

# Internal Audit Report

## Grantee: Rice University

Report #2014-110

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August 18, 2014



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

## Introduction

As part of the Cancer Prevention Research Institute of Texas (“CPRIT”) FY 2014 Grantee Internal Audit plan, a review of Rice University has been completed.

## Background

William Marsh Rice University, commonly referred to as Rice University (“Rice” or “University”), is a private research university located in Houston, Texas, United States. The University was opened in 1912 after the murder of its namesake William Marsh Rice. Rice is now a research university with an undergraduate focus. There are 3,920 undergraduate and 2,567 graduate degree-seeking students. The university is organized into eleven residential colleges and eight schools of academic study. The university has a very high level of research activity, with approximately \$94 million in annual research expenditures during the academic year 2012-13. Rice is noted for its applied science programs in the fields of artificial heart research, structural chemical analysis, signal processing, space science, and nanotechnology.

Since CPRIT’s establishment in 2008, the University has received 12 recruitment and research grants totaling over \$29 million<sup>1</sup>. The three audited CPRIT grants provided funds for:

- Recruitment of an Established Investigator to establish the center for Theoretical Biological Physics at Rice University to conduct research on the evolution and ecology of cancer, alternate splicing and other molecular mechanism’s underlying cancer and genetic noise and cellular differentiation (R1110)
- Recruitment of an Established Investigator to set up an organic chemical synthesis and cancer biology laboratory focused on the creation of new medicines for oncology (R1226)
- A collaboration of scientists, engineers, clinicians and a corporate partner for research of cancer screening and diagnostic testing procedures in prostate, oral and ovarian cancers (RP01382-P01)

## Audit Objectives and Scope

### Objectives

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

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

## Scope

1. The University's expenses, inventory, and matching funds related to the three CPRIT grants identified above, between September 2012 and May 2014 were covered under the scope of this audit.
2. Detailed testing of selected expense transactions was performed.
3. Selected equipment over \$5,000 was observed on-site.
4. Detailed testing of selected matching fund expenditures was performed.

## Summary of Findings

Internal audit did not identify any significant issues related to Rice University's expense reimbursement or matching funds documentation. During the inventory observation, Internal Audit noted that one piece of inventory did not have a University asset number assigned; however, this issue was addressed and remediated at the time of the audit. Rice University appears to be in compliance with CPRIT policies for grantees.

## Testing Approach

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

Our procedures included discussions with the following Rice University personnel:

Name	Title
Charles Tarantino	Assistant Controller
Terry Whitt	Research Accounting Manager

Substantive testing was applied subjectively to selected CPRIT expense transactions. These transactions were selected from financially material categories (such as payroll, fringe benefits, travel, equipment, supplies, contractual, and other) comprising approximately 70% of expenditures within the CPRIT Financial Status Report (FSR). One to five expenditures were sampled for each material category and supporting documents were reviewed for accuracy, completeness, appropriateness, classification and timing. Examples of supporting documents include invoices, receipts, and employee expense reports. Internal Audit also verified that each sampled expense was allowable per CPRIT's Expense Reimbursement Policy.

Internal Audit obtained a complete listing of inventory from the CPRIT Grants Management System (CGMS) for the selected grants and randomly selected items to observe. Observations were performed on selected inventory to ensure the equipment existed, was properly identified and recorded, and was in working condition.

Detailed testing of the University's matching funds was performed to ensure that Rice met the required match of 50% of CPRIT funds. Documentation was obtained and reviewed for selected expenditures to support the appropriateness of the monies being used as match and to ensure that the expenditure was related to cancer research.

## **Audit Results**

### ***Expense Reimbursements***

To evaluate the effectiveness of the University's expense reimbursement process, Internal Audit performed substantive testing on almost 3,000 expense reimbursement transactions totaling over \$2.7 million during the period of September 2012 – May 2014 for the three grants selected as part of the review. Internal Audit vouched the expenses per the general ledger to the supporting documents. Internal Audit then traced the transactions within the general ledger to the Financial Status Reports (Form 269A) to ensure that all amounts were accurately reported and that expenses were appropriately categorized and reported to CPRIT.

Upon review of the requested documentation for expense reimbursements, it was noted that all samples of CPRIT grant reimbursement requests were accompanied by complete, accurate, and appropriate supporting documentation. Internal Audit also determined that all expenses were incurred within the dates set forth in the CPRIT grant contract, and no expense was reimbursed prior to it being incurred by the grantee.

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

Internal Audit obtained a complete listing of inventory from the grantee for the selected grants and randomly selected 15 items to observe. Internal Audit observed the pieces of equipment to verify the existence and proper recording of inventory purchased with CPRIT funds. Internal Audit noted the following:

- One piece of equipment, for grant R1226, did not have a University asset number assigned; however, the equipment's serial number tied back to the inventory listing.

Before the audit was completed, the University addressed this observation by appropriately labeling the piece of equipment. Internal Audit does not consider this to be an exception.

### ***Matching Funds***

To support Rice's matching funds certification claimed in Attachment C of their CPRIT contracts, Internal Audit obtained documentation to verify that the expenditures originated from funds independent of CPRIT.

Internal Audit noted that the matching funds document for grant R1226 was due for submission in February 2014, but has not yet been submitted in the grants management system, due to technical difficulties. Rice submitted a letter to CPRIT in June 2014 outlining this issue, however, at the time of the audit (August 2014), the system issue has not been rectified. Internal Audit obtained the matching funds documentation as part of testing and verified that it was available and sufficient.

Internal Audit concluded that the funds being used for the CPRIT required match are appropriate and meet the requirements described in CPRIT policies and procedures.

## **Recommendations**

To improve the accuracy of monitoring their inventory, the University should perform periodic physical inventories of their assets to verify that their inventory listing is accurate and complete. The asset review should include a review of the serial number, asset number, and the item description. During the inventory observation, Internal Audit noted that one piece of inventory did not have a University asset number assigned; however, this issue was addressed and remediated at the time of the audit.