

“The agency is in the process of filling a full time fixed asset person with IT experience - a higher level staff person than a staff accountant.”

“The group will be responsible for developing a training program for all staff to be presented at the new hire orientation and for the departments fixed assets designees.”

“The full time fixed asset person will be responsible for doing weekly department reviews and working with departments that are having trouble following the asset guidelines.”

“The group agrees that having a staff person who is always reacting to purchases and not working on a proactive basis, is not money well spent. To provide assurances that this “area” is getting the required attention it deserves, from all levels of the agency and at the board level, the group is requesting that projects and assets to be planned ahead of time (as much as possible) and a detailed written plan of implementation be completed and discussed at the board and executive level whenever possible. A yearly project plan and new asset list should be developed, discussed, approved and reviewed by the executive staff and board on a regular basis. Updates need to be given on the projects that have been approved. Projects and new item requests need to be done in as much as an open environment as possible and communicated to all parties. We need to review our ongoing projects to determine what can be handled before adding additional projects.”

FINDING

Required Forms Not Properly Completed

As stated in the Agency policy, *“the purpose of the controls are to protect capital assets and inventory, to preserve the life expectancy of capital assets, to avoid unnecessary duplication of assets, to provide a guide for the future replacement of assets, and to establish a basis for the amount of insurance coverage required.”* Without proper “original” signatures, proper control of the assets cannot be assured.

- A review of 20 “Request to Transfer Property” forms resulted in 20 forms that had not been signed by a Unit Director or staff member as required on **BUS-RI:3.001** Form. This form states **“Unit Directors are required to sign this form.”**
- A review of 45 items selected as samples from “Request For Equipment Disposal” forms yielded the following exceptions:
 - 1) 32 items were marked as “sold” (Disposal Code 1) when in fact the items were picked up at no charge (Disposal Code 5) – this leads the reader to be under the misconception that revenue was received from the “sale” and in some cases, these funds would be required to be returned to the funding source.
 - 2) 32 items were dated as being sold on 03/06/06, when in fact the items were not picked up until 03/13/06 – there was no sale or pickup on 03/06/06.
 - 3) The “Request for Equipment Disposal” form was electronically signed by three IT Staff, which should indicate the forms were accurate and approved.
 - 4) The Items List and Asset Tags were forwarded to the Fixed Assets staff (03/07/06) to be coded in AssetWin as sold, when in fact they were not picked up until 03/13/06
- 3 out of 5 samples reviewed from inactive personnel files indicated that the “Employee Separation Checklist” item indicating equipment returned OK was not checked off by Agency staff conducting the exit interview.

- 5 out of 9 samples exceeded the maximum business day allowed for preparing “Request to Add Property” form from the day of received inventory.
- 5 out of 10 samples provided no Accounting received date on “Request to Add Property” form.
- 7 out of 10 samples provided no data input date on “Request to Add Property” form.
- 3 out of 10 samples provided no unit approval date on “Request to Transfer Property” form.
- 5 out of 7 samples provided no Accounting received date on “Request to Transfer Property form.
- 2 out of 7 samples provided no data input date on “Request to Transfer Property” form.

RECOMMENDATION

- Management should review the approved policy and procedures, with all staff that provide the required tracking of assets through the Fixed Assets/Inventory process. Special attention should be placed on the required two business days to process property forms.
- Prior to removal, transfer or deletion of **ANY** asset from **ANY** location or AssetWin database, all documents must be signed (original signature of Unit Director or designee) by the originating authorized Unit personnel as outlined in Agency policy and procedures.
- Fixed Assets staff **should not** accept or enter any incomplete data contained on documents not fully filled out and should immediately return such documents to originator for completeness.
- Items on “Employee Separation Checklist” form should be reviewed and “checked off” that were originally assigned to employee(s).
- “Request to Transfer Property” form should be completed at time of employee separation to transfer assets either back to “stock,” other unit, or staff.
- Asset Tags should be placed and recorded on the item with both Facilities/Information Technology and/or Purchasing/Fixed Asset staff present.
- Asset Tags should be removed (by purchasing staff) **ONLY** at the time of loading items onto the vehicle that is to remove items from Agency property. Then, and **ONLY** then, should the Asset Tags be forwarded to the Fixed Assets Department by Purchasing (as well as the “Items List” signed by the outside firm and Agency staff removing items). This process should be the same when receiving Assets from vendor.

Management Response

“Currently, IT staff and Purchasing staff are working together when assets are being delivered to the agency. The tags are being placed on the assets prior to the items going up to stock. Purchasing and Facilities will have to work together to develop a process as many non-IT related equipment are delivered to the department in the field where Purchasing or Facilities staff may not be readily available, nor notified of the purchase.”

“Designated unit FAD’s should be responsible for tagging non IT related equipment when received in their unit and sending the appropriate paperwork with the appropriate signatures to accounting. The department managers and FAD’s need to be re-educated on the process and paperwork.”

“The group is requesting that space be made available to properly segregate the assets, as well as address certain needs for receiving merchandise after of before work hours. We are requesting that 4 rooms be made available:

Stock – assets that can be placed into service – controlled by IT

Surplus – assets that are ready to be disposed of and will not go back into services

Within the agency – controlled by IT

Receiving – in case orders come in (primarily on Friday evening) and staff is not available to immediately tag the assets. The Assets will be tagged the next business day.

Disposal – this is a room where the assets have been reviewed, cleaned and authorized by IT and have authorized the asset for disposition. The tags will remain on the items and purchasing will work to find the appropriate vendor and will remove the

tag shortly before the asset is to leave the facility. A fixed Asset staff member will be present at the time the tags are removed.

Question for the board – on computers , we can sell the computers for 3 cents per pound or we can have someone come in remove the item and we pay a small fee for disposal. The same issue with monitors – the monitors have environmental requirements that require the agency to properly dispose of the asset – do we try to sell the monitor or pay a small fee for removal.”

“All Agency items that have been issued to employees should be recovered by the immediate supervisor and the appropriate checklist filled out to document receipt. This checklist should be submitted to HR prior to the employee’s exit interview and included in the process. Employee and Supervisor should sign off acknowledging the transfer. The supervisor should then notify IT and a technician will retrieve the items and transfer them back into stock for that Unit.”

“We will be recommending that the departments are not allowed to maintain a “stock” of items in their unit. Distribution of computer related assets should be completed by the IT staff and employees need to complete the proper paperwork.”

FINDING

Use of Grant Assets

HHSC Rider 55 (77th Leg.), Telecommunications Technology for People with Disabilities, provided funds to the Health and Human Services Commission (HHSC) to improve the ability of Texans with disabilities through “Assistive Telecommunications Technology”. MHMRA applied for and was awarded a CAT-D grant not to exceed \$780,445 (does not include matching and in-kind contributions from MHMRA) with a grant period of September 1, 2003 through August 31, 2005.

The project purpose for the CAT-D Grant funds was to bring information about community resources, diagnoses, medications, and treatment options to people with developmental and/or behavioral health disabilities and their families through:

Kiosks: People with these disabilities and their families in Harris County will be able to access E-Source through 20 kiosks located in both MHMRA clinics and community locations. Kiosks are freestanding computers with printers connected to E-Source, the information data-base.

E-Source: E-Source is the name of the software for the kiosks developed that includes community resources, mental health and mental retardation services, and related data. MHMRA and partner agency staff will be able to connect to E-Source through the Internet and website links.

State Facility Connections: MHMRA staff were to electronically connect to their consumers at Rusk State Hospital and Richmond State School for planning and consultation visits. Consumers in these facilities would be able to access E-Source through telecommunications equipment to gain valuable resource information.

Consumer Direct Access: Selected families and individuals with disabilities would be a pilot for a direct connect project through computers installed in their homes to access assistance and information through the Internet with E-Source.

The Telecommunications Infrastructure Fund (TIF) Board fund provides funding for Internet access and modern technology through videoconferencing equipment, telemedicine equipment, networking hardware and software, and training. MHMRA applied for and was awarded a TIF Grant in the amount of \$1,042,626. The grant period was August 31, 2001 through August 31, 2002.

Both grant contracts provide for up to a maximum of three (3) adjustments through-out the grant period. The adjustment may be for a program change or budget amendment. MHMRA requested the maximum adjustment. Further, both agreements require use of the Uniform Grants Management Standards (UGMS) as the guiding source for disposal of assets, which require prior written approval to dispose of or deviate from the original intended use of grant assets. Non-compliance with grant requirements may result in future denial of grant funding.

A review of assets purchased with Computer Accommodations for Texans with Disabilities (CAT-D) and Texas Infrastructure Fund Board (TIFB) funds indicate that MHMRA is currently using assets provided and purchased with these funds outside the Grantor intended purpose.

A review of the sampled grant funded assets follows:

- 70 items remain in storage one year after the close-out of the CAT-D Grant, with no 'roll out' plan
- 10 items listed as being purchased from grant funds and as "in-stock" in AssetWin could not be located.
- 152 grant items "temporarily" transferred to the receiving supervisor, clients, or students had not been entered into AssetWin. While the IT Department maintained paperwork on these assets, the official sub ledger for Fixed Assets was not populated with the information. These assets are the property and responsibility of the Agency until the final authorized forms are executed to transfer ownership to the recipient or reclaim the items.
- MHMRA placed on hold, the idea of using the Video Conferencing Units (TIF funded) for telemedicine shortly after acquiring the assets and the units are either not being utilized or the monitors are used as TV screens in some locations.
- Items (verified by serial numbers on invoices) purchased with grant funds were identified as being used for general Agency use include: color printers, desktop computers, laptop computers, software license, air cards, and flat screen monitors. No prior written authorization was available for inspection by Internal Audit to confirm the deviation from original use of assets by the granting source. Contact was made with the Project Manager from HHSC to confirm understanding of the intended use of assets.

RECOMMENDATION

- It is recommended that all assets funded by any granting source should be entered into AssetWin and tracked according to the specific Grant guidelines, and recorded retention be in accordance to the specific Grant requirements. The sub ledger (AssetWin) is the official maintaining record for the Agency and should be maintained with accuracy to avoid multiple records being maintained and researched, reconciled, and "debated."
- It is recommended that all assets funded by grants in the future should be used for and only for the purposes approved in the original grant or a written waiver for those uses by the granting authority be obtained.
- It is recommended that a formal plan to complete the roll-out of assets remaining in stock that were purchased with grant funds be immediately drafted and adhered to, and when possible, current assets should be utilized in keeping with the "spirit" of the original agreement.

Management Response

"The Executive Director has asked for an evaluation from the Interim IT Director on the CAT-D and TIFB Grant funded assets. The directive is to provide documentation on locations, status, and current use of these items as well as whether they meet the intended usage. For those items currently not deployed or not deployed properly, IT will provide a detailed plan of such statuses and a detailed plan for implementation, replacement, or disposal depending on the issues identified and the scope allowed by each grant."

"Additionally, Executive Staff has requested to meet with the internal auditor to discuss the findings of the audit in greater detail."

FINDING

Comprehensive Grant Policy

MHMRA encourages a broad spectrum of research and creative activity of the highest possible quality, from basic applied, across a full range of mental health disciplines. However, the Agency lacks a comprehensive policy for grants and research administration.

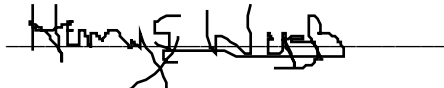
During the course of the review, it was noted that due to the lack of such policies, the Accounting staff, as well as other personnel who should be aware of all grant activity, were not made aware of certain awards, and did enter those awards properly into "ROSS" (financial accounting system) in the period required.

RECOMMENDATION

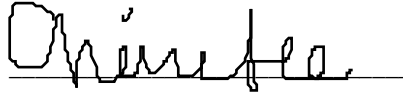
- It is recommended that the Agency establish a permanent Grant/Award Committee to formulate, write, and administer (administration authority) all grant policy and procedures. This committee should, at minimum, be comprised of the following members:
 - 1) Executive Director or designee
 - 2) Chief Financial Officer or designee
 - 3) Grant Supervisor
 - 4) Deputy Director, Mental Health Division or designee
 - 5) Deputy Director, Mental Retardation Division or designee
 - 6) Director, Purchasing or designee
 - 7) Director, Contracts or designee
 - 8) Divisional Budget Officer
 - 9) Chair of the Initial Review Board (IRB) or designee
 - 10) Deputy Director, Comprehensive Psychiatric Emergency Program Division or designee
- It is further recommended that the Grants Committee perform at least four basic functions:
 - 1) Review and approve proposals and awards for all Agency staff seeking grant funding outside the Agency's Performance Contract.
 - 2) Carefully consider the internal functions and resources as well as the external grant requirements in such a way as to maximize the benefit to the Agency.
 - 3) Maintain a current set of Agency-wide grant policies that describe, in detail, the responsibilities and duties of all grant-funded services in relation to the submission of proposals and acceptance of the awards.
 - 4) Interpret, when necessary, regulatory and contractual administrative requirements/terms of these relationships (i.e., organizational standing with regards to eligibility to apply for certain awards, match requirements, post-award requirements and commitments).

Management Response

"The Executive Director is working on a comprehensive grant policies. It is the recommendation of the group that the process of obtaining grants be as open as possible and that detailed plans are developed and discussed with executive staff and the board prior to implementation of the grant and that progress updates be given on a routine basis to executive staff and the board."



Henry E. Webb, CFE, Internal Auditor



Cheire Lee, Staff Internal Auditor

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
Avrim Fishkind, MD, Medical Director, Comprehensive Psychiatric Emergency Program Division
Sarah Flick, MD, Medical Director, Mental Retardation Services
Sylvia Muzquiz, MD, Medical Director, Mental Health Services
Jeanne Mayo, MS, JD, General Counsel
David Witt, MPA, CPA, Chief Financial Officer
Eric S. Eaton, CPA
Audit Committee:
Tom Hamilton, Ph.D. (Chairman)
Jane B. Cherry
Paige M. Cokinos
Charles O. Buckner, CPA
Vicki S. Raynold, CPA
Bob Borochoff

ATTACHMENT A
SUMMARY OF RECOMMENDATIONS
September 8, 2006

Unit: All		
Area: Fixed Assets and Inventory Control		
Inherent Risk: Low Moderate High	Control Environment: Well Controlled Acceptable Poorly Controlled	Overall Risk: Low Moderate High
Type of Procedures: Audit		
Scope: <ul style="list-style-type: none"> * Using Internal Control Evaluation (ICEs) forms, documented the internal controls * Conducted a preliminary survey reviewing applicable policies and procedures, etc. * Interviewed various staff to obtain understanding of management controls * Examined detailed invoices/work orders, statements provided by the vendor, etc. 		
Priority Rating:	Audit Recommendations:	
1	Develop a Comprehensive Grant Policy and adhere to all grant requirements	
1	Train Agency staff on requirements of Fixed Assets form	
1	Determine software value and enter into AssetWin	
1	Select percentage of assets to verify on a monthly basis	
1	Reconcile AssetWin to General Ledger as outlined in policy and procedures	
1	Fixed Asset staffing should be considered a full-time FTE until operating as needed	
Follow-up: 6 months		

Priority Rating

1. Implement immediately (30 - 90 days) - Serious internal control deficiencies; or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.
2. Work towards implementing (6 - 18 months) - Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the unit (i.e. budgetary, technological constraints, etc.).
3. Implement in the future (2-3 years) - Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e. legislative changes, buy and install major systems, or require third party cooperation, etc.).