

# Internal Audit Report

## Grantee: MD Anderson

Report #2013-07

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August 28, 2013



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

## Introduction

As part of the Cancer Prevention Research Institute of Texas (“CPRIT”) FY 2013 Grantee Internal Audit plan, a review of MD Anderson has been completed.

## Background

Created in 1941 as part of the University of Texas System, MD Anderson Cancer Center is one of the world’s most prestigious cancer centers devoted exclusively to cancer research, education, and patient care. MD Anderson invested over \$647 million in cancer research in FY12 alone and ranks first in the number of research grants awarded.<sup>1</sup> Of those grants, CPRIT has awarded MD Anderson 114 grants totaling over \$100 million.<sup>2</sup> The three audited CPRIT grants provided funds to:

- Recruit researchers to provide further research on how and why chromatin is assembled and disassembled during transcription, replication, and repair and the implications for the human diseases of cancer and aging (R1005)
- Research *de novo* mutations in offspring of patients with Lynch syndrome (RP110054)
- Studying the interplay between melanoma cancer cells and the body's immune system (RP110248)

## Audit Objectives and Scope

### Objectives

1. To determine if expenditures were appropriate, adequately documented, and in compliance with CPRIT’s policies.
2. To evaluate the effectiveness and timeliness of current administrative processes related to the CPRIT grant.
3. To evaluate the internal control environment for expenses related to the CPRIT grant.
4. To determine if CPRIT award recipients have an amount of matching funds equal to one-half of the award dedicated to the research that is the subject of the grant request.
5. To determine if CPRIT award recipients are utilizing matching funds towards the same area of cancer research that is the subject of the award.
6. To determine if equipment was approved appropriately prior to acquisition, adequately documented, and in compliance with CPRIT’s policies.
7. To observe and verify existence of acquired equipment.

### Scope

1. MD Anderson’s expenses, inventory, and matching funds related to the three CPRIT grants identified above, between September 2011 and May 2013 were covered under the scope of this audit.
2. Detailed testing of selected expense transactions was performed.
3. Selected equipment over \$5,000 was observed on-site.
4. Detailed testing of selected matching fund expenditures was performed.

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<sup>1</sup> MD Anderson patient and award figures provided by <http://www.mdanderson.org/about-us/facts-and-history/institutional-profile/index.html>

<sup>2</sup> Figures provided by the CPRIT website. <http://www.cprit.state.tx.us/funded-grants/>

## Summary of Findings

MD Anderson's grant expenditures, inventory, and matching funds were appropriate, adequately documented and in compliance with CPRIT's policies. The current processes and controls in place surrounding the CPRIT expenditures, inventory, and matching funds are effective and timely.

## Testing Approach

### ***Expense Reimbursements***

Analytical and substantive procedures for MD Anderson's grant expenditures, inventory, and matching funds related to the three selected CPRIT grants were performed to ensure the grantee complied with CPRIT policy. Through interviews with appropriate personnel, detailed testing of expenditures, observation of equipment, and analysis of the matching funds process, Internal Audit developed an understanding of the key processes and activities related to the CPRIT grant expense reimbursement, inventory, and matching funds process.

Our procedures included discussions with the following MD Anderson personnel:

<b><i>Name</i></b>	<b><i>Title</i></b>
Wesley Harrott	Executive Director – Research Administration
Claudia Delgado	Executive Director - Grants and Contracts
Sofia de Achaval	Project Manager

Substantive testing was applied subjectively to selected CPRIT expense transactions. These transactions were selected from financially material categories (such as payroll, fringe benefits, travel, equipment, supplies, contractual, and other) comprising approximately 75% of expenditures within the CPRIT Financial Status Report (FSR). One to five expenditures were sampled for each material category and supporting documents were reviewed for accuracy, completeness, appropriateness, classification and timing. Examples of supporting documents include invoices, receipts, and employee expense reports. Internal Audit also verified that each sampled expense was allowable per CPRIT's Expense Reimbursement Policy.

### ***Inventory & Equipment***

Internal audit obtained a complete listing of inventory for the selected grants and two items were sampled for observation. Observations were performed on selected inventory to ensure the equipment existed, was properly recorded, and was in working condition.

### ***Matching Funds***

Detailed testing of matching funds was performed on ten funds that were included in the pool of funds that MD Anderson utilizes to match the required 50% of CPRIT funds. From the ten selected funds, one expenditure was selected from each fund to ensure that the expenditure was related to cancer research. Documentation was requested for each of the selected expenditures to support the appropriateness of the funds being used as a match.

## Audit Results

Interviews with key personnel regarding the expense reimbursement process, inventory management, and matching funds process were conducted to ensure that appropriate controls were in place to comply with CPRIT policies.

### ***Expense Reimbursements***

To evaluate the effectiveness of MD Anderson's expense reimbursement process, internal audit performed substantive testing on over \$1.2 million in expenses charged to CPRIT during the period of September 2011 – May 2013 for the three grants selected for testing. Internal Audit vouched the expenses per the general ledger to the supporting documents. Internal Audit verified that the amount, date, and classification of each expense were properly recorded in the general ledger.

Internal Audit then traced the transactions within the general ledger to the Form 269A to ensure that all amounts were accurately reported and that expenses were appropriately categorized and reported to CPRIT. Internal Audit also determined that all expenses were incurred within the dates set forth in the CPRIT grant contract and that no expense was reimbursed prior to it being incurred by the grantee. Upon review of all requested documentation, it was noted that the sample of CPRIT grant expenses was not accompanied by complete, accurate, and appropriate supporting documentation.

### ***Inventory & Equipment***

To support the existence and proper recording of inventory purchased with CPRIT funds, internal audit observed all equipment purchased from the funds of the three grants selected for testing. Interviews were also conducted with appropriate personnel to ensure that adequate policies were in place for asset management.

### ***Asset Management Procedures***

All assets with a value exceeding \$1,000 require approval performed internally through the Grants and Contracts Department. Assets with a value exceeding \$5,000 must be approved by the Asset Management Department. Asset Management reviews all requisitions for capital and controlled assets and verifies the accounting treatment. The requisition is also used to identify inventory information for asset ownership and location. Once the assets are procured, it is MD Anderson policy to assign a property identification tag to all capital and controlled assets. This process ensures effecting management and tracking of State owned property. In the event that the purchase of capital and controlled assets will exceed the CPRIT approved budget, approval by CPRIT to increase the equipment budget will be needed prior to the purchase.

Internal Audit concluded that all equipment selected for observation existed, was properly recorded, and was being utilized in CPRIT research.

### ***Matching Funds***

To support MD Anderson's matching funds certification claimed in attachment C of the CPRIT contract, Internal Audit selected 10 expenditures from funds used to meet the matching funds requirement. The selected expenditures originated from funds independent of CPRIT and were categorized within the same research areas as the three CPRIT grants selected for testing. MD Anderson was able to provide sufficient and appropriate evidence to support each of the selected expenditures. Internal Audit concluded that the funds being used for the CPRIT required match are appropriate and meet the requirements described in CPRIT policies and procedures.

### Recommendations

MD Anderson exhibited effective processes related to expense reimbursements, inventory management, and the matching funds requirement. The institution was able to produce all documentation that Internal Audit requested. However, MD Anderson's supporting documentation for CPRIT funds is currently stored in different locations depending on the nature of the expense. Items such as accounts payable transactions and journal entries are within their centrally located systems, while supporting documentation for individual expenses including invoices and receipts are retained at a departmental level. Although MD Anderson was able to present all documentation timely, storing all documents related to individual CPRIT grants in a central location would increase efficiencies and enable documents to be more readily available for review.