



**Mecklenburg County
Department of Internal Audit**

MeckLINK Behavioral Healthcare
and Provided Services Organization
Accounts Payable and Procurement Card
Audit Report 1269
January 3, 2013

Internal Audit's Mission

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

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MECKLENBURG COUNTY Department of Internal Audit

To: Phil Endress, Director, MeckLINK Behavioral Healthcare
Connie Mele, Director, Provided Services Organization
Dena Diorio, Director, Financial Services Department

From: Joanne Whitmore, Director of Internal Audit

Date: January 3, 2013

Subject: MeckLINK Behavioral Healthcare and Provided Services Organization Report 1269

The Department of Internal Audit has completed its audit of MeckLINK Behavioral Healthcare (MeckLINK) and Provided Services Organization (PSO) to determine whether internal controls over accounts payable and procurement cards effectively manage key business risks inherent to those activities. Internal Audit interviewed key personnel, observed operations, reviewed policies and procedures, performed data analytics, and tested accounts payable and procurement card activity from July 1, 2009 through March 31, 2012.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, the risks inherent to accounts payable and procurement card activities were managed to an acceptable level; however, some exceptions were noted. The MeckLINK Behavioral Healthcare and Provided Services Organization do not have formally documented procurement card policies and procedures. Some procurement card activities were not recorded accurately in the bank's online procurement card application. Further, some invoices lacked approval.

The issues listed below, as well as recommendation and management's responses, are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify that recommendations are implemented and working as expected.

ISSUES

1. MeckLINK and PSO do not have formally documented procurement card policies and procedures.
2. Procurement card transactions were not always accurately recorded.
3. MeckLINK and PSO's management did not document its approval of some invoices.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

c: Harry Jones, County Manager
Michelle Lancaster, General Manager
John McGillicuddy, General Manager
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Leslie Johnson, Associate General Manager
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Audit Review Committee

BACKGROUND

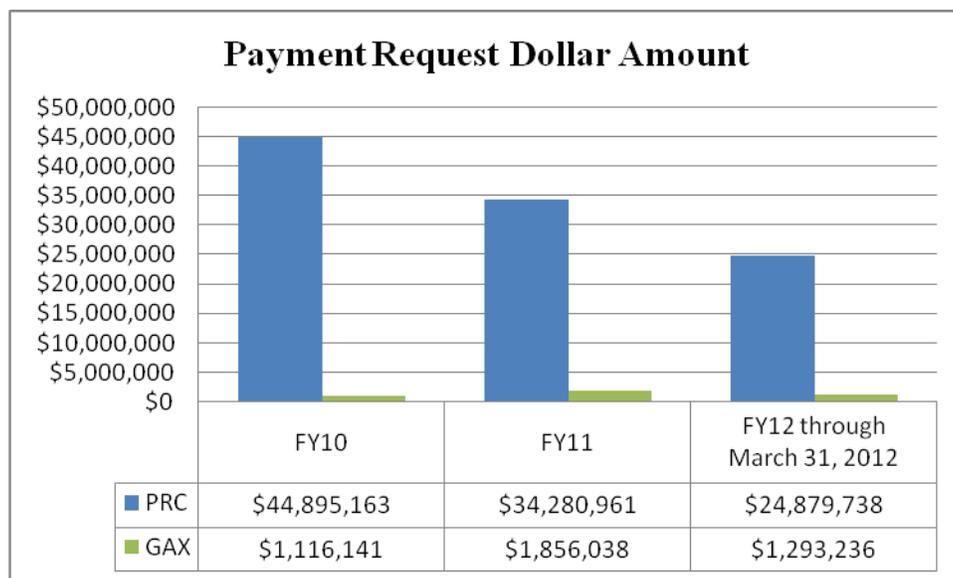
The vision of Area Mental Health is “to be a community that supports individuals and families who are fully empowered to lead healthy and independent lives.” As of July 1, 2012, the Area Mental Health Authority has divided into two separate County departments, MeckLINK Behavioral Health (MeckLINK) and Provided Services Organization (PSO). MeckLINK, formerly the Local Management Entity, is the arm that manages and monitors the public mental health, substance abuse and developmental disabilities service system in Mecklenburg County. The PSO provides a range of mental health, developmental disability and substance abuse services.

Accounts Payable

Previously, department staff provided necessary financial services but, as of August 2011, the Financial Services Department’s Human Services Finance Division (HSF) provides these services for MeckLINK and PSO, including accounts payable and procurement card activities. The HSF Division receives invoices from MeckLINK and PSO or directly from vendors and audits the invoices before sending them to MeckLINK and PSO for authorization. MeckLINK’s and PSO’s management must approve all invoices before HSF enters and approves them in Advantage, the County’s financial system. The invoices are ultimately sent to the Financial Services Department (FSD) for payment.

MeckLINK disburses funds to providers and PSO disburses funds to vendors for expenditure-based (non-Unit Cost Reimbursement or non-UCR) purchases. Disbursements are based on approved expenses. MeckLINK’s fee-for-service (Unit Cost Reimbursement or UCR) purchases are reimbursed based on the services provided at the contract rate when requested through the submission of claims. During the time of the audit, MeckLINK used eCura ProviderConnect, a software application, for clinical or provider event and claims entry, adjudication and authorization entry. The PSO, similar to other providers, used eCura to submit claims to MeckLINK for reimbursement.

Each fiscal year, MeckLINK and PSO process on average approximately 4,900 payment requests. Payment requests processed between July 1, 2009 and March 31, 2012 are represented in the following chart.



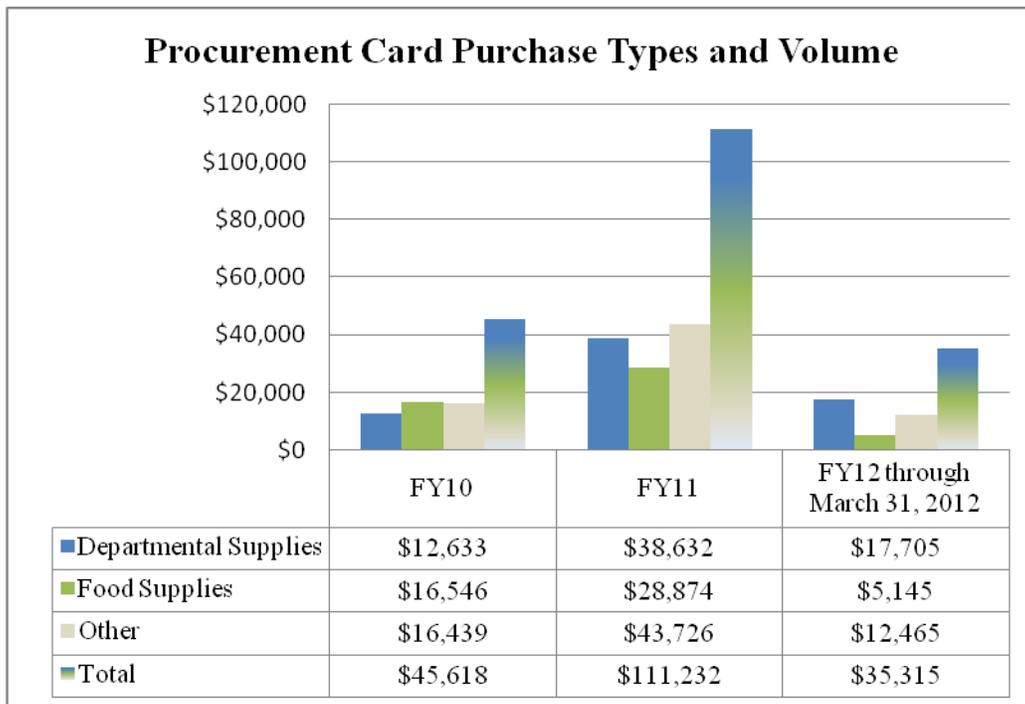
Source: Auditor analysis of Advantage data, unaudited

Procurement Card

The County's Procurement Card Program (the "Program") provides County departments with a convenient and flexible method of procuring and paying for purchases. The procurement card ("P-card") is administered through a major bank. P-card payments must follow the statutory requirements set forth in North Carolina General Statutes 159-28(d).

The Program participant, whose name appears on the card, is responsible for protecting the card and is accountable for all purchases made using the card number. MeckLINK and PSO currently have nine P-cards and two HSF staff who serve as their accountant and program manager. Each month the P-card holder records all purchases made on a Receipt Reconciliation Form. The form is signed by the P-card holder's supervisor and program manager to certify their review and approval of the transactions as appropriate business expenses. The Receipt Reconciliation Form is forwarded to the accountant for review and entry of proper general ledger accounts into WORKS, the bank's online procurement card application. The FSD uploads the transactions from WORKS into Advantage to record the transactions in the general ledger.

The majority of MeckLINK's and PSO's P-card purchases are for department and food supplies. Other purchases include dues, subscriptions and books; drug supplies; maintenance and repairs; and non-capitalized assets. The chart below illustrates the types and volume of the Department's P-card purchases between July 1, 2009 and March 31, 2012.



Source: Auditor analysis of Advantage data, unaudited

ISSUES, RECOMMENDATIONS AND RESPONSES

County Manager's Overall Response to the Recommendations

The management response is appropriate and consistent with the recommendations made by the Internal Audit Department.

Issue 1: MeckLINK and PSO do not have formally documented procurement card policies and procedures.

Risk Observation

While MeckLINK and PSO follow the County's procurement card policies and procedures, they do not have formally documented department-level procurement card policies and procedures to ensure staff executes their duties, meets management's expectations and that there are adequate internal controls in place.

Policies and procedures are important control activities to help ensure management's directives are carried out while mitigating risks that may prevent the organization from achieving its objectives. Policies and procedures include a range of activities, such as approvals, authorizations, verifications, reconciliations, operational reviews, asset security and separation of duties. Thus, it is critical that a department's formal, documented policies and procedures provide adequate guidance to help ensure staff performs their activities in accordance with management's expectations and that adequate controls are in place to effectively mitigate risks inherent to those activities.

Recommendation

Internal Audit recommends the MeckLINK Behavioral Healthcare and Provided Services Organization develop and implement formal, documented procurement card policies and procedures. The policies and procedures should include, at a minimum:

- a. adoption of applicable County policy and procedures
- b. staff roles and responsibilities
- c. documentation requirements
- d. staff training requirements
- e. communication requirements for internal and external stakeholders
- f. frequency of policy and procedure reviews and updates

Management Response

MeckLINK Behavioral Health will develop and implement the appropriate and necessary Policies and Procedures as outlined in the above recommendation by January 31, 2013.

The PSO agrees; since the policies already exist through HSF, we will take their policy (because HSF does not want us to develop a new policy) and designate the staff by title who are accountable for the various functions. This will be completed by January 30, 2013.

Issue 2: Procurement card transactions were not always accurately recorded.

Risk Observation

MeckLINK and PSO did not properly record in WORKS the associated procurement card sales taxes to the appropriate general ledger account in accordance with County's policy and procedure. Recording the sales tax to the appropriate account helps to ensure Mecklenburg County receives the proper reimbursement from the State of North Carolina. Of 301 individual procurement card transactions sampled, MeckLINK's and PSO's staff improperly recorded 108 or 36% and HSF staff improperly recorded 30 or 10%. As a result, the County has a total potential loss of \$963 in North Carolina tax reimbursements.

Recommendation

Internal Audit recommends the Financial Services' Human Services Finance Division retrain staff on County procurement card policies and procedures regarding proper sales tax recording. In addition, the program manager should conduct routine reviews of individual procurement card transactions to ensure compliance.

Management Response

Financial Services agrees with the recommendation. The County's Procurement Card Policies and Procedures will be updated to include specific instructions on the allocation of sales and related taxes and users will be trained on these procedures. This will be completed by March 31, 2012.

Issue 3: MeckLINK and PSO management did not document its approval of some invoices.

Risk Observation

Some invoices were not signed by MeckLINK's and PSO's management prior to being entered and processed in Advantage. As a result, there is no way to validate the expenditures were authorized.

- 3 of 73 or 4% MeckLINK invoices
- 2 of 73 or 3% PSO invoices

Per MeckLINK's and PSO's Accounts Payable Policy and Procedures, staff must obtain supervisor and budget unit manager approval and signature for all invoices.

Recommendation

Internal Audit recommends the MeckLINK Behavioral Healthcare and Provided Services Organization re-emphasize to staff the importance of documenting their approval of all expenditures. In addition, the Financial Services' Human Services Finance Division should re-emphasize to staff the invoice authorization requirements and related procedures and ensure all invoices are properly authorized.

Management Response

MeckLINK Behavioral Health concurs with this recommendation and will require documentation of appropriate level approval of all expenditures.

The PSO agrees; a memo will be sent to all Program Administrators to remind them to use the Invoice Approval stamp on all invoices and if they do not have one, to purchase one within 30 days of the memo by January 30th, 2013.

Financial Services agrees with the recommendation. All invoices are properly authorized prior to payment by the Human Services Finance Division. The current policies and procedures used by the Division require proper authorization of all invoices prior to payment.