

Cancer Prevention & Research Institute of Texas

IA # 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

CONTENTS

Page

Internal Audit Report Transmittal Letter to the Oversight Committee 1

Background.....2

Audit Objective and Scope3

Executive Summary5

Conclusion.....7

Detailed Procedures Performed, Findings, Recommendations and Management Response8

 Objective A: Design of Internal Controls9

 Objective B: Effectiveness of Controls10

 Objective C: System Access13

Appendix14



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 procedures performed for the Cancer Prevention and Research Institute of Texas (CPRIT) during the period December 4, 2017, through December 20, 2017 relating to the Post-Award Grant Contracting and Monitoring processes.

The objectives of the internal audit were to evaluate the design and effectiveness of CPRIT's Post-Award Grant Contracting and Monitoring processes. The objectives were organized as follows:

- A. Confirm the design of internal controls over Post-Award Grant Contracting and Monitoring processes ensure that consistent processes are implemented and designed effectively to manage the grant application and evaluation process.
- B. Ensure that controls over selected critical processes within Post-Award Grant Contracting and Monitoring processes are operating effectively and that required grant application documentations is obtained and reviewed.
- C. Ensure that access to view, process or modify data in the key IT applications is restricted to appropriate personnel.

To accomplish these objectives, we conducted interviews with CPRIT personnel responsible for Post-Award Grant Contracting and Monitoring. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at CPRIT's office and completed on December 20, 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
February 1, 2018

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

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. As part of achieving that goal, CPRIT awards grants for cancer research and prevention.

In 2015, Internal Audit performed an audit over Grants Management, which included the grant cycle from the initiation of a grant application, through the grant application evaluation and award, completing with grant monitoring, and close-out. As part of the update of the Internal Audit Risk Assessment in 2015, the grants cycle was split into three distinct cycles to better depict how the process occurs: Pre-Award Grant Management, Grant Contracting, and Post-Award Grant Monitoring. This internal audit focused on the Grant Contracting and Post-Award Grant Monitoring processes.

Since June 1, 2016, CPRIT Post-Award Grant Contracting and Monitoring activities included:

- 167 contracts executed
- 177 contracts closed
- 755 active grants
- 16 advance payments
- 247 contract extensions
- 348 desk reviews and 39 on-site reviews
- 3,287 grant disbursements totaling approximately \$349 million

The Grant Contracting process begins with the creation and execution of a grant contract. A standard grant contract template is maintained in the CPRIT Grants Management System (GCMS) and modified for each grant contract. All contracts and contract amendments are approved and executed by the CEO through an electronic sign-off in CGMS. Executed contracts are binding unless and until modified by a contract revision signed by the recipient and CPRIT's CEO, or the contract is terminated.

Upon execution of a grant contract, the grantee must submit quarterly Financial Status Reports (FSRs) to request reimbursement for grant funds within 90 days of the fiscal quarter. All FSRs receive a thorough review by CPRIT personnel, including a review by the Grant Accountant and a secondary review by the Grant Specialist to ensure that expenses charged are allowable per the grant contract. After approval of the FSR in CGMS, the Operations Manager or Operations Specialist approves the payment voucher in the state's Centralized Accounting and Payroll/Personnel System (CAPPS) upon completion of the grant pedigree verifying that all required reports have been completed. Then the Chief Operating Officer electronically approves the payment in CAPPS.

In addition to FSRs, grantees are required to submit annual reports including the Annual Inventory Report, HUB Form, Revenue Sharing Form, Grant Progress Reports, and single audits, which are reviewed and approved in CGMS by appropriate CPRIT staff to ensure compliance with contract terms.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

On an annual basis, CPRIT compliance staff complete a risk assessment update to identify high-risk rated grantees, for which an on-site or desk review will be performed. Desk reviews include a review of grantee's policies and procedures regarding grant management, while on-site reviews include a more thorough review of a grantee's procedures, procurement practices, inventory management, accounting system, and segregation of duties. For all desk and on-site reviews, a Grant Monitoring Report is completed and submitted to the grantee. The report which identifies any deficiencies found in the review. Grantees are required to provide corrective action responses (if applicable) within 30 days of the report date, and the compliance staff follows-up with grantees who do not provide corrective action responses in a timely manner.

Grantees may receive no-cost grant extensions, provided that the grantee has submitted all required reports to CPRIT. The average extension is six months. All extensions are reviewed and approved by program staff and the Operations Manager prior to approval by the Chief Executive Officer.

The final step of the Grant Contracting and Post-Award Grant Monitoring processes is the grant close-out. Grantees must submit a final FSR and a Final Grant Progress Report in order to receive the last grant payment. Final Progress Reports are reviewed similarly to the review of the Annual Progress Reports to assess the success and progress over the grant's life. Final FSRs are the FSR for the last quarter of the grant, however, the indirect cost for the life of the grant is verified to ensure that indirect costs amount to no more than 5% of the total grant expenditures. Payment of the last FSR follows the same process described above.

Upon receipt of all required reports and approval of the Final Grant Progress Report and last FSR, CGMS automatically closes out the grant.

Audit Objective and Scope

The audit focused on CPRIT's post-award grant contracting and monitoring processes to execute contracts and monitor compliance with contract terms. Key functions and sub-processes within the Post-Award Grant Contracting and Monitoring processes that were reviewed include:

- Contract Execution
- Contract Compliance
- Financial Reporting
- Grantee Reporting
- Compliance Monitoring
- Contract Extension
- Contract and Funding Closeout

The audit scope did not include the following Pre-Award Grants Management processes:

- RFA Review Process
- Conflict of Interest Disclosure
- Scientific Research and Prevention Program Review (including travel coordination)
- Grant Application Approval
- Grant Award Approval

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

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

Contract Execution

- Award commitments/contracts are appropriately authorized by the Oversight Committee
- Use of standard contract templates are appropriate and approved
- Deviations to standard and required contract terms are appropriate and approved
- Contracts clearly define compliance requirements and include State requirements
- Required grantee certifications are reviewed and approved prior to contract execution
- Contract amendments and revisions are appropriately reviewed and approved

Contract Compliance

- State grant laws and regulations are met
- Contracts are in compliance with CPRIT Administrative Rules
- Arrangements allowing self-dealing or kickback payments are not in place
- Conflicts of interest by the grantee have been identified and reported
- Contract records are adequately documented and maintained

Financial Reporting

- FSR reimbursement requests are reviewed and approved
- Grant costs charged to grants are monitored
- Grant payments are approved prior to disbursement
- Periodic financial monitoring procedures regarding budgets, expenditure coding, and fixed assets are performed
- Use of matching funds is reviewed and validated for completeness and accuracy
- Financial reports and audits are reviewed and potential irregularities and exceptions are investigated

Grantee Progress Reporting

- Grantee progress reports are monitored for completeness, accuracy and timeliness
- Programmatic/scientific assessments of progress report results are conducted
- Reports are reviewed for compliance with contract terms
- Cost analysis of grant program progress results is performed

Compliance Monitoring

- Grantee risk assessment is maintained and utilized to determine appropriate grantee monitoring procedures
- Grantees receive onboarding and periodic compliance and management training
- Grant costs charged are monitored
- Use of matching funds is reviewed and validated for completeness and accuracy
- Grantee policies and procedures are reviewed
- Grantee accounting systems are reviewed for sufficiency
- Grantee segregation of duties is assessed
- Grantee procurement practices are reviewed to ensure appropriate use of grant funds
- Grantees have appropriate controls and monitoring of inventory purchased with grant funds
- Agreements with subcontractors include all CPRIT contractual requirements and administrative regulations
- Grantees have procedures in place to monitor subcontractors for compliance
- Corrective action follow-up is performed with grantees with deficiencies

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

Contract Extension

- Grantee financial and programmatic performance is evaluated prior to extension approval
- Extensions are reviewed and approved

Contract and Funding Closeout

- Grant expenditures are verified prior to closeout
- All open requests for reimbursement are validated and reconciled
- Grant and grantee documents are archived and retained
- Final grantee progress report evaluations and verifications are performed
- Final reimbursement payments are approved

Our procedures included interviewing key personnel to confirm our 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, 2016, through November 30, 2017.

Executive Summary

Through our interviews, observations, evaluation of internal control design, and testing of controls, we identified one finding. A reported finding includes the item that has been identified and is considered to be a non-compliance issue with documented CPRIT policies and procedures, with rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover significant risks to CPRIT. This issue could have significant financial or operational implications.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

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	STRONG
---------------------------	---------------

SCOPE AREA	RESULT	RATING
<p>Objective A: Confirm the design of internal controls over Post-Award Grant Contracting and Monitoring processes ensure that consistent processes are implemented and designed effectively to manage the grant application and evaluation process.</p>	<p>We identified 31 controls to be in place in the process, and determined that all relevant risks were covered.</p>	STRONG
<p>Objective B: Ensure that controls over selected critical processes within Post-Award Grant Contracting and Monitoring processes are operating effectively and that required grant application documentations is obtained and reviewed.</p>	<p>Controls in place were operated effectively and as designed. We verified that control activities were consistently followed and covered relevant risks within the process.</p>	STRONG
<p>Objective C: Ensure that access to view, process or modify data in the key IT applications is restricted to appropriate personnel.</p>	<p>Access to CGMS and the CohnReznick Portal was generally appropriate. We identified the following opportunity for improvement:</p> <ul style="list-style-type: none"> • Ensure that access to the CohnReznick portal is removed upon employee separation from CPRIT. 	STRONG

One other opportunity for improvement was identified through our interviews, evaluation of internal control design and transactional testing. This observation included the item that is not considered to be a non-compliance issue with documented CPRIT policies and procedures. It is considered a process improvement observation and the intent for the recommendation is to strengthen current CPRIT processes and controls. The observation was provided to management separately.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

Conclusion

Based on our evaluation, the Post-Award Grant Contracting and Monitoring processes have procedures and controls in place to conduct effective management of the significant processes within CPRIT. However, we identified an opportunity to improve system-related controls that affect the processes and effectiveness of the Post-Award Grant Contracting and Monitoring processes.

As part of the employee separations process, CPRIT should ensure that user access to all key IT systems is evaluated and deactivated upon the user's separation from CPRIT. The timely removal of user access from key IT systems ensures the effectiveness of controls within the Post-Award Grant Contracting and Monitoring processes.

Follow-up procedures will be conducted as part of the 2019 Internal Audit Plan to validate the effectiveness of the steps taken to address the finding identified.

**Detailed Procedures Performed, Findings,
Recommendations and Management
Response**

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

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

Confirm the design of internal controls over Post-Award Grant Contracting and Monitoring processes ensure that consistent processes are implemented and designed effectively to manage the grant application and evaluation process.

Procedures Performed: We conducted interviews with key personnel throughout CPRIT and examined existing documentation to confirm our understanding of the internal controls for the Post-Award Grant Contracting and Monitoring processes. We confirmed the design of controls within the following critical sub processes:

- Contract Execution
- Contract Compliance
- Financial Reporting
- Grantee Reporting
- Compliance Monitoring
- Contract Extension
- Contract and Funding Closeout

We evaluated whether the design of the confirmed internal controls sufficiently mitigates the critical risks associated with the Post-Award Grant Contracting and Monitoring processes. We identified unacceptable risk exposures due to control design inadequacy or opportunities to strengthen the effectiveness of the existing control design.

Results: We identified 31 controls in place over the significant activities within the Post-Award Grant Contracting and Monitoring processes. No findings were identified.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

Process Area	Expected Controls	Control Coverage
Contract Execution	7	5
Contract Compliance	5	5
Financial Reporting	7	8
Grantee Reporting	4	3
Compliance Monitoring	12	8
Contract Extensions	2	3
Contract Closeout	4	4
Grant Funding Closeout	3	4
Total	44	40

Duplicate Control: The total number of controls identified is 31. However, based on their design, controls address risks in multiple processes. We have mapped the 31 identified controls to the processes in which they mitigate the risks within the processes.

Objective B: Effectiveness of Controls

Ensure that controls over selected critical processes within Post-Award Grant Contracting and Monitoring processes are operating effectively and that required grant application documentations is obtained and reviewed.

1. Procedures Performed: We selected a sample of 35 from the population of 167 contracts that were executed and effective between June 1, 2016, and November 30, 2017, and verified the following:

- Award commitments/contracts were appropriately authorized by the CEO
- Grantee certifications were reviewed and approved prior to contract execution
- Contracts were in compliance with state laws and CPRIT Administrative Rules

Results: No findings identified.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

2. Procedures Performed: We selected a sample of 40 from the population of 755 grants active between June 1, 2016, and November 30, 2017, and verified the following:

- Contract amendments were approved by the CEO and signed by the Applicant's Authorized Signing Official
- All executed contract documents, including attachments, amendments, and the approved proposal and application were maintained in CGMS
- CPRIT reviewed Grant Progress Reports to determine whether sufficient progress was made consistent with the scope of work and timeline set forth in the Grant Contract.

Results: No findings identified.

3. Procedures Performed: We selected a sample of 40 from the population of 3,287 grant disbursement between June 1, 2016, and November 30, 2017, and verified the following:

- Contracts were executed prior to funding grant awards
- Financial Status Reports (FSRs) and corresponding reimbursement requests were reviewed and approved by CPRIT personnel
- FSR Check Lists were completed for each FSR Review and a secondary review was performed by a Grant Specialist
- Use of matching funds was reviewed and validated for completeness and accuracy
- The total amount per the Financial Status Report (FSR) agreed to the total disbursed per the Voucher

Results: No findings identified.

4. Procedures Performed: We selected a sample of 4 from the population of 16 advance payments between June 1, 2016, and November 30, 2017, and verified the following:

- Advance payments for grant award funds were approved by the Oversight Committee
- Expenditures and supporting documentation were reviewed by Grant Accountants and reconciled to outstanding advance amounts before any additional funds were disbursed

Results: No findings identified.

5. Procedures Performed: We reviewed the grantee risk assessments for FY 2017 and FY 2018, and verified the following:

- The grantee risk assessment was consistently maintained and updated.

Results: No findings identified.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

6. Procedures Performed: We selected a sample of 40 from the population of 348 desk reviews and 5 from the population of 39 on-site reviews performed between June 1, 2016, and November 30, 2017, and verified the following:

- CPRIT obtained and reviewed financial statement audit reports from grantees that had grant expenditures in excess of \$750,000
- Grantee monitoring procedures (desk and on-site reviews) were executed based on the grantee risk assessment guidelines
- Grantee monitoring procedures include reviews of grantee:
 - Financial statements and single audits (if applicable)
 - Policies and Procedures
 - Inventory Management
 - Accounting System Sufficiency
 - Segregation of duties
 - Subcontractor requirements and monitoring
- Corrective action follow-up was performed for grantees and sub-recipients with deficiencies

Results: No findings identified.

7. Procedures Performed: We selected a sample of 3 from the population of 6 quarterly Oversight Committee meetings between June 1, 2016, and November 30, 2017, and verified the following:

- The report provided to the Oversight Committee regarding grantees that fail to comply with reporting requirements was accurate and complete

Results: No findings identified.

8. Procedures Performed: We selected a sample of 40 from the population of 247 contract extensions between June 1, 2016, and November 30, 2017, and verified the following:

- Contract extensions included a formal justification, were evaluated against grantee programmatic performance, and were approved by the Program Manager and CEO

Results: No findings identified.

9. Procedures Performed: We selected a sample of 20 from the population of 177 close-out or early terminations between June 1, 2016, and November 30, 2017, and verified the following:

- All open requests for reimbursement were validated and reconciled
- Grantee documents were appropriately archived
- Close-out final progress reports were complete
- All final progress reports were verified prior to close-out
- Grant funds were reconciled by funding source prior to close-out
- Close-out final payments were approved appropriately

Results: No findings identified.

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

Objective C: System Access

Ensure that access to view, process or modify data in the key IT applications is restricted to appropriate personnel.

1. **Procedures Performed:** We obtained the user access permissions for the CPRIT Grants Management System (CGMS) from CSRA. We evaluated the CGMS user permissions to verify that access to CGMS was restricted to active, appropriate personnel.

Results: No findings identified.

2. **Procedures Performed:** We obtained the user access permissions for the CohnReznick portal from CohnReznick. We evaluated the CohnReznick portal user permissions to verify that access to the CohnReznick portal was restricted to active, appropriate personnel.

Results: We identified a former CPRIT employee who continued to have access to the CohnReznick portal after they separated employment from the agency.

Finding 1 – MODERATE – Separated Employee User Access

We identified a former CPRIT employee who had access to the CohnReznick portal after they separated employment the agency on September 30, 2017. The CPRIT employee's access was removed on December 19, 2017.

Recommendation: CPRIT should implement procedures, as part of the employee separations process, to validate that all user accounts have been deactivated, including accounts where third-party vendors administer the user access. The process should include the receipt of positive confirmation from CPRIT IT and third-party vendors that all user IDs have been deactivated, or access has been otherwise removed.

CPRIT Management Response: CPRIT management agrees that verification of user access to IT systems managed internally and by third-party vendors should be deactivated in a timely manner. CPRIT's Information Technology Governance Committee will ensure that access to the CohnReznick portal and any new third-party system access is addressed in the employee separation process and documentation.

Responsible Party: Operations Manager, Information Technology Officer, Chief Operating Officer

Implementation Date: August 31, 2018

Appendix

Cancer Prevention and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

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 and Research Institute of Texas

IA# 01-18 Internal Audit Report over Post-Award

Grant Contracting and Monitoring

Report Date: December 20, 2017

Issued: February 1, 2018

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