

Grants Management Internal Audit Report

Report #2014-04

July 25, 2014



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Table of Contents

Executive Summary.....	3
Background	4
Audit Objectives.....	5
Scope and Testing Approach	5
Statement of Auditing Standards.....	6
 Observations and Findings	 7
Summary of Findings and Related Recommendations	7

Executive Summary

In support of the FY2014 Internal Audit Plan, an audit of the grants management process was conducted in June 2014. The objectives of the audit were to assess current practices and identify opportunities to improve efficiency and effectiveness in administering grant funds. The specific audit objectives were:

- Determine if grant application process is compliant with CPRIT policies and procedures
- Determine if subsequent reviews of programmatic and financial grant activities are operating effectively
- Determine if grantee activity is monitored periodically throughout the grant program duration

The CPRIT Finance staff is responsible for maintaining grantee records as well as tracking and reporting detailed grantee budget and expenditure information. The CPRIT Programs staff must also assess the progress of each program's achievement of goals to evaluate program success and sustainability and periodically report this information to the Finance team.

CPRIT continues to work towards establishing leading practices to become more efficient and effective in their grants management process. However, during the FY2013 Grants Management internal audit, the following improvement opportunities were noted, in descending priority:

- **Insufficient Supporting Documentation for Reimbursements** – Supporting documentation accompanying reimbursement claims submitted by grantees do not adhere to CPRIT Policy and Procedures which require the verification of amount and appropriateness. In addition, one reimbursement claim was not evidenced as reviewed by the Grant Accountant.
- **No Desk Reviews performed during the year** – Desk reviews which entail detailed review of expense reimbursement claims were not performed during the audit period.
- **Inadequate enforcement of the rules surrounding the Texas Administrative Code** - Texas law requires that grantees adhere to certain rules around the purchase of at least 50% of goods and services from Texas and utilization of Historically Underutilized Businesses (HUBs) where possible. For three samples selected no disclosure was made for purchases outside the state or from HUBs.
- **Policies and Procedures** – CPRIT's Application and Funding Awards Policies and Procedures Guide posted online was last updated in 2009 and have not been updated to reflect the recent changes in the Administrative Code.

Background Information

Background

Texas voters approved a constitutional amendment in 2007 establishing the Cancer Prevention and Research Institute of Texas (CPRIT) and authorized the state to issue \$3 billion in bonds to fund groundbreaking cancer research and prevention programs and services in Texas. To date, CPRIT has funded 544 grants totaling \$1,020,947,235.¹

CPRIT's goals are to:

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

CPRIT accepts applications and awards grants for a wide variety of cancer-related prevention and research programs and services by public and private entities located within Texas. The grants program staff is divided into three areas: research, prevention, and product development. Each group is led by an executive officer with vast experience in their fields of expertise. Dr. Thomas Goodman was hired as Chief Product Development Officer in April 2014. The programs staff is charged with coordinating efforts with their support staff to establish guidelines for the grant application process, review panel process, and progress reporting criteria.

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

Applications for grants are submitted through an online application receipt system, the CPRIT Application Receipt System (CARS) that is managed by SRA International, Inc. Once applications are approved and move towards the executed contract stage, the CPRIT Grant Management System, (CGMS) which was built as an enhancement to CARS and implemented in September 2013, track the contract, correspondence, and other compliance documentation for each grant. From January 2014, the grant process has been amended with the implementation of a Program Integration Committee and other minor amendments.²

Audit Objectives

The objectives of the audit were to assess current practices and identify opportunities to improve efficiency and effectiveness in administering grant funds. The specific audit objectives were:

- Determine if grant application process is compliant with CPRIT policies and procedures
- Determine if subsequent reviews of programmatic and financial grant activities are operating effectively
- Determine if grantee activity is monitored periodically throughout the grant program duration

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

- Grant Application Process
 - Conflicts of interest
 - Grant applications and contracts
 - Progress reports
 - Procedures around extending, closing, or renewing grants
 - Financial policies and procedures
- Expense Reimbursement Process
 - Grantee Form 269A submissions
 - Grantee reimbursements
 - Desk reviews
 - Financial policies and procedures
- CPRIT's compliance with legislative requirements
 - CPRIT Annual Report and program metrics

Scope and Testing Approach

The audit performed was designed to evaluate and test compliance with established policies and procedures as of June 2014. Internal Audit interviewed staff and completed field work on a sample of grants that were managed during Fiscal Year 2014.

During the grants management audit, Internal Audit reviewed 35 new contracts signed during the period. The review included the following:

- Determine whether awarded grants followed CPRIT's grant application process with respect to approval of the grant and adherence to CPRIT requirements.
 - All contracts were signed by CPRIT and the grantee
 - Grant amounts per contract tied to grant award slate approved by the Oversight Committee based on law in effect prior to passage of SB 149, 83rd Legislature, Regular Session and amount published on CPRIT's website

² Grant process can be found on the CPRIT website <http://www.cprit.state.tx.us/grants-process/>

- Grantees were compliant with reporting requirements
- Grantees were compliant with performance requirements
- Certification of matching funds was provided

Internal Audit reviewed 35 expense reimbursements. The review included the following:

- Determine the sufficiency and effectiveness of overall grantee monitoring with respect to identification of potential fraudulent or inappropriate use of grant funds.
 - All costs incurred are allowable under CPRIT regulations and applicable grant contract
 - Indirect costs incurred were less than or equal to 5% of the requested reimbursement amount
 - Budget transfer notifications were correctly filed and approved where required
 - At a minimum 50% of any goods and services purchased were from Texas suppliers
 - Good faith efforts to purchase from Historically Underutilized Businesses (HUBs) were reported
- Completeness and accuracy of reimbursement
 - Financial Status Reports (FSR) reconciled to supporting documentation provided by grantee
 - Expenses were within budget for all categories in the FSR
 - Proper approval signature on purchase voucher
 - Remaining encumbered funds documented by CPRIT reconciled to remaining budget balance per the FSR

Internal audit also reviewed CPRIT's compliance with legislative requirements for performance measurement during the period and disclosures within the annual report which are required by the Texas Administrative Code.

Statistical sampling was used in order to infer the conclusions of the test work performed. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

Our procedures included discussions with the following CPRIT personnel:

Name	Title
Heidi McConnell	Chief Operating Officer
Kristen Doyle	Chief Advisor and General Counsel
Alfonso Royal	Finance Manager
Lisa Nelson	Operations Manager

Statement of Auditing Standards

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

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

Observations and Findings

Summary of Findings and Related Recommendations

During the audit, the following observation(s) were noted:

Description	Priority	Risk/Observation	Recommendation
1. Reimbursement Claims	High	<p>CPRIT's documented policies and procedures state that the detail provided by the grantees in the reimbursement forms should be sufficient to verify the expenditure amount and appropriateness to the CPRIT award. However, per our review of 35 reimbursements claims, the documentation provided for 21 reimbursements (60% of the sample) mainly for supplies sourced from grantees' central institutional supply stores for research projects was not sufficient to support the expense incurred or identify how the expenditure was appropriate to the award.</p> <p>The Financial Status Report Checklist was not signed off by the Grant Accountant on one of the 35 reimbursement claims sampled.</p> <p>For one reimbursement claim that was not part of our original sample we noted there was no signed payment voucher, however the claim was paid. We identified it while reviewing documentation related to our original sample. Per discussion with Management, this may have been misfiled.</p>	<p>We recommend that grantees should be required to provide supporting invoices and receipts for all expenses incurred, including transactions that are internal to a grantee's entity, and submitted on the Financial Status Report regardless of dollar amount. We also recommend that a detailed description be provided by the grantee to show how the expenditure is appropriate to the award.</p> <p>We further recommend that all Financial Status Reports should be signed off by the Grant Accountant as evidence of review and all relevant documents should be maintained within the correct files.</p>

Description	Priority	Risk/Observation	Recommendation
Management Response:			
Management concurs with this recommendation. CPRIT Finance has implemented a procedure to require grantees with central institutional supply stores to provide documentation of the internal transaction between the organization's departments as verification of the expense reported on a Financial Status Report. CPRIT Finance will also require documentation of all expenses reflected on the Financial Status Report regardless of the amount with the update of its Grant Policies & Procedures and education of the grantees, particularly research and prevention grantees, about these more stringent requirements. Grant accountants have always verified all expenditures reported on all product development grant Financial Status Reports since those grants have been awarded.			
Person Responsible: Heidi McConnell Target Date for Implementation: December 1, 2014			
2. Desk Reviews	High	<p>Desk reviews are in-depth reviews of a sample of the reimbursement claims submitted as part of the Financial Status Reports (FSRs) or Form 269A.</p> <p>The internal audit conducted previously in 2013, included the following observation: Policies and procedures outlining the guidelines and timeline for desk reviews were not included within the CPRIT Policies and Procedures Guide. During the time of the audit, the grantees were in the middle of the reconciliation period to get caught up with their reimbursement submissions. As a result, no desk reviews were performed.</p> <p>The 2014 current year internal audit noted the following: During the time of the audit, no desk reviews had been performed. Per Management, checks performed at the time of reviewing the reimbursement are sufficiently detailed to mitigate associated risks. However, as per our findings in Section 1, we believe that initial reviews may not be sufficiently verifying expenditures to detect errors or omissions.</p>	<p>2013 recommendation: Implement policies and procedures related to desk reviews to ensure the process is consistent and performed in a timely manner.</p> <p>2014 recommendation: A schedule for desk reviews should be developed and implemented for the high risk grantees and on an ad hoc basis for lower risk grantees.</p>

Description	Priority	Risk/Observation	Recommendation
Management Response:			
Management concurs with the recommendation. CPRIT has worked with an independent consultant and researched other state compliance programs to design a model grant monitoring plan. The grant monitoring plans includes desk reviews as part of a comprehensive compliance program.			
Knowing that desk reviews are an integral part of a compliance program, in June 2014 the agency hired three grant specialists and redirected an existing staff position to manage the team to monitor grant reporting, including performing desk reviews of the Financial Status Reports. Since the creation of this team, the grant specialists have assessed grant reporting accuracy in the CPRIT Grants Management System and agency physical records for compliance. Some data inconsistencies were identified. These inconsistencies are being used to improve programs operated by CPRIT's third party grants management support vendor. In addition, the grant specialists are also performing secondary reviews of Financial Status Reports following the initial FSR reviews performed by grant accountants to confirm the accuracy of the first reviews of grantee reports.			
Once the compliance program design and its risk analysis is finalized by the agency and approved by the Oversight Committee, the grant specialists will be assigned to perform individual desk reviews of grantees considered high or moderate risk in that analysis.			
Person Responsible: David Reisman Target Date for Implementation: December 1, 2014			
Prior Year (FY 2013) Management's Response: CPRIT has maintained desk reviews for its highest risk grants. Desk reviews for lower risk grantees are being conducted again on an as-needed basis using a judgmental sample based on certain indicators in conjunction with the review of quarterly financial reports. The desk review guidelines, which are included in internal CPRIT Finance procedures, will be incorporated in the CPRIT Policies.			

Description	Priority	Risk/Observation	Recommendation
3. CPRIT Policies and Procedures	Medium	<p>Texas Administrative Code, Section 703.14, 'Grant Termination, Extension and Close Out' was adopted January 24, 2014, by the Oversight Committee but not effective until June 1 and is available on CPRIT's website. Per discussion with Management, CPRIT is following the requirements of this rule; however, CPRIT has yet to incorporate the related process into their policy and procedure documents.</p> <p>The CPRIT policies and procedures stipulate approval for the purchase of equipment greater than \$5,000. However, the policy should be updated to reflect that approval from CPRIT is only required in instances where the purchases were not previously authorized as part of the grant contract. The equipment purchase is considered authorized based on an award of funds for a grant application that included the purchase as an equipment budget item.</p> <p>Similarly, the policies and procedures should be updated to provide guidance around the matching funds requirement for research awards.</p>	<p>Management should revise the Policies & Procedures Guide to reflect the changes in the Administrative Code.</p> <p>Management should also consider reviewing the guide on an annual basis to verify the latest updates or changes have been incorporated.</p>

Description	Priority	Risk/Observation	Recommendation
Management Response:			
Management concurs with the recommendation. Agency statements of general applicability that implement, interpret, or enforce state law or CPRIT policies must follow the requirements of the Texas Administrative Procedure Act (APA). In order for an agency statement to have the force of law and compel compliance through threat of enforcement, the APA requires a formal rulemaking process that includes notice and opportunity for public input. Failure to follow the APA rulemaking process to set agency policy may result in legal challenges and a finding that the agency engaged in illegal ad hoc rulemaking.			
<p>CPRIT initiated a major rulemaking project consistent with the APA in November 2013. This was the first major revision to agency policies since CPRIT adopted administrative rules in 2009. The new rules and rule revisions implement recommendations made by the State Auditor's Office in its January 2013 report, Grant Management at the Cancer Prevention and Research Institute of Texas and Selected Grantees, and conform agency practices to legislative requirements enacted by the 83rd legislative session. Many of the policy changes implemented through the new rules and rule changes prescribe behavior of agency staff, board members, applicants, reviewers, and grant recipients. The changes increased the number of CPRIT's administrative rules from 33 rules to 48 rules. In addition to substantive changes made to 19 existing rules, 18 new rules were adopted. Since the major rulemaking project that concluded earlier this year, CPRIT has made several additional changes to administrative rules to further clarify agency policies and procedures.</p> <p>Since the new policies have been adopted via the rulemaking process, CPRIT has notified individuals affected by the new rules and rule changes through training, written communication, and updated forms. Agency staff is currently updating the Policies and Procedures Guide as an additional source of guidance about the rule requirements. CPRIT will establish a schedule to annually review and update the Policies and Procedures Guide to reflect any new rules or rule changes.</p> <p>With regard to the observation related to equipment; specifically that the Policies and Procedures Guide, "Should be updated to reflect approval from CPRIT is only required in instances where the purchases were not previously authorized as part of the grant contract." CPRIT notes that the grant contract already specifies that "an acquisition of equipment is deemed authorized if itemized in the Approved Budget for the Project." CPRIT will update the Policies and Procedures Guide to reflect this information.</p>			
<p>Person Responsible: Kristen Doyle / Lisa Nelson</p> <p>Target Date for Implementation: November 1, 2014</p> <p>Prior Year (FY 2013) Management's Response: CPRIT has formalized the process for closing and extending grants. These processes will be incorporated into the updated CPRIT Policies and Procedures Guide to reflect the processes being followed.</p> <p>Person(s) Responsible 2013: Kristen Doyle / Lisa Nelson</p> <p>Target Date for Implementation 2013: February 28, 2014</p>			

Description	Priority	Risk/Observation	Recommendation
4. HUB and Texas Suppliers Form	Medium	<p>It is the policy of the Institute to encourage grantees to undertake good faith efforts to utilize Texas vendors and historically underutilized businesses (HUBs) to promote full and equal business opportunities for all businesses.</p> <p>A Grant Recipient must report to the Institute at least annually regarding efforts undertaken by the Grant Recipient to utilize HUBs in the performance of the Grant Contract by completing the Historically Underutilized Business and Texas Supplier form submitted as part of the annual Grant Progress Report.</p> <p>Three out of the 35 grant records sampled in CGMS for testing did not have a completed Historically Underutilized Business and Texas Supplier report.</p>	CPRIT should ensure that all grantees complete the Historically Underutilized Business and Texas Supplier report. Grantees that make purchases outside Texas or do not use HUBs should provide an appropriate explanation.
<p>Management Response: Management concurs with the recommendation. CPRIT adopted new administrative rules (25 T.A.C. §§ 701.21 and 701.23) earlier this year related to the good faith efforts expected of grant recipients with regard to the purchase of goods and services with grant funds. The Historically Underutilized Business and Texas Supplier electronic report was created in the CPRIT Grants Management System (CGMS) and released earlier this year to facilitate receiving information for each grant recipient. (Prior to the release of the new electronic form, CPRIT received the information as a static PDF.) CPRIT is working with its third party grant administrator to input HUB data reported by grant recipients previously. The project is expected to be concluded in November 2014 and will provide accurate information for each grant recipient, including whether the annual report is delinquent. This information will be used by CPRIT staff to follow up on delinquent reports.</p> <p>Person Responsible: Kristen Doyle / Lisa Nelson Target Date for Implementation: December 1, 2014</p>			

Additional Recommendations

The following observation(s) were noted to improve overall efficiency and effectiveness of the Grants Management operations going forward. They will require CPRIT's ongoing monitoring and will be continue to be included in subsequent audits. The table below details the observation and impact to CPRIT.

Area(s) of Improvement	Impact	Observation	Operational Impact & Recommendation
1. OC Approval of Grants	High	Prior to January 2014, committee meeting minutes did not include grant details (grantee, grant ID or amount) for grants which were approved. The minutes only documented the approval of 'slate categories' for example 'individual investigator'. For this reason, we were unable to trace the grant amounts approved by the Committee to the grant amounts awarded. From January 2014, CPRIT began to include the details of the approved grants within the Committee Meeting Minutes.	CPRIT should continue to ensure that details of the grant such as grant ID and grant amount approved are included in the minutes of the Oversight Committee Meetings.
2. Performance Measurement	Low	Other than performance measurements monitoring conducted as required by legislation, there is no quarterly review of CPRIT's operating performance.	We recommend CPRIT staff monitor performance quarterly on items such as number and type of grants awarded, grant reimbursements processed, help desk calls/emails, progress of research including number of new drugs/patents, etc.