

## **Annual Audit Department Summary**

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**Presented**

**To**

**The Board Audit Committee**

**September 17, 2008**



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

**AUDITOR'S REPORT**

**Annual Audit Report  
to  
Board Audit Committee**

**Harris County, Texas**

**September 17, 2008**

**Henry E. Webb, CFE**

**Internal Auditor**



## Report on Fiscal Year 2008

**Purpose of the Annual Report:** To provide information on the benefits and effectiveness of the internal audit function .

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## I. Purpose, Authority and Scope

Pursuant to the Mental Health and Mental Retardation Authority (MHMRA) of Harris County's Internal Audit Department Charter, I hereby submit for review the annual report on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas reviewed by the Internal Audit Department.

All activities of MHMRA are subject to audit review.

The Internal Audit Department is responsible for continuously assessing MHMRA risk and developing audit objectives, priorities, and procedures that will ensure effective internal controls. While management is responsible for providing internal controls, the Internal Audit Department (within the audit scope) is responsible for evaluating their adequacy and effectiveness and for recommending improvements, if necessary. Internal control comprises methods and procedures adapted to:

- \* Safeguard assets
- \* Check the accuracy and reliability of financial and other data
- \* Promote operational efficiency
- \* Encourage adherence to prescribed Agency policies and procedures
- \* Review operations to ascertain consistency with Agency goals

It is the responsibility of the Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control (including financial controls). This is based on the adequacy of controls noted from a selection of risk-based system audits completed during the year and other advice work on control systems. The results of investigation inquiries and the fieldwork of internal reviews and that of the external reviewing agencies also inform the Internal Auditor's opinion.

Internal Audit works to support MHMRA's achievement of its vision/mission through the strengthening of internal controls, application of proven scientific management principles, alignment of resources, and fraud deterrence. Furthermore, Internal Audit continues to refine the audit approach and methodologies, build stronger levels of proficiency, increase the understanding of MHMRA's unique culture, and build relationships the with Audit Committee, management, and others.

The mission of the Internal Audit Department is to provide independent, objective assurance and consulting services to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit focuses on producing relevant feedback to MHMRA that is useful in the long term toward accomplishing three primary objectives:

- \* Avoiding the potential for losses
- \* Increasing process efficiency and effectiveness
- \* Ensuring resources are applied toward accomplishing MHMRA's vision, mission, and goals.

Internal Audit insures that MHMRA receives an objective opinion designed to *add value* and improve the Agency's operations. Every effort is made to comply with industry standards, as defined by the **Institute of Internal Auditors' Professional Standards** in satisfying the expectations and needs of management and to adhere to the standards as outlined by the Comptroller General of the United States Government Auditing Standards (Yellow Book). The department conducts audits, scheduled and unscheduled, to provide management an independent appraisal of the Agency's compliance with policies, procedures, laws, and regulations. The department's flexibility insures the Agency's administration the desired level of confidence in maintaining adequate internal controls.

## II. Departmental Statement of Goals Process to Assess These Goals, and Assessment Results

**Goal #1:** Insure compliance with industry standards, as defined by the **United States Government Accountability Office – Government Auditing Standards.**

**Assessment for Goal #1:** Complied with all applicable continuing education and published standards as outlined in the 2008 published guidelines by the Comptroller General of the United States.

**Goal #2:** Fulfill the expectations and needs of management.

**Assessment for Goal #2:** Developed an annual audit plan with the approval of the Agency's Board Audit Committee. Examine and evaluate the adequacy and effectiveness of the Agency's *system of internal controls*.

**Goal #3:** Conduct both scheduled and unscheduled audits in order to provide management independent appraisals of the Agency's *compliance* with policies, procedures, laws, and regulations.

**Assessment for Goal #3:** Active testing of accounts and key controls designed to insure compliance. Identify weaknesses and make constructive recommendations to Agency's administration.

### General Statement of Departmental Condition

The Department of Internal Audit has a system of internal quality control that is suitably designed and provides reasonable assurance that applicable auditing standards are followed. Internal audits have been evaluated to insure that the standards of quality controls work effectively and that audits are conducted in conformance with applicable standards.

## III. 2008 Key Activities and Accomplishments

The Department does **not** gauge its achievements and success by the number of problems identified but rather how we can assist the Agency. The development and approval of the audit schedule for FY08, a strong year for audit coverage and the advancement of the Audit Plan, highlighted the year for Internal Audit.

Most audit work begins with an assessment of risk, followed by review of systems and identification of any weaknesses such as inadequate separation of duties, or failure to follow established procedures. Testing of compliance through a sample of transactions confirms that controls are in operation. If necessary, a larger substantive sample is tested to evaluate the extent of any error or loss.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policy 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 timely. 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 scope of work completed for Fiscal Year 2008 by the Internal Audit Department did not constitute an evaluation of the overall internal control structure of all units within MHMRA. The examinations were

designed to evaluate and test compliance with established policy and procedures and to test the internal control over tested areas and material.

As a result of the audits and reviews conducted during the FY08 timeframe, it was determined that departmental compliance with either established or drafted criteria to govern activities reviewed were **adequate**. However, as discussed with the Audit Committee and Management during the reviews, various weaknesses were reported.

**Audits (Approved) and Special Projects Performed  
Fiscal Year 2008**

<u>Audit Title</u>	<u>Audit Report Number</u>	<u>Date of Published Audit</u>
<i>Southwest Business Office</i>	SWB00108	June 20, 2008
<i>Organizational Development (Compensation and Benefits)</i>	OD0108	June 6, 2008
<i>Shelter Plus Care (SPC) Program – Follow-Up</i>	SPC0208	May 12, 2008
<i>Employee Incentive Payments</i>	EINC0108	May 2, 2008
<i>Use of Flexible Funding</i>	FF0108	May 5, 2008
<i>Shelter Plus Care (SPC) Program</i>	SPC0108	February 29, 2008
<i>Southwest Clinic Business Office</i>	SWC0108	February 1, 2008
<i>Ripley Business Office</i>	RIPCSC0108	January 25, 2008
<i>In Home and Family Support Program</i>	INHF0108	November 2, 2007
<i>ACT I, II, III</i>	ACT0108	November 7, 2007
<i>Access and Use of Long Distance Calling –Follow-Up</i>	TLL0108	November 16, 2007
<i>Executive Director’s Office</i>	EDO0108	August 8, 2008
<i>Executive Staff and Board Member Expense Reports</i>	EXE0108	August 15, 2008

**IV. Analysis of Findings and Recommendations**

Each audit issued contains an “Attachment A” that provides a summary of recommendations of the main findings. Recommendations have priority ratings classified as:

**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 Toward 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,)

**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, requires third party cooperation)

**Table 1** summarizes the recommendations by priority for FY08.

**Table 1**  
**Priority Rating**  
**Audit Recommendations**  
**Fiscal Year 2008**

Priority Rating/Ranking	Number of Audit Recommendations
1	34
2	15
3	11
<b>Total Recommendations</b>	<b>60</b>

#### V. Standard Allocation of Effort by Positions Staff Productivity

Internal Audit measurement solutions provide insight into the effectiveness of the Agency's business plan and procedures. Internal Audit seeks results-focused reviews that deliver improvements in performance, fairness, objectivity, consistency, and decision making.

There are also critical, long-term benefits of a strong measurement review system. It can simply, justify the recommended requests, and create an enduring focus and justify any re-allocation of funds or resources. Most importantly, performance measures are a leading indicator of long-term health and, consequently, represent a long-term planning asset when conducting internal reviews.

Internal Audit has tried to develop and maintain a Road Map from measurement to implementation of its recommendations, which helps MHMRA design and implement a successful measurement solution.

- Learn from best-practice measurement systems,
- Forecast the costs and benefits of measurement systems,
- Identify measures important to the head of unit,
- Categorize types of measures,
- Weigh tangible and intangible measures,
- Align measures throughout the organization that are audited,
- Link measures to strategic Agency goals,
- Identify roadblocks to measure development,
- Gain employee buy-in to the measurement system recommendations,
- Automate processes and procedures,
- Measure the effectiveness of shared services,
- Measure cross-functional processes,
- Monitor and manage using key measures,
- Ensure the consistency and integrity of measures,
- Prepare for changes in strategy or operations,
- Translate measured results into further action,

- Compare output to outcome, and
- Determine the frequency of gathering data and reporting.

Internal Audit tries to accomplish these tasks through the use of a “budgeted hours” approach, in other words, any activity undertaken is measured in hours and effort by position.

**Table 2** presents FY2008 standard allocation of effort by all positions.

**Table 2**  
**Standard Allocation of Effort by all Positions**  
**Fiscal Year 2008**

	Priority Budgeted Hours	Actual Hours Utilized	Over <Under> Total/Actual Hours
Regular Hours	4,160	4,378	206
Vacation	(40)	40	0
Holidays	(176)	176	0
Sick	(40)	40	0
Training	(40)	40	0
Travel	(60)	60	0
Administration	(80)	140	60
Approved Audits	(1,024)	1,110	86
Audit Follow-up	(460)	480	20
Special Audit Requests	(360)	385	25
Management Requests	(480)	485	5
Misc.	(320)	240	10
Hours Required	(3,080)	3,286	
Net Hours Over <Under> Budget*		<b><u>206</u></b>	

\* Accomplished through off-hours

Overall for the year, Internal Audit delivered 206 total hours above those budgeted (4,378 actual versus 4,160 budgeted). There were positive variances (more hours devoted than budgeted) for Agency audit activities. As was the case last year, indirect hours (which include vacation, professional development, and administrative activity) were in line with the original budget.

Efforts by Internal Audit to improve the understanding of the unique nature of MHMRA have received strong support from staff and management. Internal Audit participated in the following professional training areas during FY08:

- \* Governmental Accounting Reporting & Auditing – Houston Texas
- \* Yellow Book Standards 2008 – The State of Texas Auditor’s Office
- \* Reading Between the Lines, Where the Truth Lies – The State of Texas Auditor’s Office
- \* Audit Training – The State of Texas Auditor’s Office
- \* Audit Evidence and Documentation – The State of Texas Auditor’s Office

The Department of Internal Audit is committed to the support of the Agency’s continuous pursuit of maintaining its high level of standards and ethics in providing the MHMRA community with opportunities to continuously improve their intellect and personal development. The Department’s mission is to add value, insuring that the Agency continues to provide customers with the highest quality of services in the most efficient and effective manner to meet or exceed its overall goals.

During FY'08 Internal Audit continued the use of a Client Satisfaction Survey which is issued two weeks after each audit is finalized.

The Internal Audit Department maintains an Ethics Line established for employees or interested parties to report suspected criminal activity, illegal or unethical conduct occurring within the Agency as it deals with fraud, waste and abuse. The Ethics/Hotline is answered by an independent firm to ensure objectivity and independence.

Please see attached Data Information Section for FY08 details.

**DATA INFORMATION SHEET**

**Client Satisfaction Survey**

**Audit Report:** \_\_\_\_\_ **No.** \_\_\_\_\_

Please take a moment to rate the service Internal Audit has provided to your area, or if you would prefer to talk with someone directly, please give the Internal Auditor, Henry Webb a call at (713) 970-7388. In addition, at the bottom of each section the survey has a narrative feedback option. Thank you for participating in our survey. Your feedback is important to us and will be kept confidential.

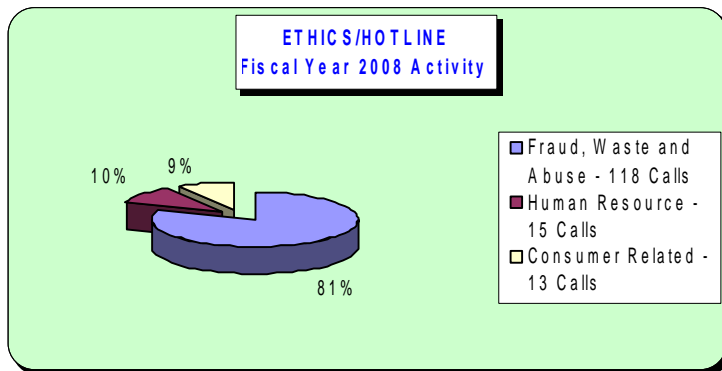
**1 = Disagree/Poor 3 = Neutral 5 = Agree/Excellent Not Applicable = N/A**

*Please evaluate your recent audit experience for each of the following criteria:*

	<u>Score</u>
<b><u>PROFESSIONALISM</u></b>	
1. Auditor(s) conducted his or herself professionally	<b><u>5.0</u></b>
2. Auditor(s) exhibited an understanding of your department operations/procedures.	<b><u>4.0</u></b>
3. Auditor was prepared and organized throughout the auditing process.	<b><u>5.0</u></b>
<u>Comments:</u>	
<b><u>COMMUNICATION</u></b>	
4. Audit objective was clearly stated at the beginning of audit process.	<b><u>5.0</u></b>
5. Auditor(s) conducted a closing meeting which included an explanation of the next steps.	<b><u>5.0</u></b>
6. Audit report was clearly written and logically organized.	<b><u>5.0</u></b>
<u>Comments:</u>	
<b><u>CUSTOMER SERVICE</u></b>	
7. Timely issue of the audit report.	<b><u>5.0</u></b>
8. Audit recommendations were constructive, relevant and actionable.	<b><u>4.0</u></b>
9. Audit report added value to your organization.	<b><u>5.0</u></b>
<u>Comments:</u>	

Name and Date: (optional)

### ETHICS/HOTLINE REPORT



\*All inquiries were responded to within 24 hours for resolution / callback