

CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

**IA # 04-17 INTERNAL AUDIT REPORT OVER PROCUREMENT AND
P-CARDS**

REPORT DATE: JUNE 21, 2017

ISSUED: AUGUST 4, 2017

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The Oversight Committee
Cancer Prevention and Research Institute of Texas
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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 May 15, 2017 through June 21, 2017 relating to the procurement and P-Card processes.

The objectives of the internal audit were to evaluate the design and effectiveness of CPRIT's procurement and P-Card processes. The objectives were organized as follows:

- A. Determine whether internal controls over procurement and P-Card processes ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Ensure that controls over selected critical processes within procurement and P-Card processes are operating efficiently and effectively.
- C. Determine whether access to the purchasing and P-Card systems is restricted to appropriate individuals and that access is reviewed periodically.

To accomplish these objectives, we conducted interviews with CPRIT personnel responsible for procurement and P-Cards. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at CPRIT's office and were completed on June 21, 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
August 4, 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.

Throughout the fiscal year, the agency purchases goods and services for the operation of the agency to accomplish its goals. The State of Texas Procurement Manual, CPRIT's Administrative Rules, and CPRIT's Procurement Plan and Contract Management Handbook establish CPRIT's purchasing requirements for the procurement of goods and services through the issuance of a purchase order, or the use of a P-Card or Travel Card.

The Purchaser holds the primary responsibility for ensuring that the purchasing method and documentation follow state and CPRIT requirements. Purchases under \$5,000 do not require a specific procurement method. Purchases between \$5,000 through \$25,000 require an informal solicitation process, and purchases \$25,000 and above require a formal solicitation process. Purchases from state cooperative contracts can be used in place of other purchasing methods.

A purchase order is required for all purchases, and each one is reviewed and approved by the Chief Operating Officer or Chief Executive Officer. Additionally, each purchase order must have a completed budget verification by the Operations Specialist prior to issuing the purchase order to a vendor. From June 1, 2015 through March 31, 2017, 154 purchase orders were issued by CPRIT.

Purchases can also be paid with a P-Card. The Purchaser is the P-Card administrator and is the only person at CPRIT with access to the agency's P-Card. The P-Card is used for general agency purchases including general office supplies, information technology service subscriptions, and other operational items. From June 1, 2015 through March 31, 2017, 400 purchases were made with the P-Card.

CPRIT utilizes a Travel Card for booking hotel and airfare for employee or Oversight Committee member travel. The agency Travel Card is administered by the Accountant. Travel requisitions must have a completed budget verification and executive approval prior to using the card to purchase travel. From June 1, 2015 through March 31, 2017, 251 purchases for travel were made with the central billed Travel Card.

The agency P-Card and Travel Card are available to be used for purchases that are \$2,000 or less. A monthly P-Card reconciliation is performed by the Purchaser and a monthly Travel Card reconciliation is performed by the Accountant to ensure that all charges to the cards are appropriate, contain a valid invoice or receipt, and to verify that there are no fraudulent or inappropriate charges. The Chief Operating Officer reviews the reconciliations for appropriateness and accuracy.

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AUDIT OBJECTIVE AND SCOPE

The audit focused on CPRIT's procurement and P-Card processes to obtain goods and services for the agency. 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 Procurement and P-Card process that were reviewed include:

Procurement

- Purchase Requests
- Purchase Method Determination
- Bidding
- Interlocal and Cooperative Agreement Purchases
- Vendor Selection and Award
- Vendor Acceptance and Setup
- Purchase Orders
- Vendor Monitoring and Reporting

P-Card (P-Card & Central Travel Card)

- Governance
- Request and Approval
- Usage
- Administration
- Reconciliation
- Monitoring and Tracking

The scope of the audit did not include the processes for contract initiation, execution and management.

Our procedures were designed to ensure relevant risks are covered and verify the following:

Procurement:

Purchase Requests

- Budgets are verified and funds are encumbered prior to purchase requisition approval
- Purchases are within buyer limits
- Items requested for purchase are accurate
- Segregation of duties in the initiation and approval of purchase requests is present
- Purchase requisitions are properly approved prior to initiating procurement activities

Purchase Method Determination

- Appropriate purchase method is selected
- Appropriate purchase methods are followed
- Justification to support the determination of purchase method is documented

Bidding

- Qualified vendors are identified and notified
- Smaller dollar purchases are procured from reputable and approved vendors
- An appropriate bidding process is used for the type and value of the purchase
- Scope of work descriptions contain specific deliverables and timeframes
- Conflicts of interest are identified and avoided

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Interlocal and Cooperative Agreement Purchases

- Consolidated purchasing or purchasing power is utilized for similar purchases
- Vendors used through Interlocal and Cooperative Agreements are qualified and meet the agency's requirements
- Vendors used through Interlocal and Cooperative Agreements are procured competitively and appropriately
- Interlocal and Cooperative Agreements provide best value compared to open market purchasing
- Pricing related to Interlocal and Cooperative purchasing is accurate and within pre-approved contract rates
- Interlocal and Cooperative Agreements have an appropriate term and duration
- Interlocal and Cooperative contracts are properly reviewed and approved
- Contracts on the Interlocal and Cooperative Agreement list are current and accurate

Vendor Selection and Awards

- Multiple vendors providing similar products or services are identified, reviewed, and eliminated
- Sole-source and single source purchases are limited and do receive pre-approval
- Purchases are properly approved by Management
- Conflicts of interest are managed and monitored

Vendor Acceptance and Setup

- New vendors are properly authorized for entry into the system and that the data is entered accurately into the system
- Sensitive vendor information is properly safeguarded
- Changes to the vendor master file are authorized
- Fictitious or duplicate vendors are not set-up
- A complete and accurate list of vendors is maintained

Purchase Orders

- Purchases of goods and services are authorized prior to placing the order with the vendor
- Quantity and pricing on the purchase order is properly reflected and entered in the system
- Purchase orders are based on correct information
- Purchase order modifications are properly authorized
- Open purchase orders are monitored and closed in a timely manner

Vendor Monitoring and Reporting

- Aggregate spending with a non-contract vendor is monitored
- Serial, sequential, or split purchasing is detected
- Vendors comply with CPRIT requirements
- Vendor rebates or reimbursements are received in a timely manner
- Active vendors are periodically reviewed for stability and financial viability
- Vendor reporting under Senate Bill 20 is completed timely and accurately

P-Card:

P-Cards Governance

- Employees are aware of policies and procedures for using P-Cards
- The number of P-Cards issued is appropriate for the size of the agency
- Cardholder and transactional data from P-Cards is secure
- P-Card transaction data is maintained in accordance with required record retention laws

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P-Card Request and Approval

- P-Cards are adequately authorized to employees
- Purchase limits exist and/or are not appropriately authorized
- Employees have adequate training regarding the use of P-Cards

P-Card Usage

- P-Card purchases are properly authorized by the employee's supervisor
- Contract vendors are being utilized for purchases, when available
- Purchases using P-Cards are appropriately restricted by merchant code category
- MCC setup is appropriate and up to date
- Overrides to purchase restrictions are appropriately reviewed and approved
- Overrides to purchase restrictions are appropriately documented and supported
- Transaction overrides expire

P-Card Administration

- Stolen P-Cards are appropriately deactivated in a timely manner
- P-Cards are appropriately deactivated upon termination of employees
- Changes to P-Card (i.e. Profile) are properly approved
- Increases and decreases in purchasing limits are appropriate
- P-Cards are canceled or suspended for non-compliant cardholders
- Fraudulent transactions or incorrect transactional information are disputed

P-Card Reconciliation

- Employees conduct periodic P-Card reconciliations
- Employee's supervisor or department head reviews and approves the employee's monthly P-Card reconciliation
- P-Card transactions are appropriately reconciled on a periodic basis by an independent source
- P-Card transactions are being charged to the correct budget, project, and account
- P-Card payment transactions to vendors are not duplicated by other payment methods
- P-Card transaction reconciliation is completed in a timely manner

P-Card Monitoring and Tracking

- Inappropriate and/or unauthorized P-Card transactions are identified
- Inappropriate and/or unauthorized P-Card Transactions are adequately reported
- Emergency purchases are appropriate and meet requirements
- P-Card transactions are not processed with restricted vendors
- Excessive spending from a non-contract vendor is identified and reported
- P-Card transaction and profile data is routinely reported to management for review
- P-Card transactions are being monitored for fictitious payments, personal purchases, purchases of food and alcohol and other unallowable expenses
- Split purchasing is monitored

Our procedures included interviewing key personnel in Purchasing and Finance to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state. Our coverage period was from June 1, 2015 through March 31, 2017.

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EXECUTIVE SUMMARY

Through our interviews, observations, evaluation of internal control design, and testing of controls, we identified nine findings. These findings includes items that have been identified and considered to be non-compliance issues 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. These issues 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.*

OVERALL ASSESSMENT	SATISFACTORY
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SCOPE AREA	RESULT	RATING
<p>Objective A: Determine whether internal controls over procurement and P-Card processes ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.</p>	<p>We identified 28 controls in place in the Purchasing process, and identified the following six opportunities for improvement:</p> <ul style="list-style-type: none"> • Create and approve purchase requisitions for all purchases • Review the purchase requisitions to ensure correct purchase method was selected • Implement a consistent process to document and retain approval of RFPs • Implement procedures requiring vendor proposal evaluators to sign a conflict of interest statement • Ensure that all disclosures, certifications and reviews are completed prior to entering into a contract with a vendor • Monitor purchase orders for potential split purchases to avoid procurement requirements <p>We also identified 24 controls in place in the P-Card process. We identified three opportunities for improvement:</p> <ul style="list-style-type: none"> • Update the agency's Procurement Handbook to authorize designated employees to utilize the agency Travel Card and require the submission of travel documentation to the card administrator • Consistently enforce the requirements to obtain appropriate authorization and budget verification for purchases on the agency Travel Card • Implement procedures to ensure that P-Card and Travel Card reconciliations are performed in a timely manner 	<p>SATISFACTORY</p>

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SCOPE AREA	RESULT	RATING
<p>Objective B: Ensure that controls over selected critical processes within procurement and P-Card processes are operating efficiently and effectively.</p>	<p>Controls in place were not always operating as designed. We identified the following opportunities for improvement:</p> <ul style="list-style-type: none"> • Require purchase requisitions to be completed for all purchases and ensure they are appropriately approved • Verify that the purchasing method is appropriately determined, documented, and utilized • Consistently document the approval of RFPs • Monitor vendors to ensure that “No Financial Interest Disclosure” documents are completed prior to executing vendor contracts • Verify travel requisitions received budget certification and approval by the CEO or COO • Ensure that P-Card and Travel Card Reconciliations are completed in a timely manner 	<p>SATISFACTORY</p>
<p>Objective C: Determine whether access to the Purchasing and P-Card systems is restricted to appropriate individuals and that access is reviewed periodically.</p>	<p>Access to CITI, TINS, and USAS were appropriate. We did not identify any areas for improvement.</p>	<p>STRONG</p>

Other opportunities for improvement were identified through our interviews, evaluation of internal control design and transactional testing. These observations include those items that are not considered to be non-compliance issues with regulatory requirements or documented CPRIT policies and procedures. These are considered process improvement observations and the intent of the recommendations are to strengthen current CPRIT processes and controls. These observations were provided to management separately.

CONCLUSION

Based on our evaluation, the procurement and P-Card functions have procedures and controls in place to conduct effective management of the significant processes within CPRIT. However, we identified opportunities to improve the processes and effectiveness of the controls within the procurement and P-Card processes.

CPRIT should consistently enforce their requirements to document procedures throughout the procurement and P-Card processes, including implementing procedures to ensure approvals of purchase requisitions, travel requisitions, and RFPs are documented. The agency should also implement procedures to periodically perform a structured review of purchases to ensure that purchases have not been split into multiple purchase requisitions to avoid the more formal purchasing methods required by state law.

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Further, CPRIT should ensure that all disclosures, certifications, and reviews are completed. A Financial Interest Disclosure document should be completed by vendor proposal evaluators prior to participating in a proposal evaluation and the Certificate of Interested Parties (Form 1295) should be completed by vendors prior to CPRIT entering into a contract with a vendor.

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**

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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, and evaluating the internal controls over the process. We evaluated the existing policies, procedures and processes in their current state.

Objective A: Design of Internal Controls

Determine whether internal controls over procurement and P-Card processes ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

Procedures Performed: We conducted interviews with key personnel throughout CPRIT and examined existing documentation to gain an understanding of the current procurement and P-Card processes. We identified controls within the following critical sub processes:

Procurement

- Purchase Requests
- Purchase Method Determination
- Bidding
- Interlocal and Cooperative Agreement Purchases
- Vendor Selection and Award
- Vendor Acceptance and Setup
- Purchase Orders
- Vendor Monitoring and Reporting

P-Card (P-Card & Central Travel Card)

- Governance
- Request and Approval
- Usage
- Administration
- Reconciliation
- Monitoring and Tracking

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

Results: We identified 52 controls in place over the significant activities, 28 controls within the procurement process, and 24 controls within the P-Card process. We identified nine findings where an improvement in the process and procedures can be made.

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Significant Process	Identified Controls	Control Gaps
Procurement		
Purchase Requests	2	Finding 1
Purchase Method Determination	2	Finding 2
Bidding	8	Finding 3 Finding 4 Finding 5
Interlocal and Cooperative Agreement Purchases	2	-
Vendor Selection and Awards	3	Finding 2
Vendor Acceptance and Setup	5	-
Purchase Orders	4	-
Vendor Monitoring and Reporting	2	Finding 6
Sub Total – Procurement	28	6
P-Card (P-Card & Central Travel Card)		
P-Cards Governance	4	-
P-Card Request and Approval	2	-
P-Card Usage	9	Finding 1 Finding 7 Finding 8
P-Card Administration	5	-
P-Card Reconciliation	3	Finding 9
P-Card Monitoring and Tracking	1	-
Sub Total – P-Card	24	3
TOTAL	52	9

Purchasing

Finding 1 – MODERATE – Purchase Requisition Creation and Approval

CPRIT does not consistently enforce procedures to submit and approve a purchase requisition for all purchases in accordance with the agency's Procurement Plan and Contract Management Handbook.

Of the 30 purchases tested, 18 exceptions were identified:

- 17 purchases did not have a purchase requisition created; 14 of the 17 were for purchases off of cooperative contracts for contract labor
- 1 purchase had a purchase requisition that was not reviewed and approved by the COO

Of the 30 P-Card purchases tested, 15 did not have a purchase requisition created. These were monthly and annual charges for recurring services provided to CPRIT's IT Department.

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Recommendation: The Purchaser should require a purchase requisition to be submitted and approved prior to each purchase according to CPRIT's Procurement Plan and Contract Management Handbook to ensure that the purchase is appropriately and has the required budget available. Prior to executing the purchase, the Purchaser should ensure that a purchase requisition has received one of the appropriate approvals and certification of budget availability. For purchases that are anticipated to reoccur multiple times throughout the year, an annual purchase request for the anticipated annual expenditure could be utilized to obtain approval and budget certification in order to avoid additional paperwork, unnecessary delays and inefficient workflow.

Alternately, CPRIT should consider revising their Procurement Plan and Contract Management Handbook. Revisions to the handbook could include identifying thresholds where the submission and approval of a purchase request is not required prior to the approval of a purchase order. Additionally those revisions could include instances where a single purchase request is acceptable to make multiple purchases, such as recurring purchases.

Management Response: CPRIT management agrees that the purchasing documentation should match the written process. With CPRIT's deployment of the state's Centralized Accounting and Payroll/Personnel System (CAPPS) on September 1, 2017, the agency's purchasing and accounts payable processes will be integrated. Purchases cannot be initiated until a purchase order is generated by the system based on the Chief Operating Officer's approval recorded in the system. The purchaser will be able to initiate blanket purchase requisitions for recurring services such as online information technology services that will be linked to P-Card payments through the accounts payable processes. CPRIT will be revising its procedures in the Procurement Plan and Contract Management Handbook in conjunction with implementing the CAPPS processes.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: October 31, 2017

Finding 2 – MODERATE – Purchase Method Was Not Appropriate

CPRIT does not consistently follow the procedures to determine, document, and utilize the most appropriate purchase method as required by the State of Texas Procurement Manual and CPRIT's purchasing requirements.

Of the 30 purchases tested, 2 exceptions were identified:

- 1 purchase did not have the required documentation of the determination of best value for the purchase method utilized. The UT Document Solutions purchase did not have the required documentation to support the purchase method. The print shop job request was appropriately submitted through the state portal. However, Step 3 of the State of Texas procedure for procuring print related services requires the Purchaser to document the performance of the analysis determining best value for the purchase. No support for the analysis was provided.
- 1 purchase did not have the required support and evaluation for an Open Market Informal Solicitation. The purchase from PDME was within the procurement threshold of \$5,000 and \$25,000, which required a solicitation of goods from at least 3 CMBL vendors, including 2 HUB vendors. However, the purchase was made without the 3 required solicitations.

Recommendation: The Purchaser must follow the appropriate purchase method as stated in the Texas Procurement Manual. A secondary review of the purchase should be implemented to ensure purchases were procured appropriately.

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Management Response: CPRIT management agrees that all of the supporting information was not recorded for the two purchases identified in the audit. CPRIT will ensure that the evaluation criteria for procurement decisions are documented on all purchases and that state purchasing guidelines are followed. All purchase orders will include a statement about the evaluation of best value.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: September 1, 2017

Finding 3 – MODERATE – Missing RFP Approval

CPRIT does not consistently document and retain the approval of RFPs. Current RFP approval methods include verbal, email, or signature approvals from the Chief Operating Officer. However, documentation of the approval is not consistently maintained within the procurement file.

Of the 5 contracts requiring formal bids that were tested, CPRIT was unable to provide evidence of the approval for 3 of the RFPs. These 3 were likely verbal approvals.

Recommendation: CPRIT should implement procedures to formally document and retain the approval of RFPs by the Chief Operating Officer. For email approvals, the Purchaser should print the email approval and include the printed approval in the procurement file for the contract. For signature approvals, the Purchaser should ensure that the signed version of the RFP is included in the procurement file for the contract. For verbal approvals, the Purchaser should document approvals on the solicitation document or via a negative confirmation email to the Chief Operating Officer.

Management Response: CPRIT management agrees that the Chief Operating Officer must approve solicitations before they are distributed or advertised. The Purchaser will ensure that the signed version of an RFP is included in the procurement file for the contract or that a note to the file is recorded if verbal approval is provided.

Responsible Party: Purchaser
Implementation Date: August 1, 2017

Finding 4 – LOW – Financial Interest Disclosure

All CPRIT personnel participating in the evaluation of vendor proposals as a part of the formal solicitation process are not required to sign a Financial Interest Disclosure for that solicitation. The Financial Interest Disclosure is only signed by Oversight Committee members and certain CPRIT staff such as the Purchaser, COO, General Counsel and CEO. CPRIT awards contracts to top-rated vendors based on the evaluation, which includes input from subject-matter experts.

Recommendation: CPRIT should implement procedures to ensure all employees involved in vendor proposal evaluations submit a Financial Interest Disclosure document prior to participating in the evaluation. CPRIT should ensure that conflict of interest is disclosed by evaluators of vendor proposals submitted in response to a formal solicitation and should require evaluators to sign a Financial Interest Disclosure prior to performing an evaluation of vendor proposals. Any disclosed conflict of interest should be adequately addressed. Evaluators that have a conflict of interest or an appearance of conflict should not participate as evaluators in that particular vendor proposal evaluation. This requirement should be included in CPRIT's formal procurement procedures.

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Management Response: CPRIT management agrees with the finding and will add a financial interest disclosure statement to the Non-Disclosure Agreement that evaluators have to complete to address any possible risks of conflicts of interest in the evaluation process. The Procurement Plan and Contract Management Handbook will be updated to incorporate this new procedure.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: October 31, 2017

Finding 5 – MODERATE – Required Disclosures, Certifications, and Reviews

CPRIT does not have procedures in place to consistently ensure that all disclosures, certifications and reviews are completed prior to entering into a contract with a vendor.

Senate Bill 20, 84R requires Oversight Committee members to disclose that they do not have any financial interest prior to entering into a contract for the purchase of goods and services. Additionally, the Purchaser must obtain the Certificate of Interested Parties (Form 1295) from each vendor on contracts requiring governing board approval or are \$1 million or more prior to signing a contract with the vendor. Form 1295 is a form filed with the Texas Ethics Commission to certify there are no controlling or intermediary interested parties to the contract associated with the vendor. Further, Contracts for commodities that exceed \$25,000 and services estimated to exceed \$100,000, require review by the Comptroller's State Procurement Division (SPD).

Of the 5 contracts requiring formal bids tested, we identified 4 exceptions:

- 1 contract did not have the required no financial interest disclosure of an Oversight Committee member
- 2 contracts did not have a signed and notarized copy of the Form 1295 available in the contract file
- 1 contract did not complete the SPD Contract Advisory Team Review

Recommendation: The Purchaser should ensure that all required disclosures, certifications, and reviews have been submitted and are in the purchasing file prior to executing a contract with the selected vendor. The Purchaser should verify that the purchasing checklist developed after the audit includes all required documentation. Once the checklist is finalized, it should be utilized to ensure that all required forms and documents have been submitted and are in the procurement file before completing the purchasing process.

Management Response: CPRIT management agrees that it should document that all required disclosures, certifications, and reviews are submitted prior to executing service contracts. The Purchaser has developed a checklist which will be used to verify that all purchasing steps have been completed.

Responsible Party: Purchaser
Implementation Date: August 1, 2017

Finding 6 – MODERATE – Monitoring Split Purchases and Consolidation of Purchases

CPRIT's Purchaser does not have a documented process in place to monitor serial, sequential or split purchases to ensure that purchases are not "split" for the purpose of avoiding formal procurement requirements, or to identify opportunities to consolidate purchases to leverage purchasing power. CPRIT's Procurement Plan and Contract Management Handbook requires purchases of commodities and services that exceed \$25,000 to follow a formal bidding process and purchases between \$5,000 and \$25,000 require an informal bidding process. The Purchaser maintains a purchase order log; however, the Purchaser does not utilize the log to perform monitor and identify potential split purchases.

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Recommendation: CPRIT purchasing should implement routine, structured procedures to monitor purchases for the opportunity to consolidate purchases and to identify potential split purchases. The Purchaser should modify the existing purchase order log to include attributes about the purchase, such as purchase method and contract number. On a quarterly basis, the Purchaser should use the log to review and analyze purchase orders not related to a state contract, to identify whether there is an opportunity to consolidate the buying power of the agency to leverage better pricing and/or delivery terms. This process would also assist CPRIT in identifying any purchases that have been potentially split to avoid more formal purchasing methods required by state law and CPRIT's procurement requirements.

CPRIT should consider implementing a monthly procurement checklist to ensure that regular, recurring tasks are completed in a timely manner. The review and evaluation of non-contract purchases to identify potential split purchases and opportunities for consolidating purchases should be included in the checklist as a procedure to be completed quarterly, in addition to the other monthly procedures.

Management Response: CPRIT management agrees that commodity purchases should not be intentionally split to avoid meeting the thresholds for formal bidding requirements. Given the small volume of CPRIT's recurring commodity purchases, which are primarily office supplies, as well as the agency's adherence to the principle of conservation of funds, the Purchaser does not make volume purchases of these items. Instead, purchases of these items are made on an as needed basis often through existing state contracts negotiated by the Comptroller's Statewide Procurement Division. CPRIT is implementing the state's Centralized Accounting and Payroll/Personnel System (CAPPS) financials module which includes purchasing processes on September 1, 2017. CPRIT will evaluate how CAPPS could be used to monitor these purchases.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: February 1, 2018

P-Cards

Finding 7 – LOW – Travel Card Usage Authorization

CPRIT Executive Assistants utilize CPRIT's central billed Travel Card, which is assigned to the Accountant, to book travel arrangements, as CPRIT's internal procedures require the Executive Assistants to book travel. Currently, there are three employees with access to the agency's travel card information, including two Executive Assistants and the Special Assistant to the Chief Executive Officer.

Recommendation: CPRIT should update the agency's Procurement Plan and Contract Management Handbook to revise the requirement restricting the authorized use of a payment card to the holder of the card. The handbook should be amended to allow authorized, designated employees to utilize the agency's central billed Travel Card. As part of the revisions, the handbook should also include specific requirements for the authorized individuals to provide the approved, budget certified travel requisition to the Travel Card Administrator when the card is used.

Management Response: CPRIT management agrees with the finding and will revise the agency's Procurement Plan and Contract Management Handbook to conform to the procedures that are in practice for CPRIT's central billed Travel Card administered by the Accountant.

Responsible Party: Chief Operating Officer, Accountant
Implementation Date: October 31, 2017

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Finding 8 – MODERATE – Travel Requisition Approval

CPRIT does not have procedures in place to consistently document the enforcement of requirements to obtain appropriate authorization and budget verification on travel requisitions prior to using the Travel Card for travel expenditures.

Of the 30 Travel Card transactions tested, we identified 9 exceptions:

- 3 transactions did not have the appropriate approval by the COO or CEO
- 4 transactions did not have the appropriate budget certification
- 2 transactions did not have the appropriate approval by the COO or CEO, or the budget certification

Recommendation: CPRIT should reinforce the requirements to receive authorization and budget certification on a travel requisition with all personnel responsible for booking travel on a Travel Card to ensure that required processes and procedures are followed in accordance with CPRIT's Procurement Plan and Contract Management Handbook. The Travel Card Administrator would then be accountable for enforcing the requirements to obtain the necessary approvals and budget certifications prior to booking travel.

Management Response: CPRIT management agrees that travel authorization and budget verification should be approved on a travel requisition. With the implementation of the state's Centralized Accounting and Payroll/Personnel System (CAPPS) financials module on September 1, 2017, travel requisitions will be initiated and processed through budget certification and authorization in this system. A travel requisition will not be finalized without these steps being completed in CAPPS. Travel Card transactions will be paid against budgeted expenses recorded in an approved travel requisition.

Responsible Party: Chief Operating Officer, Accountant

Implementation Date: October 31, 2017

Finding 9 – MODERATE – Timeliness of P-Card and Travel Card Reconciliations

CPRIT does not have procedures in place to ensure that P-Card and Travel Card reconciliations are performed timely. P-Card and Travel Card reconciliations are performed prior to submitting the transactions for payment. The monthly statements must be reconciled and submitted within 30 days to meet the payment requirement of the Texas Prompt Payment Act.

Of the 6 monthly P-Card reconciliations tested, 1 was not completed and reviewed in a timely manner. The reconciliation was completed and reviewed 45 days after receipt of the statement resulting in a delayed payment of the P-Card.

Of the 6 monthly Travel Card reconciliations tested, 4 were not completed and reviewed in a timely manner. Reconciliations were completed between 34 and 70 days after receipt of the statement resulting in a delayed payment of the Travel Card.

Recommendation: CPRIT should ensure that P-Card and Travel Card reconciliations are completed and reviewed in a timely manner.

CPRIT should consider implementing a monthly procurement checklist to ensure that regular, recurring tasks are completed in a timely manner. The reconciliation of P-Card and Travel Card transactions should be incorporated into the checklist to ensure that the reconciliations are completed in a timely manner.

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Management Response: CPRIT management agrees that P-Card and Travel Card reconciliations should be performed in a timely manner. With CPRIT's implementation of the state's Centralized Accounting and Payroll/Personnel System (CAPPS) financials module on September 1, 2017, reconciliation of both the P-Card and Travel Card will be automated in the system upon receipt of a statement for either central billed card. Transactions reflected on the statements can be efficiently processed for payment against outstanding purchase orders or travel requisitions. Any exceptions to processing transactions outside the 30-day prompt payment requirement will be noted in the comments section of CAPPS. The agency should be able to effectively monitor unpaid transactions through the reporting feature of the system but will evaluate whether other methods should be employed.

Responsible Party: Chief Operating Officer
Implementation Date: February 1, 2018

Objective B: Effectiveness of Controls

Ensure that controls over selected critical processes within procurement and P-Card processes are operating efficiently and effectively.

1. Procedures Performed: We selected a sample of 30 out of 154 purchase orders processed between June 1, 2015 through March 31, 2017 and verified that:

- Purchase requisitions were properly reviewed and approved prior to being processed
- The initiation and approval of purchase requests and purchase orders are appropriately segregated
- Purchase requisitions and/or purchase orders were not serial, sequential or split purchases to avoid procurement thresholds
- The appropriate purchase method was selected, followed and documented
- Purchases exempt from bidding were appropriate based on state purchasing guidelines
- The purchasing source used was appropriate and complied with CPRIT's internal policies and procedures
- Interlocal and Cooperative Agreement Purchases were the best value and obtained from active agreements
- Interlocal and Cooperative Agreement Purchases were appropriately and timely reported
- Vendors selected had complete contract files, including all required forms and supporting documentation
- Vendors were not debarred
- Purchase orders contained the required information and included available budgets
- Purchase orders were properly reviewed and approved prior to being processed
- Purchase order modifications were properly authorized
- Total vendor spending (including P-Cards) was monitored and reported

Results: We identified 18 exceptions within the 30 purchases where CPRIT did not consistently enforce CPRIT's Procurement Plan and Contract Management Handbook procedures requiring an approved purchase requisition for the purchases. We also identified two exceptions where the purchase method did not have the required documentation for the purchase method.

Finding 1 – MODERATE – Purchase Requisition Creation and Approval

Finding 2 – MODERATE – Purchase Method Was Not Appropriate

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2. **Procedures Performed:** We selected a sample of 5 out of 19 contracts initiated between June 1, 2015 through March 31, 2017 and verified that:
- The bidding process was conducted as prescribed in CPRIT's internal policies and procedures along with applicable State of Texas requirements
 - Requests for Proposal (RFP's) were approved prior to their release
 - The appropriate number of bids were received and evaluated prior to selecting a vendor for award
 - Defined criteria was used to evaluate bids
 - Contract awards were based on best value
 - Vendor performance was monitored and documented
 - Conflicts of interest were identified and disclosed
 - Vendors were properly set-up in USAS

Results: We identified that the approval of RFPs is not consistently documented. Additionally, we identified four instances where required disclosures, certifications and required reviews were not consistently documented.

Finding 3 – MODERATE – Missing RFP Approval

Finding 5 – MODERATE – Required Disclosures, Certifications, and Reviews

3. **Procedures Performed:** We selected a sample of 30 out of 400 P-Card transactions processed between June 1, 2015 through March 31, 2017. We verified that:
- P-Card transaction data was maintained in accordance with required record retention laws
 - P-Card purchases were properly authorized by the employee's supervisor
 - Contract vendors were being utilized for purchases when available
 - Excessive spending from a non-contract vendor was identified and reported
 - P-Card transactions were not processed with restricted vendors
 - P-Card purchases represented the best purchase method for the agency, if multiple purchase methods were available
 - P-Card transactions were being charged to the correct budget, project, and account
 - P-Card payment transactions to vendors were not duplicated by other payment methods
 - P-Card transactions were monitored to identify split transactions to avoid purchase limit amounts
 - Emergency purchases were appropriate and met requirements

Results: We identified 15 instances where purchase requisitions for P-Card transactions were not created to document the approval and verification of budget availability.

Finding 1 – MODERATE – Purchase Requisition Creation and Approval

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4. We selected a sample of 30 out of 251 Travel Card transactions processed between June 1, 2015 through March 31, 2017. We verified that:
- Travel Card transaction data was maintained in accordance with required record retention laws
 - Travel Card purchases were properly authorized
 - Travel Card transactions were being charged to the correct budget, project, and account
 - Travel Card payment transactions to vendors were not duplicated by other payment methods
 - Emergency purchases were appropriate and met requirements

Results: We identified nine exceptions where appropriate approvals and/or budget certifications were not documented on travel requisition forms.

Finding 8 – MODERATE – Travel Requisition Approval

5. **Procedures Performed:** We selected a sample of six out of 22 monthly P-Card reconciliations and six out of 22 monthly Travel Card reconciliations performed between June 1, 2015 through March 31, 2017. We verified that:
- Fraudulent transactions or incorrect transactional information was disputed
 - The COO reviewed and approved the employee's monthly P-Card reconciliation
 - P-Card and Travel Card transactions were appropriately reconciled on a periodic basis by an independent source in a timely manner
 - Inappropriate and/or unauthorized P-Card and Travel Card transactions were identified and reported

Results: We identified one instance where the P-Card reconciliation was not performed in a timely manner and four instances where Travel Card reconciliations were not performed in a timely manner.

Finding 9 – MODERATE – Timeliness of P-Card and Travel Card Reconciliations

Objective C: System Access

Determine whether access to the purchasing and P-Card systems is restricted to appropriate individuals and that access is reviewed periodically.

1. **Procedures Performed:** We obtained the user access permissions for USAS from the Operations Manager. We evaluated the permissions for all users with access to USAS to verify system access is appropriate.

Results: No findings identified.

2. **Procedures Performed:** We obtained the user access permissions for TINS from the Operations Manager. We evaluated the permissions for all users with access to TINS to verify system access is appropriate.

Results: No findings identified.

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- 3. Procedures Performed:** We obtained CITI's "Program Administrator/Non Cardholder Setup/Maintenance Form" for each employee with access to P-Card and Travel Card accounts at the CITI Bank. We evaluated the permissions of the users within the CITI Bank accounts to verify that access is appropriate.

Results: No findings identified.

APPENDIX

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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:

Strong	The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.
Satisfactory	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.
Unsatisfactory	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