

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

**IA # 08-17 – INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER  
COMMODITY AND SERVICE CONTRACTS**

**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 OBJECTIVE AND SCOPE.....	2
EXECUTIVE SUMMARY .....	2
CONCLUSION .....	3
DETAILED FOLLOW-UP RESULTS, RECOMMENDATIONS AND MANAGEMENT RESPONSE.....	4
APPENDIX .....	8



The Oversight Committee  
Cancer Prevention and Research Institute of Texas  
1701 North Congress Avenue, Suite 6-127  
Austin, Texas 78701

This report presents the results of the internal audit follow up procedures performed for the Cancer Prevention and Research Institute of Texas (the Institute) during the period May 15, 2017 through June 21, 2017 related to the findings from the Internal Audit Report over Commodity and Service Contracts dated May 13, 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 Commodity and Service Contracts.

To accomplish this objective, we conducted interviews with key personnel responsible for the commodity and service contracts process. 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 an exit meeting was conducting 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

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

**BACKGROUND**

In fiscal year 2016, an internal audit over the CPRIT's commodity and service contracts process was completed. The internal audit report identified five areas of improvement related to the centralized listing of active contracts, vendor on-boarding documentation, review and approval of commodity invoices, budget certifications, and vendor performance tracking.

The 2017 Internal Audit Plan included performing follow up procedures to validate that CPRIT management has taken steps to address the prior 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 Commodity and Service Contracts, and to validate that appropriate corrective action had been taken. The 2016 report identified the following findings:

1. CPRIT's centralized listing of active contracts is not updated upon the execution of new contracts.
2. Vendor and contractor on-boarding is not formally documented.
3. Commodity invoices are not consistently reviewed and approved by appropriate personnel.
4. CPRIT does not consistently follow its procedures to ensure that the budget certification sign-off on the purchase order and/or purchase request is completed consistently.
5. CPRIT does not consistently report vendor performance for contracts greater than \$25,000.

Our follow-up procedures included the following:

- Interviewing key personnel to identify corrective actions taken to address prior findings
- Reviewing policies, procedures, and other documentation
- Performing test procedures to ensure that policies and procedures are appropriately implemented to address prior findings

We evaluated the corrective action of four of the five internal audit findings. The remaining one internal audit finding was not evaluated. CPRIT management indicated that no corrective actions have been taken to address this finding.

**EXECUTIVE SUMMARY**

The findings from the 2016 Internal Audit Report over Commodity and Service Contracts include those items that were identified and are considered to be non-compliance issues with CPRIT's 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 significant financial or operational implications.

In the 2016 Internal Audit, we identified five findings, of which three were risk rated as **Moderate** and two were risk rated as **Low**.

Through our interviews, review of documentation, observations and testing we determined that of the four findings where corrective action was evaluated, all four have been fully remediated. The remaining one internal audit finding was not evaluated since CPRIT management indicated that no corrective actions have been taken to address the finding, and made the determination to accept the risk associated with the low risk finding.

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

A summary of our results is provided in the table below.

Risk Rating	Findings	Remediated	Closed – Management Accepted Risk	Open
High	-	-	-	-
Moderate	3	3	-	-
Low	2	1	1	-
<b>Total</b>	<b>5</b>	<b>4</b>	<b>1</b>	-

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 Commodity and Service Contracts.	We identified that remediation efforts were made for commodity and service contracts processes. However, one finding requires additional efforts to fully remediate the finding. Management has determined to accept the risk associated with the finding: <ul style="list-style-type: none"> <li>• Ensure commodity invoices are consistently reviewed and approved by appropriate personnel.</li> </ul>	<b>STRONG</b>

**CONCLUSION**

Based on our evaluation, personnel responsible for commodity and service contracts made efforts to remediate the findings from the 2016 Internal Audit Report over Commodity and Service Contracts. However, additional efforts should be made to remediate the remaining open finding.

We recommend that CPRIT continue to remediate the commodity and service contracts findings and strengthen the existing processes. CPRIT should ensure all invoices are reviewed and approved by an individual with sufficient authority and knowledge of the purchase and delivery of goods or services.

Based on management's acceptance of the risk, no additional internal audit follow-up procedures are recommended.

**DETAILED FOLLOW-UP RESULTS, RECOMMENDATIONS  
AND MANAGEMENT RESPONSE**

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

**DETAILED FOLLOW-UP RESULTS, RECOMMENDATIONS  
AND MANAGEMENT RESPONSE**

Our procedures included interviewing key personnel responsible for the commodity and service contracts process to gain an understanding of the corrective actions taken in order to address the findings identified in the 2016 Internal Audit over Commodity and Service Contracts as well as examining existing documentation and communications and performing testing in order to validate those corrective actions. We evaluated the existing policies, procedures, and processes in their current state.

**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 Commodity and Service Contracts.

**Finding 1 – MODERATE – Contract Listing:** CPRIT's centralized listing of active contracts is not updated upon the execution of new contracts. Two contracts that were approved by the Oversight Committee in November of 2015 for Award Year 16 (AY16) were not added to the listing until May 2016. Further, the Health and Human Services Commission contract is not on the contract listing. The Purchaser uses the list to identify contracts that need to be removed or closed. This listing is also used to identify contracts that are nearing expiration and need to be closed out, contract renewals and extensions, add contract term to the list, start and end date.

The Accountant receives and logs all invoices for contracted services and keeps track of the service expenditures against all known contract amounts. We determined that the Accountant had not been notified of all existing contracts and consequently did not monitor the contract expenses against the contracted amount for the following contracts:

- Spencer Stuart - expenditures in AY15 and AY16
- The Perryman Group - expenditures in AY16
- Andrews Kurth - no expenditures at the time of procedures

**Procedures Performed:** Based on our interviews with the Purchaser and the COO and review of contract list updates, we verified that timely updates to the contract list are being performed by the Purchaser. We reviewed the following contract list updates:

- November 9, 2016
- November 21, 2016
- December 2, 2017
- January 24, 2017
- February 2, 2017
- April 19, 2017
- April 26, 2017

**Results:** Finding remediated.

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

**Finding 2 – LOW – Vendor On-Boarding:** Vendor and Contractor on-boarding is not formally documented. The vendors and contractors are contacted informally by the designated CPRIT Contract Administrator who discusses the contract, expected services, and any on-boarding needs directly with the vendor/contractor.

**Procedures Performed:** We verified that CPRIT implemented a vendor onboarding checklist for new vendors/contractors. We verified that the vendor onboarding checklist was completed and signed by the Contract Administrators for the following new vendors:

- Business & Financial Management Solutions
- Tradeshow Multimedia, Inc.

**Results:** Finding remediated.

**Finding 3 – LOW – Invoice Approval:** Commodity invoices are not consistently reviewed and approved by appropriate personnel. This can create a segregation of duties issue in which a purchase is initiated, executed, and the invoice is approved by the same individual. For two out of 30 commodity expenditures tested, the Purchaser provided approval for the invoice and was also responsible for initiating the purchase. The COO approved the associated purchase order and payment.

For one out of 30 commodity expenditures tested, we were unable to verify that the invoice was reviewed and approved prior to the payment. We were able to verify that the purchase order and the payment were approved by the COO.

**Procedures Performed:** Management has not implemented procedures to remediate the finding. No follow-up procedures were performed.

**Results:** Closed – Management accepted risk.

**Recommendation:** CPRIT should ensure all invoices are reviewed and approved by an individual with sufficient authority and knowledge of the purchase and delivery of goods or services. Payment should not be processed without a corresponding approved invoice.

Further, CPRIT should document and retain all purchase requests with the voucher packet to complete the purchase documentation and demonstrate appropriate segregation of duties.

**Updated Management Response:** CPRIT management evaluated having one of the administrative assistants verify the general office supply commodities match the goods invoiced as explained in the prior management response. However, the administrative assistants in the agency do not have "sufficient authority and knowledge" of the specifications and requirements for these purchases. Being a small state agency and given the relatively low volume and small dollar amount of office supply commodities the agency purchases in which the Purchaser initiates the purchase, verifies receipt of the items and approves the invoices that risks are minimized given the approvals of the initial purchase requisition as well as the payment release of these purchases. Based on these factors, CPRIT management accepts the low risk of the potential lack of segregation of duties.

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR**  
**YEAR COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

**Finding 4 – MODERATE – Budget Certification:** CPRIT does not consistently follow its procedures to ensure that the budget certification sign-off on the purchase order and/or purchase request is completed consistently. The Chief Operating Officer monitors the budget on an ongoing basis and is the final signatory authority on Purchase Orders. Purchases of goods and services are considered as part of the annual operating budget. However, CPRIT policy also requires sign-off on purchases to verify budget availability.

For two out of 23 commodity expenditures tested that had purchase orders, Accounting did not sign-off verifying the budget prior to the purchase.

For purchases made through a P-Card that were not monthly re-occurring fees, one out of 23 purchase requests did not have Accounting personnel sign-off on the form verifying the budget prior to the purchase.

**Procedures Performed:** We tested eight out of 33 purchase orders that occurred from September 1, 2016 through March 31, 2017 and verified that budget was certified by the Operations Specialist.

**Results:** Finding remediated.

**Finding 5 – MODERATE – Vendor Performance Tracking:** Contract Administrators are not consistently aware of the Vendor Performance Tracking System reporting requirement of the Comptroller of Public Accounts. Contract Administrators do not submit Vendor Performance Forms for contracts that are greater than \$25,000 as required by the Comptroller of Public Accounts. Currently, the Purchaser is responsible for completing the vendor performance reporting during the performance of the contract closeout procedures.

Vendor Performance Evaluations are inconsistently performed. We identified three contracts closed out during the period with expenditures exceeding \$25,000. For the three identified contacts:

- One of the contracts, the closeout checklist was marked "N/A" for vendor performance evaluation completed.
- Two of the contracts, the closeout checklist did not have the step "vendor performance evaluation completed" on the form.
- For all three contracts, we searched the VPTS database and were unable to find any instances of a vendor performance evaluation completed by CPRIT.

**Procedures Performed:** We reviewed the Vendor Performance Tracking System form and verified that it includes instructions and information needed to record the vendor performance in the Texas Comptroller of Public Accounts Vendor Performance Tracking System.

We obtained the Vendor Performance Report for the one contract closed out since September 1, 2016 and determined that the evaluation was completed and submitted in the Comptroller's Vendor Performance Tracking System.

**Results:** Finding remediated.

## **APPENDIX**

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR YEAR**  
**COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

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.

**CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS**  
**IA # 08-17 INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER PRIOR YEAR**  
**COMMODITY AND SERVICE CONTRACTS FINDINGS**  
**JUNE 21, 2017**  
**ISSUED: JULY 13, 2017**

**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