

JOHNSON CONTROLS, INC.

Service and Maintenance Contract Compliance

Follow Up Review

Audit Report No. JC0106

April 19, 2006



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

Internal Audit Report

AUDITOR'S REPORT

Johnson Controls, Inc.

Service and Maintenance Contract Compliance

Follow Up Review

Harris County, Texas

Internal Audit Report

April 19, 2006

Henry E. Webb, CFE

Internal Auditor





April 19, 2006

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

RE: Johnson Controls, Inc.
Service and Maintenance Contract Compliance
(Report No. JC0106) – Follow up Audit

Dear Dr. Schnee:

The Internal Audit Department has completed a follow-up audit relative to Johnson Controls, Inc. Service and Maintenance Contract for the period September 1, 2005 through March 31, 2006.

The review was designed to assist management with the assessment of the adequacy of internal controls related to the "Facilities Maintenance Contract" between the Mental Health and Mental Retardation Authority of Harris County (MHMRA) and Johnson Controls, Inc. Additionally, the follow-up audit evaluated compliance with any proposed/draft MHMRA policy and procedure to govern such use. The audit was further designed to determine the progress made toward implementation of the recommendations made in the original report (Audit Report #JC0105). The review consisted primarily of conducting on-site visits, interviews with unit personnel, and reviewing relevant documentation related to recommendations implemented.

Based on the results of the work, there were no significant examples of non-compliance with established or proposed procedures or terms of the contract. Accordingly, it was concluded that, the system of internal controls can 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 properly recorded.

I appreciate the cooperation extended by personnel during the course of the audit, and commend the staff for taking continued actions to address the recommendations in the report.

Respectfully submitted,



Henry Webb, CFE
Internal Auditor

CC: Bobby Brownstein, Director, Information Technology
David Witt, MPA, CPA
Jeanne Mayo, JD
Eric S. Eaton, CPA
Rose Childs, Deputy Director, Mental Health Division
Kenneth Collins, Deputy Director, Mental Retardation Division
Audit Committee

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SCOPE AND PURPOSE

Internal Audit completed a follow-up review of the Service and Maintenance Contract between Johnson Controls, Inc. and the Mental Health and Mental Retardation Authority of Harris County. The objective was to assist management with the assessment of the adequacy of internal controls related to compliance with the contract and internal policy and procedures to govern such use. Additionally, the audit evaluated progress made toward implementation of the recommendations made in the original report (Audit Report #JC0105).

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 procedures and adequacy of the internal controls related to the Johnson Controls, Inc. contract. This audit was executed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Unit management is responsible for establishing and maintaining a system of internal controls to adequately safeguard assets in relation to the contract, which is an integral part of the unit's overall internal control structure. The objectives of a system or plan are to provide management with reasonable, but not absolute, assurance that the organization's control and use of assets are adequately controlled and used in accordance with administrative procedures and is safeguarded against loss.

Because of inherent limitations in any system of internal controls, 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.

CONCLUSION

Based on the results of the audit, Internal Audit concluded that departmental compliance with established criteria to adequately administer the contract with Jonson Controls, Inc. generally meets Agency requirements.



Henry E. Webb, CFE
Internal Auditor

INTRODUCTION

The Mental Health and Mental Retardation Authority of Harris County (MHMRA), entered into a facilities service and maintenance contract with Johnson Controls, Inc. for the purpose of providing specialized services that are not currently available to MHMRA through its present staff of employees.

MHMRA has designated Facilities staff members authorized to approve billing and administer the Agreement. Amendments or revisions to the agreement require the express approval of the Executive Director. The contract previously established in Fiscal Year (FY) 2005 was renewed for FY 2006.

General Obligations of Contractor

- Agency is to approve Contractor Personnel.
- Contractor agrees not to subcontract any services until approval of such subcontractor is obtained from the Agency.
- Contractor agrees to 'right to audit.'
- Contractor agrees to abide by all applicable laws and regulations.
- If any part of the contract is subcontracted that has a value or cost of \$10,000 or more over a (12) month period, the subcontract shall contain a clause making records of subcontractor available for a period of four (4) years.
- To make available upon request all original receipts, financial and supporting documents, and statistical records to MHMRA where Agency funds are used to purchase goods and services.
- Contractor agrees to maintain, at its sole cost and expense, specific coverage and limits of insurance as detailed in the agreement.

General Obligations of MHMRA

- Pay Contractor in accordance with a pre-established fee schedule.
- Payment to be made 30 days after receipt of goods, services, or invoice, whichever is latest.
- Payment to be made on a monthly basis and shall be based upon the services provided by the Contractor as reflected in a completed claim form or invoice approved by MHMRA.

Exhibit 1 presents the compliance matrix categorizing the status of action taken by management.

**Exhibit 1
Johnson Controls, Inc.
Service and Maintenance Contract
Follow Up With Response**

| AUDIT FINDING | PRIORITY RATING | RECOMMENDATION | ACTION STATUS | WORK PERFORMED |
|---|-----------------|---|---------------|--|
| <u>Review Process</u> 1) Payment of Sales Tax 2) Payment of Late Fees 3) Duplicate Payment | 1 | Provide closer supervision and review for all invoices. | Implemented | All invoices are reviewed by Agency staff |
| <u>Electronic Payment</u> Avoid late fee by use of electronic payment method. | 2 | To decrease possibility of payment of sales tax, late fees, or duplicate payments, investigate use of electronic payment method for larger vendors such as electrical supplier. | Review Stage | Target date for electronic payment method is October 2006. |