

**Annual Audit Department Summary**

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**Presented**

**To**

**The Board Audit Committee**

**September 20, 2010**



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

**AUDITOR'S REPORT**

**Annual Audit Report  
to  
Board Audit Committee**

**Harris County, Texas**

**September 20, 2010**

**Henry E. Webb, CFE**

**Internal Auditor**



## Report on Fiscal Year 2010

**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 reviewing 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 with the 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 2007 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 evaluated 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. Identified weaknesses and made constructive recommendations to Agency's administration.

**Goal #4:** As part of the commitment to improve quality of auditing, participate in the required external peer review process as stipulated in the Government Auditing Standards (GAS).

**Assessment for Goal #4:** Received a **Full Compliance** rating from peer review process.

### 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. 2010 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 FY2010, 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 2010 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 FY2010 timeframe, it was determined that departmental compliance with either established or drafted criteria to govern activities reviewed were generally **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 2010**

<u>Audit Title</u>	<u>Audit Report Number</u>	<u>Date of Published Audit</u>
<i>Home and Community Based Services – Unit #3576</i>	HCBS0110	September 1, 2009
<i>Criminal Conviction Clearance</i>	BSR0110	October 9, 2009
<i>Accounts Payable Vendor Payment</i>	AP0110	November 6, 2009
<i>Employee Travel and Travel Related Expenses</i>	TRE0110	December 11, 2009
<i>Southwest Family Residential Center</i>	SWRC0110	December 16, 2009
<i>Fleet Management – Follow-up</i>	FM020910	December 21, 2009
<i>Northwest Clinic/ Business Office</i>	NWBC0110	February 12, 2010
<i>Friends of MHMRA of Harris County</i>	FMHMR0110	February 19, 2010
<i>Memorandum of Understanding (Techs and Trainers, Inc.)</i>	TT0110	April 28, 2010
<i>Agency Grant Management</i>	AGM0110	May 11, 2010
<i>Flexible Spending Accounts</i>	FSA0110	May 12, 2010
<i>Facilities/Maintenance Department</i>	FM0110	June 11, 2010
<i>Accounts Payable Vendor Payments – Follow-up</i>	AP0210	July 2, 2010
<i>Agency-wide Petty Cash/Recreational and Fee Collection Accounts</i>	PC0110	July 30, 2010
<i>Executive Staff and Board Members Expense Reports</i>	EXE0110	August 16, 2010
<i>Southeast Family Resource/Business and Clinic</i>	SEBC0110	August 30, 2010*

\* Anticipated issue date of August 30, 2010

#### 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:

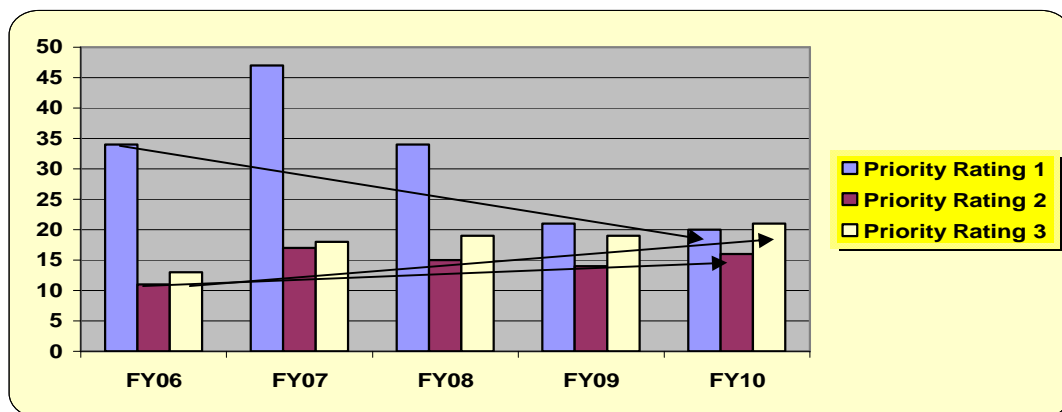
**1 – Implement Immediately** (30 – 90 days) – Serious internal control deficiencies or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.

**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)

Graph 1 summarizes the recommendations by priority for FY2006 – FY2010.

**Graph 1  
Priority Rating  
Audit Recommendations  
Fiscal Year 2006 – Fiscal Year 2010**



#### 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 the 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 1 presents FY2010 standard allocation of effort by all positions.

**Table 1**  
**Standard Allocation of Effort by all Positions**  
**Fiscal Year 2010**

	<b>Priority Budgeted Hours</b>	<b>Actual Hours Utilized</b>	<b>Over &lt;Under&gt; Total/Actual Hours</b>
Regular Hours (Available)	4,160	(4,625)	465
Vacation	(40)	40	0
Holidays	(176)	176	0
Sick	(40)	0	<40>
Training	(110)	110	0
Travel	(45)	85	40
Administration	(112)	260	148
Approved Audits	(1,817)	2,089	272
Audit Follow-up	(665)	568	<97>
Special Audit Requests	(420)	540	120
Management Requests	(315)	320	5
Misc.	(420)	437	17

Net Hours Over <Under> Budget **465\***  
 \* Accomplished through off-hours

Overall for the year, Internal Audit delivered 465 total hours above those budgeted (4,625 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 FY10:

- \* Auditing the HR Function – The State of Texas Auditor’s Office
- \* Managing the Business Risk of Fraud – The Institute of Internal Auditors
- \* Leveraging Data to Uncover Fraud – Association of Certified Fraud Examiners
- \* Fraud Issues & Answers for Government Auditors – The Texas State Auditor’s Office
- \* Risk Assessment for Small Agencies – The Texas State Auditor’s Office
- \* Utilizing Analytics for Enterprise Case Management – Association of Certified Fraud Examiners
- \* Spreadsheet Fraud – Association of Certified Fraud Examiners
- \* Financial Crimes Management – Association of Certified Fraud Examiners
- \* State Auditor’s 2010 Audit Conference – The State of Texas Auditor’s Office
- \* Governmental Accounting, Reporting and Auditing (Update) – Texas Tech University

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 FY2010, 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 FY2010 details.

**DATA INFORMATION SHEETS**

**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.

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

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

**Average for FY10**

		<u>Score</u>
<b><u>PROFESSIONALISM</u></b>		
1.	Auditor(s) conducted his or herself professionally.	<u>5.0</u>
2.	Auditor(s) exhibited an understanding of your department operations/procedures.	<u>4.5</u>
3.	Auditor was prepared and organized throughout the auditing process.	<u>5.0</u>
	<u>Comments:</u>	

**COMMUNICATION**

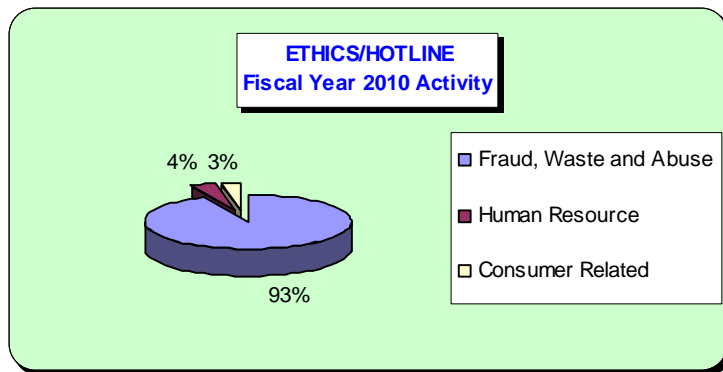
4.	Audit objective was clearly stated at the beginning of the audit process.	<u>4.5</u>
5.	Auditor(s) conducted a closing meeting which included an explanation of the next steps.	<u>5.0</u>
6.	Audit report was clearly written and logically organized.	<u>5.0</u>
	<u>Comments:</u>	

**CUSTOMER SERVICE**

7.	Timely issue of the audit report.	<u>5.0</u>
8.	Audit recommendations were constructive, relevant and actionable.	<u>4.5</u>
9.	Audit report added value to your organization.	<u>5.0</u>
	<u>Comments:</u>	

Name and Date: (optional)

## ETHICS/HOTLINE REPORT



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

**Purpose:** The Ethics Line establishes an avenue for employees or interested parties to report suspected criminal activity, illegal or unethical conduct occurring within the Agency in the event other resolution channels have been ineffective or the caller wishes to remain anonymous.

**Objectives:** To become an integral part of the Agency Fiscal Responsibility Program with the overall objective of detecting violations of the Agency Standards of Conduct, policies and procedures, as well as applicable regulations and laws;

To provide an avenue for employees to report any serious concerns or perceived violations;

To maintain the integrity of the Ethics Line by ensuring that all calls are handled according to the specific protocol set out in the Ethics Line Charter.

To instill employee confidence in the Ethics Line by ensuring that all callers are treated professionally and with empathy.

**Users:** All employees and interested parties (such as: vendors, former employees, etc.)