

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**

**IA # 06-17 – INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER  
PRIOR YEAR REVENUE FINDINGS**

**REPORT DATE: JUNE 21, 2017**

**ISSUED: JULY 13, 2017**

# TABLE OF CONTENTS

	Page
INTERNAL AUDIT REPORT TRANSMITTAL LETTER TO THE OVERSIGHT COMMITTEE.....	1
BACKGROUND .....	2
FOLLOW-UP PROCEDURES OBJECTIVE AND SCOPE .....	2
EXECUTIVE SUMMARY .....	2
CONCLUSION .....	3
DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE.....	4
APPENDIX .....	7



The Oversight Committee  
Cancer Prevention and Research Institute of Texas  
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This report presents the results of the internal audit follow-up procedures performed for the Cancer Prevention and Research Institute of Texas (CPRIT) during the period May 8, 2017 through June 21, 2017 relating to the findings from the 2016 Internal Audit Report over Revenue, dated July 8, 2016.

The objective of these follow-up procedures was to validate that adequate corrective action has been taken in order to remediate the issues identified in the 2016 Internal Audit Report over Revenue.

To accomplish this objective, we conducted interviews with key personnel responsible for Revenue. We also reviewed documentation and performed specific testing procedures to validate actions taken. Procedures were performed at the Cancer Prevention and Research Institute of Texas 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  
July 13, 2017

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**IA# 06-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR REVENUE FINDINGS**  
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**BACKGROUND**

In 2016, internal audit procedures over CPRIT’s revenue process were completed and reported to the Oversight Committee. The internal audit report over CPRIT’s revenue procedures and activities identified two areas for improvement related to grantee revenue sharing payments, as well as a formal process to document the Accountant’s reconciliation of bond issuance proceeds.

The 2017 Internal Audit Plan included performing procedures to validate that CPRIT management has taken steps to address the internal audit findings.

**FOLLOW-UP PROCEDURES OBJECTIVE AND SCOPE**

The follow-up procedures focused on the remediation efforts taken by CPRIT management to address the findings included in the 2016 Internal Audit Report over Revenue, and to validate that appropriate corrective action had been taken. The 2016 report identified the following findings:

1. CPRIT does not have a process to proactively monitor triggering events that require grantee revenue sharing payments
2. CPRIT does not have a formal process to document the Accountant’s reconciliation of bond issuance proceeds to ensure they are received by CPRIT and agree to the amounts requested.

Our follow-up procedures included the following:

- Review of a Revenue Sharing Report
- Testing revenue sharing payments
- Examination of reconciliations from September 1, 2016 through April 30, 2017

**EXECUTIVE SUMMARY**

The findings from the 2016 revenue internal audit included non-compliance issues with 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.

In the 2016 internal audit, we identified two findings, both of which were risk rated as **Low**.

Through our interviews, review of documentation, observations, and testing, we determined that both of the 2016 revenue findings were remediated.

Risk Rating	Finding	Remediated	Partially Remediated	Open
<b>High</b>	-	-	-	-
<b>Moderate</b>	-	-	-	-
<b>Low</b>	2	2	-	-
<b>Total</b>	<b>2</b>	<b>2</b>	-	-

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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.*

FOLLOW-UP ASSESSMENT		STRONG
SCOPE AREA	RESULT	RATING
<b>Objective:</b> Validate that adequate corrective action has been taken in order to remediate the issues identified in the 2016 Internal Audit Report over Revenue.	We identified that procedures implemented by management adequately addressed and remediated the prior open findings.	<b>STRONG</b>

**CONCLUSION**

Based on our evaluation, CPRIT management has made satisfactory effort to remediate the findings from the 2016 Internal Audit Report. We recommend continued diligence in maintaining internal controls of revenue processes.

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

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA# 06-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR REVENUE FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

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

Our procedures included interviewing key personnel, examining existing documentation or communication, and performing test procedures to validate corrective actions taken. In addition, we evaluated the existing policies, procedures and processes.

**Objective: Validate Remediation**

Validate that adequate corrective action has been taken in order to remediate the issues identified in the 2016 Internal Audit Report over Revenue.

**Finding 1 – LOW – Monitoring of Revenue Sharing Obligations:** CPRIT does not have procedures in place to proactively monitor triggering events that require grantee revenue sharing payments to occur. In addition, CPRIT does not have a process to validate that revenue sharing obligations are received. Revenue is recognized and recorded when revenue sharing checks are received from grantees. CPRIT received a total of \$98,074.07 in revenue sharing payments from grantees during the audit period of September 1, 2014, through May 31, 2016.

Revenue sharing is self-reported by grantees through submission of an annual Revenue Sharing Report in the CGMS system. Revenue Sharing Reports are reviewed and approved by Grant Accountants, but no analysis is performed on the self-reported revenue to determine whether it is accurately calculated and there is no tracking process to ensure revenue payments received match reported obligations.

CPRIT's grant compliance monitoring procedures do not include steps to review non-financial grantee reports, such as the Annual Progress Report and any required Tranche Report, to identify grantee revenue subject to revenue sharing requirements in the grant contract. CPRIT's compliance group performs onsite and desk reviews which include a review of a grantee's program income and reported revenue sharing, but they do not have a process to determine the existence of all obligations. Grantees are selected for review based on an annual risk assessment, and the likelihood for revenue sharing is not a component of the risk assessment.

For two revenue sharing payments totaling \$3,529 out of 10 payments that were tested, the grantee did not provide supporting documentation to evidence occurrence and validate that the shared revenues were accurately calculated.

**Procedures Performed:** We reviewed the Revenue Sharing Report and verified that CPRIT implemented changes to the Revenue Sharing Report in the CPRIT's Grant Management System (CGMS) to include, among other changes, a required field for the payment calculation and information about timing of anticipated payments.

We reviewed a Revenue Sharing Report for a product development grant in CGMS and verified that the updated version of the report was submitted by the grantee.

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Senate Bill 81 of the 85<sup>th</sup> Texas Legislature will allow CPRIT to contract with the Texas Safekeeping Trust Company to actively monitor the revenue sharing obligations of grantees. We reviewed the draft of the bill and verified that monitoring of revenue sharing obligations is included. The bill was passed by the legislature and signed by the Governor on June 9, 2017, to be effective starting September 1, 2017.

**Results:** Finding remediated.

**Finding 2 – LOW – Reconciliation of Bond Issuance Proceeds:** CPRIT does not formally document the Accountant’s reconciliation of bond issuance proceeds to ensure they are received by CPRIT and agree to the amounts requested. Receipts of bond issuance proceeds are informally monitored by the Accountant, but there is no documented evidence of reconciliation of the amounts received to the amounts requested.

**Procedures Performed:** We verified that all reconciliations of bond proceed receipts from general obligation bond and commercial paper note issuances from September 1, 2016 through April 30, 2017 were appropriately performed and documented.

**Results:** Finding remediated.

## **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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**JUNE 21, 2017**  
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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