

# Expenditures Internal Audit Report

Report #2013-02

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July 19, 2013



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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# Executive Summary

In support of the FY2013 Internal Audit Plan, an audit of the CPRIT expenditure processes was conducted in July 2013. The internal audit focused on activity within the accounts payable, purchasing, travel and entertainment, and payroll activities. Internal fiscal procedures provide guidance for the Agency's expenditures cycle activities. A three-tiered approval workflow is described in the policy so CPRIT expenditures are requested, approved and disbursed by separate individuals. Currently, all expenses are approved by the Chief Operating Officer. This policy applies equally to expenditures made for goods, services, supplies, equipment, and employee travel and expenses.

CPRIT continues to work towards establishing leading practices to become more efficient and effective in their expenditure approval process. During the FY2013 expenditures internal audit, the following exceptions were noted:

- Programmatic progress reports were not submitted in a timely manner (70%).
- Detailed documentation from grantees to support evidence of their matching funds was lacking.
- Asset information in the system did not reflect the current asset location (8%).
- Employee expense reimbursement amount did not match the supporting documentation, resulting in less than \$5.00 difference.

Greater detail around these findings and recommendations can be found within the "Observations, Findings, and Recommendations" section of this report.

# Background Information

## Background

Texas voters approved a constitutional amendment in 2007 establishing the Cancer Prevention and Research Institute of Texas (CPRIT) and authorized the state to issue \$3 billion in bonds to fund groundbreaking cancer research and prevention programs and services in Texas. To date, CPRIT has funded almost 500 grants totaling \$835,820,450.<sup>1</sup>

CPRIT's goals are to:

- Create and expedite innovation in the area of cancer research, thereby enhancing the potential for a medical or scientific breakthrough in the prevention of cancer and cures for cancer;
- Attract, create, or expand research capabilities of public or private institutions of higher education and other public or private entities that will promote a substantial increase in cancer research and in the creation of high-quality new jobs in this State; and
- Continue to develop and implement the Texas Cancer Plan by promoting the development and coordination of effective and efficient statewide public and private policies, programs, and services related to cancer and by encouraging cooperative, comprehensive, and complementary planning among the public, private, and volunteer sectors involved in cancer prevention, detection, treatment, and research.

## Audit Objectives

The objectives of the audit were to assess current practices and opportunities to improve efficiency and effectiveness in the expenditure process.

The specific audit objectives were:

- Determine if the controls surrounding the CPRIT expenditures process, including accounts payable, purchasing, travel and entertainment, and payroll, are operating effectively
- Validate that the internal controls at CPRIT mitigate the risk of fraudulent activity

In order to assess the expenditure activities, Internal Audit reviewed the following:

- Invoices for proper review and approval prior to disbursement
- Documentation of vendor selection process
- Travel reimbursement requests review and approval
- Payroll review and approval
- Grantee progress reports
- Matching funds supporting documentation
- Monitoring of capital assets

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<sup>1</sup> Figures provided by the CPRIT website. <http://www.cprit.state.tx.us/>

### Scope

Although current legislation may potentially change procedural and reporting requirements for CPRIT, the audit performed was designed to evaluate and test compliance with established policies and procedures as of June 2013. Internal Audit interviewed staff and completed field work on a sample of expenditures for Fiscal Year 2013.

### Testing Methodology and Approach

In order to meet the audit objectives stated above, Internal Audit conducted interviews, evaluated controls over the expenditures cycle, and reviewed policies and procedures for compliance. Audit test and procedures were conducted, as necessary. Statistical sampling was used in order to infer the conclusions of the test work performed. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

Our procedures included discussions with the following CPRIT personnel:

Name	Title
Heidi McConnell	Chief Operating Officer
Alfonso Royal	Finance Manager
Lisa Nelson	Operations Manager
Michelle Huddleston	Accountant

### Statement of Auditing Standards

This internal audit was conducted in accordance with generally accepted government auditing standards (GAGAS). The internal audit also follows the guidelines set forth by the Institute of Internal Auditors (IIA) and conforms to the Standards for the Professional Practice of Internal Auditing, the code of ethics contained in the Professional Practices Framework as promulgated by the IIA.

Although due professional care in the performance of this audit was exercised, this should not be construed to imply that unreported irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when executed with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

# Observations, Findings, and Recommendations

## Accounts Payable

For the time period September 1, 2012 – June 30, 2013, Internal Audit judgmentally selected a sample of disbursements made during the testing period. The sample included the top five vendors with the highest total dollar activity during the testing period, frequently used vendors, and three employees who received reimbursement payments.

Each disbursement was tested to verify:

- invoices or receipts were provided as supporting documentation,
- purchase vouchers were created,
- the amounts on the purchase vouchers matched the amounts on the supporting documentation,
- purchase vouchers were approved by the appropriate personnel, and
- any changes made to the purchase vouchers were documented and reviewed and approved, as necessary.

Fifty-two individual transactions were tested. Internal audit noted one immaterial difference of \$0.04 between a purchase voucher and the associated invoice.

**Recommendation:** Due to recent changes in legislation and potential changes to the internal procedures around the handling of transactions, management should update internal CPRIT Financial Policies and Procedures. On an ongoing basis, management should review policies and procedures in their area of responsibility and evidence their review on the document.

**Management Response:** CPRIT Finance staff will update as necessary internal CPRIT Financial Policies and Procedures to ensure consistency with new agency rules. Management will review and sign off on policies and procedures annually.

**Person Responsible:** Heidi McConnell / Alfonso Royal / Chief Compliance Officer

**Target Date for Implementation:** February 28, 2014

## Purchasing Contracts

For the time period September 1, 2012 – June 30, 2013, Internal Audit selected a sample of the top six service provider contracts held by CPRIT during the testing period. Each contract was tested to verify:

- evidence of bid documentation was received from multiple providers,
- statement of reasons for the award were present and reasonable,
- proper approval of award was appropriate,
- notice of award was provided, and
- purchase order was created and approved by the agency director (or their designee).

Four out of the six vendors only had evidence of one bid obtained for the services provided. In one instance, no formal solicitation was made for the services, and one vendor was awarded the services. However, this vendor's purchase order was terminated on March 1, 2013.

**Recommendation:** While a scorecard is completed by three individuals evaluating the bids, management should maintain clear documentation when only a limited number of vendors participate in a Request for Proposal (RFP). Management should also consider adding additional fields on the scorecard to note if the responses are associated with an RFP or part of the Texas Multiple Award Schedule (TXMAS) Program. The Agency should also maintain proper documentation for the rationale for making the final vendor selection to evidence transparency in the bidding process.

**Management Response:** CPRIT will amend its procurement scorecard to reflect the process used in procuring services and document the rationale for the vendor selection.

**Person Responsible:** Heidi McConnell / Alfonso Royal / Michelle Huddleston

**Target Date for Implementation:** January 31, 2014

#### Employee Travel and Expenses

For the time period September 1, 2012 – June 30, 2013, Internal Audit judgmentally selected a sample of ten travel reimbursement vouchers. Each reimbursement voucher was tested to verify:

- invoices or receipts were provided as supporting documentation,
- stated purpose and amount seemed reasonable and in compliance with CPRIT policies,
- purchase vouchers were created,
- the amounts on the purchase vouchers matched the amounts on the supporting documentation,
- purchase vouchers were approved by the appropriate personnel, and
- any changes made to the purchase vouchers were documented and reviewed and approved, as necessary.

Internal Audit did not note any material travel, or any other related expenses, that appeared to diverge from the Agency's approved policy. Two out of the ten reimbursements reviewed showed immaterial differences of \$0.50 and \$3.44 between the reimbursement vouchers and the total on the supporting documentation.

#### Payroll

An Interagency Contract is in place with the Texas Health and Human Services Commission (HHSC) to provide payroll and limited human resource support to CPRIT. HHSC processes the payroll after being certified by CPRIT management. For the time period September 1, 2012 – June 30, 2013, Internal Audit judgmentally selected a sample of three months to test. Each payroll run was tested to verify:

- new employees are added to the payroll timely,
- employees that transfer to different departments are modified in payroll timely,
- terminated employees are removed from the payroll timely, and
- all changes to payroll follow the internal policies and procedures.

During the testing, Internal Audit noted that two employees remained on the payroll after being terminated in order to pay out any remaining compensatory balances and annual leave. However, after the balances were paid out, the employees were removed.

#### Grantee Progress Reports

For the time period September 1, 2012 – June 30, 2013, Internal Audit judgmentally selected a sample of 10 quarterly progress reports. Each progress report was tested to verify:

- timely submission of progress reports,
- supporting documentation is accurate and complete for prevention and research grants, and
- the reporting process follows the internal policies and procedures.

Internal Audit noted that seven of the ten selected samples were submitted after the reporting deadline dates. Three of the seven institutions submitted their progress reports within 15 days past the reporting deadline. Two institutions submitted their reports between 40-60 days past the deadline, and the last two institutions submitted their reports between 100-200 days past the reporting deadline.

**Recommendation:** With the upcoming implementation of the grants management system (CGMS), management should be able to track and enforce timely submission of the progress reports. With the execution of CGMS, management should ensure that all grantees are aware of the new process and understand the potential consequences of missing a submission deadline.

**Management Response:** An automated progress report due date notification has been added to and is now sent out through the grants management system to grantees 30 days prior to the report due date. There are also delinquent notification sent one day and 10 days after the due date.

**Person Responsible:** Implemented

**Target Date for Implementation:** Implemented

#### Matching Funds

For the time period September 1, 2012 – June 30, 2013, Internal Audit selected 18 grant recipients and judgmentally selected a sample of 55 research and commercial grants to test the existence of the matching funds requirement (Attachment C). Each matching funds attachment was tested to verify:

- attachment in the contract was completed by the grantee,
- supporting documentation for the matching funds attachment is accurate, and
- the matching funds process follows the internal policies and procedures.

During the testing period, CPRIT did not formally require grantees to provide evidence of matching funds with their annual Attachment C documentation even though each grantee is contractually obligated to provide evidence upon request or during an audit.

**Recommendation:** Management should require grantees to include detailed evidence of the matching funds being certified in Attachment C of the contract. Evidence should be provided prior to the executed contract phase. With the implementation of CGMS, this task can be incorporated into the contract approval process. As management refines the matching funds process, updates must be communicated to the grantees to ensure they fully understand and comply with the new requirements.

**Management Response:** CPRIT has revised its procedures to require that grant recipients provide documentation of the amount of matching funds or the approved federal indirect cost rate they certify for that award. CPRIT's governing statute, Texas Health and Safety Code, Chapter 102, was substantially changed with the passage of Senate Bill 149, 83rd Legislature, R.S. to allow institutions of higher education with an approved federal indirect cost rate to apply the difference of their approved rate less the five percent indirect costs allowed on CPRIT awards to the matching funds required for each grant award they receive. CPRIT will update the requirement in the CPRIT Policies and Procedures Guide, add this information to the FAQ page on the website, and address the requirement in its updated training for grantees.

**Person Responsible:** Heidi McConnell / Alfonso Royal / Kristen Doyle

**Target Date for Implementation:** February 28, 2014

### Capital Assets

Internal Audit obtained CPRIT's asset listing as of June 30, 2013 and randomly selected 13 capital assets to test. Each sample selected was tested to verify:

- capital assets were in existence,
- asset ID numbers on the asset match those recorded in the ledger, and
- assets themselves match the recorded descriptions.

Internal Audit was able to physically observe 12 of 16 assets in the Austin, TX office. Due to the out of state location of three of the assets, Internal Audit examined copies of the Temporary Use of Equipment agreement in lieu of observation of the asset. The CPRIT Technology Officer was also able to remotely log in to the equipment and retrieve the serial numbers of the assets.

One asset ID number on the equipment did not match the asset ID number in the internal tracking spreadsheet. Upon further investigation, the original equipment was damaged and replaced. However, the serial number was not updated on the internal asset log.

**Recommendation:** Management should perform a periodic review of their assets and maintain evidence of the monitoring and tracking of assets. Any resulting changes should be made and documented to ensure the Agency records are up to date.

**Management Response:** CPRIT will implement procedures to review capital assets on a quarterly basis and maintain evidence of the monitoring and tracking.

**Person Responsible:** Heidi McConnell / Lisa Nelson / Therry Simien

**Target Date for Implementation:** January 31, 2014