

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

**IA # 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY  
COMPLIANCE**

**REPORT DATE: FEBRUARY 24, 2017**

**ISSUED: APRIL 17, 2017**

# TABLE OF CONTENTS

	Page
INTERNAL AUDIT REPORT TRANSMITTAL LETTER TO THE OVERSIGHT COMMITTEE.....	1
BACKGROUND .....	2
AUDIT OBJECTIVE AND SCOPE .....	2
EXECUTIVE SUMMARY .....	3
CONCLUSION .....	4
DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE.....	5
Objective A: Design of Internal Controls .....	6
Objective B: Effectiveness of Controls .....	8
APPENDIX .....	10



The Oversight Committee  
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This report presents the results of the internal audit procedures performed for the Cancer Prevention and Research Institute of Texas (CPRIT) during the period February 13, 2017 through February 24, 2017 relating to the internal agency compliance processes.

The objectives of the internal audit were to evaluate the design and effectiveness of CPRIT's Internal Agency Compliance processes. The objectives were organized as follows:

- A. Determine whether internal controls over the Internal Agency Compliance processes are implemented and designed effectively to manage and monitor internal agency compliance with statutory and agency requirements.
- B. Ensure that controls over critical requirements within the Internal Agency Compliance processes are operating efficiently and effectively.

To accomplish these objectives, we conducted interviews with CPRIT personnel responsible for Internal Agency Compliance. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at CPRIT's offices and were completed on February 24, 2017.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.  
Austin, Texas  
April 17, 2017

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**BACKGROUND**

The Cancer Prevention and Research Institute of Texas (CPRIT) was established in 2007 as a result of a Texas constitutional amendment. CPRIT's goal is to expedite innovation in cancer research and product development, and to enhance access to evidence-based prevention programs throughout the state.

As part of granting funds for cancer research, prevention, and product development, the agency has the responsibility to ensure that the individuals participating in the grant awards process do not have conflicts of interest with those receiving the grant funds. State Government Code, CPRIT's Administrative Rules, Code of Conduct and Ethics, Policies and Procedures, and Compliance Handbook establish the compliance requirements for CPRIT's Oversight Committee, employees and other stakeholders.

The Deputy Executive Officer and Chief Compliance Officer share the responsibilities within CPRIT to monitor and manage internal compliance requirements for the agency. Through their efforts, updates and changes in agency compliance requirements are identified, integrated into agency Administrative Rules (where applicable), and communicated to agency employees, peer reviewers, and Oversight Committee Members.

Through the compliance management processes, CPRIT is responsible for ensuring that their Oversight Committee, Program Integration Committee (PIC), and employees complete annual acknowledgements of CPRIT's Conflict of Interest Policy. Oversight Committee members are also required to complete political contribution disclosures annually, and agency employees are required to complete outside employment disclosure forms to report possible conflicts with other employment.

CPRIT management reports any identified conflicts of interest to the Oversight Committee through the course of the Oversight Committee meetings. The Oversight Committee has the ability to grant waivers for conflicts, as deemed appropriate by the Committee. The Oversight Committee is responsible for ensuring that individuals with reported conflicts of interest do not participate in restricted activities, and rely on the compliance reports provided by the Chief Compliance Officer to ensure that participation in grant application and award activities is appropriate.

**AUDIT OBJECTIVE AND SCOPE**

The audit focused on CPRIT's internal processes and programs to manage and monitor agency personnel and Oversight Committee compliance with statutory and agency requirements. We reviewed the procedures in place for appropriate risk and regulatory coverage and compliance to ensure efficient and effective processes. Key functions and sub-processes within the Internal Agency Compliance processes that were reviewed include:

- Compliance Requirement Identification
- Internal Policy Development
- Conflict of Interest and Disclosures
- Internal Compliance Monitoring
- Non-Compliance Identification and Reporting

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**  
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Our procedures were designed to ensure relevant risks are covered and verify the following:

Compliance Requirement Identification

- New compliance requirements are identified and evaluated
- Changes to existing compliance requirements are identified and evaluated
- Legislative and regulatory requirements are communicated to appropriate levels of management

Internal Policy Development

- Agency administrative rules are updated to be in compliance with new and/or changes in compliance requirements in a timely manner and communicated to all relevant parties
- Policies and procedures are regularly evaluated to ensure alignment with requirements
- Policies and procedures are approved by management prior to implementation

Conflict of Interest and Disclosures

- Oversight Committee members complete Conflict of Interest forms timely and accurately
- Chief Executive Officer completes Conflict of Interest forms timely and accurately
- Oversight Committee members disclose political contributions timely and accurately
- Employees disclose outside employment on a timely basis
- Required forms and disclosures are monitored to ensure completion and submission

Internal Compliance Monitoring

- Compliance with policy and regulatory requirements is monitored and managed on an ongoing basis
- Employee compliance is monitored

Non-Compliance Identification and Reporting

- Potential non-compliance is identified and evaluated
- Non-compliance is reported to appropriate management
- Non-compliance is reported externally as required
- Corrective action is implemented and monitored

Our procedures included interviewing key personnel within the agency to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. In addition, we observed the February 15, 2017 Oversight Committee meeting. Our coverage period was from August 1, 2015 through January 31, 2017.

**EXECUTIVE SUMMARY**

Through our interviews, observations, evaluation of internal control design, and testing of controls, we identified one finding. The finding includes the item that was identified and considered to be a non-compliance issue with documented CPRIT policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to CPRIT. This issue could have financial or operational implications.

A summary of our results, by audit objective, is provided in the table below. *See the Appendix for an overview of the Assessment and Risk Ratings.*

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**  
**IA# 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY COMPLIANCE**  
**REPORT DATE: FEBRUARY 24, 2017**  
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<b>OVERALL ASSESSMENT</b>	<b>STRONG</b>
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SCOPE AREA	RESULT	RATING
<p><b>Objective A:</b>  Determine whether internal controls over the Internal Agency Compliance processes are implemented and designed effectively to manage and monitor internal agency compliance with statutory and agency requirements.</p>	<p>We identified 12 controls to be in place in the process, and did not identify any gaps or unacceptable risk exposures.</p> <p>We identified that the agency had policies and procedures in place covering the 60 compliance requirements identified across six relevant authoritative statutes, rules and codes evaluated.</p>	<b>STRONG</b>
<p><b>Objective B:</b>  Ensure that controls over critical requirements within the Internal Agency Compliance processes are operating efficiently and effectively.</p>	<p>The critical controls over Internal Agency Compliance processes are operating effectively.</p> <p>We identified one instance where a required, annual conflict of interest form was not completed in accordance with CPRIT requirements.</p>	<b>STRONG</b>

Through our interviews, evaluation of internal control design and control testing we did not identify any additional observations or opportunities for improvement.

**CONCLUSION**

Based on our evaluation, the Internal Agency Compliance functions have procedures and controls in place to conduct effective management of the significant processes within CPRIT. However, we identified an opportunity to improve the processes and effectiveness of the controls within the Internal Agency Compliance process, which was independently identified by agency management. Management has already identified a solution to remediate the finding and has begun the process to implement the necessary changes.

CPRIT should continue to monitor the revised review checklist to ensure that all Oversight Committee members, PIC members, and CPRIT employees complete and return their required disclosure statements.

Follow-up procedures will be conducted as part of the 2018 Internal Audit Plan to validate the effectiveness of the steps taken to address the findings identified.

**DETAILED PROCEDURES PERFORMED, FINDINGS,  
RECOMMENDATIONS AND MANAGEMENT RESPONSE**

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**  
**IA# 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY COMPLIANCE**  
**REPORT DATE: FEBRUARY 24, 2017**  
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**DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS  
AND MANAGEMENT RESPONSE**

Our procedures included interviewing key agency personnel to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and observing an Oversight Committee meeting. We evaluated the existing policies, procedures and processes in their current state.

**Objective A: Design of Internal Controls**

Determine whether internal controls over the Internal Agency Compliance processes are implemented and designed effectively to manage and monitor internal agency compliance with statutory and agency requirements.

**1. Procedures Performed:** We conducted interviews with key personnel throughout CPRIT and examined existing documentation to gain an understanding of the current Internal Agency Compliance processes. We identified controls within the following critical sub processes:

- Compliance Requirement Identification
- Internal Policy Development
- Conflict of Interest and Disclosures
- Internal Compliance Monitoring
- Non-Compliance Identification and Reporting

We evaluated whether the identified internal controls are sufficiently designed to mitigate the critical risks associated with the Internal Agency Compliance processes. We identified any unacceptable risk exposures due to control design inadequacy or any opportunities to strengthen the effectiveness of the existing control design.

In addition, we evaluated the existing control design to verify that CPRIT's processes are designed to be in compliance with relevant guidance and regulations.

**Results:** We identified 12 controls in place over the significant activities within the Internal Agency Compliance processes. We identified one finding where an improvement in the process and procedures can be made.

Significant Process	Controls	Control Gaps
Compliance Requirement Identification	3	-
Internal Policy Development	3*	-
Conflict of Interest and Disclosure	3*	Finding 1-
Internal Compliance Monitoring	4	-
Non-Compliance Identification and Reporting	2	-
<b>TOTAL</b>	<b>12</b>	<b>1</b>

\* **Duplicate Control:** The total number of controls identified is 12. However, based on their design, controls address risks in multiple processes. We have mapped the 12 identified controls to the processes in which they mitigate the risks within the processes.

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**  
**IA# 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY COMPLIANCE**  
**REPORT DATE: FEBRUARY 24, 2017**  
**ISSUED: APRIL 17, 2017**

**Finding 1 – MODERATE – Missing Annual Conflict of Interest Form for PIC Member from DSHS**  
CPRIT does not have a process in place to ensure that all required annual conflict of interest forms are completed. In accordance with CPRIT’s Code of Conduct and Ethics, Conflict of interest forms are required to be completed by all CPRIT Oversight Committee members, Program Integration Committee (PIC) members, and employees must sign, date and file a conflicts of interest statement on an annual basis.

We identified that the PIC member representing the Department of State Health Services (DSHS) did not complete the required annual conflict of interest statement for fiscal years 2016 and 2017. One position of the PIC is filled by a representative of DSHS. Although the PIC member from DSHS changed from FY 2016 to FY 2017, neither PIC member completed the annual conflict of interest statement.

Although the annual conflict of interest statement was not signed, we did identify that all PIC members completed the Conflict of Interest PIC Statements (Certification of No Communication with Applicants, Certification of No Financial Interest and Certification of No Communication between PIC members and Oversight Committee members) required to be completed at each PIC meeting, as well as a Post Review Statement for every meeting. Both PIC members were granted waivers while they were on the PIC and had no conflicts of interest reported during our testing period.

Additionally, upon identification of the issue by Internal Audit, the current PIC member from DSHS completed the missing form for FY 2017 and additional procedures were added to the Chief Compliance Officer's review checklist to ensure that all required disclosures are received in the future.

**Recommendation:** The Chief Compliance Officer should continue to utilize the updated review checklist to verify the submission of the annual conflict of interest statements by all Oversight Committee members, PIC members and CPRIT employees to ensure that all required disclosure statements are completed and returned to CPRIT, as required.

**Management Response:** CPRIT management agrees with this finding. The Chief Compliance Officer will utilize the updated review checklist to verify submission of the annual conflict of interest statements by all Oversight Committee members, PIC members, and CPRIT employees to ensure that all required disclosure statements are completed and returned to CPRIT by the due date.

**Responsible Party:** Chief Compliance Officer  
**Implementation Date:** February 24, 2017

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**  
**IA# 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY COMPLIANCE**  
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2. **Procedures Performed:** We evaluated the CPRIT controls identified against the 60 compliance requirements identified in the following authoritative statutes, codes and agency rules:

Statutes/Rules/Codes	# Requirements
Health and Safety Code, Title 2. Health, Subtitle E. Health Care Councils and Resource Centers, Chapter 102. Cancer Prevention and Research Institute of Texas	13
Texas Government Code, Title 5. Open Government; Ethics	3
Texas Administrative Code, Title 25 Health Services, Part 11 Cancer Prevention and Research Institute of Texas	20
CPRIT Code of Conduct and Ethics	21
Oversight Committee Bylaws	3
<b>Total</b>	<b>60</b>

**Results:** No findings identified.

**Objective B: Effectiveness of Controls**

Ensure that controls over critical requirements within the Internal Agency Compliance processes are operating efficiently and effectively.

1. **Procedures Performed:** We reviewed all administrative rule changes that occurred from August 1, 2015 through January 31, 2017. This period covered a total of nine Oversight Committee meetings. For each meeting, we verified that:

- Administrative rule changes caused by changes in state statutes, grant administration procedures, and/or grant monitoring procedures were identified and proposed to the Oversight Committee
- Changes were published in a timely manner
- Changes were communicated to CPRIT management
- Changes to administrative rules were communicated to CPRIT staff and other relevant stakeholders in a timely manner

**Results:** No findings identified.

2. **Procedures Performed:** We reviewed the annually required conflict of interest policy acknowledgement forms for the 55 total CPRIT employees, Oversight Committee members, and Program Integration Committee (PIC) members during the coverage period of August 1, 2015 through January 31, 2017, including

This period included:

- 44 CPRIT employees
- 9 Oversight Committee members
- 2 Program Integration Committee (PIC) members from DSHS

We examined the conflict of interested policy acknowledgement forms to verify that CPRIT employees, Oversight Committee members, and PIC members completed their forms in a timely manner. We also verified that any conflicts of interest were disclosed to the Oversight Committee and, for employees and PIC members, waivers were approved by the Oversight Committee.

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**  
**IA# 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY COMPLIANCE**  
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**Results:** We identified that there were 2 PIC members who did not complete the required annual conflict of interest statement for fiscal years' 2016 or 2017.

**Finding 1 – MODERATE – Missing Annual Conflict of Interest Form for PIC Member from DSHS**

3. **Procedures Performed:** We reviewed the annually required political contribution disclosure forms for the nine Oversight Committee members during the coverage period of August 1, 2015 through January 31, 2017. We verified that each of the Oversight Committee members completed a political disclosure form, as required.

**Results:** No findings identified.

4. **Procedures Performed:** We reviewed the annually required outside employment disclosure forms for all 44 staff employed by CPRIT during the coverage period of August 1, 2015 through January 31, 2017. We verified that all staff completed an outside employment disclosure form and each form was reviewed by the employee's supervisor and the Chief Executive Officer.

**Results:** No findings identified.

5. **Procedures Performed:** We reviewed the minutes for all Oversight Committee meetings that occurred from the coverage period of August 1, 2015 through January 31, 2017. This period covered a total of nine Oversight Committee meetings. For each meeting, we verified that:

- CPRIT has procedures embedded into Oversight Committee meetings and operational processes to monitor employee and Oversight Committee compliance
- Oversight Committee members, PIC members or CPRIT employees did not participate in any restricted activity where conflicts of interest have been identified
- Identified instances of non-compliance were reported appropriately and corrective action was implemented timely

**Results:** No findings identified.

6. **Procedures Performed:** We attended the February 15, 2017 Oversight Committee meeting to verify that CPRIT has procedures embedded into the Oversight Committee meeting procedures and processes to monitor Oversight Committee compliance with agency requirements.

**Results:** No findings identified.

## **APPENDIX**

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**IA# 02-17 INTERNAL AUDIT REPORT OVER INTERNAL AGENCY COMPLIANCE**  
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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

**REPORT RATINGS**

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the agency
- Agency objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
  - Reliability and integrity of financial and operational information
  - Effectiveness and efficiency of operations and programs
  - Safeguarding of assets
  - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

<b>Strong</b>	The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.
<b>Satisfactory</b>	The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.
<b>Unsatisfactory</b>	The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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**RISK RATINGS**

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

**High**

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the agency's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of the agency or beyond a single function or department
- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior agency management

**Moderate**

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of the agency
- Impact could be felt outside of the agency or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of the agency
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior agency management to be updated

**Low**

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the agency's strategic priorities
- Impact is limited to a single function within the agency
- Minimal financial or operational impact to the organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk