

Cancer Prevention and Research Institute of Texas

IA # 05-18 Internal Audit Follow-Up Procedures Report
over Procurement and P-Cards

Report Date: April 30, 2018

Issued: May 25, 2018

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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 April 9, 2018, through April 13, 2018, related to the findings from the Internal Audit Report over Procurement and P-Cards dated June 21, 2017.

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 2017 Internal Audit Report over Procurement and P-Cards.

To accomplish this objective, we conducted interviews with key CPRIT personnel responsible for procurement and P-Cards. We also reviewed documentation and performed specific testing procedures to validate actions taken. Procedures were performed at the CPRIT's office and an exit meeting was conducted on April 30, 2018.

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
April 30, 2018

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Background

In 2017, internal audit procedures over CPRIT's Procurement and P-Card processes were completed and reported to the Oversight Committee. The internal audit report over CPRIT's procurement and P-Card procedures and activities identified nine areas for improvement related to the consistent execution of procedures, completion of process documentation, monitoring purchases as well as the use and reconciliation of Travel Cards and P-Cards.

The 2018 Internal Audit Plan included performing procedures to validate that CPRIT management has taken steps to address internal audit findings.

Follow-Up Procedures Objective and Scope

The follow-up procedures focused on the remediation efforts taken by CPRIT management to address findings included in the 2017 Internal Audit Report over Procurement and P-Cards, and to validate that appropriate corrective action had been taken. The 2017 report identified the following findings:

- Purchasing procedures are not consistently enforced to require requisitions for all purchases
- Procedures to determine, document, and utilize the most appropriate purchase method are not followed
- RFP approvals by the Chief Operating Officer are not consistently documented and retained
- Financial Interest Disclosures are not completed by all CPRIT personnel participating in the evaluation of vendor proposals
- There are no procedures in place to consistently ensure that all disclosures, certifications and reviews are completed prior to entering into a contract with a vendor
- Documented processes are not in place to monitor serial, sequential or split purchases
- Travel Card use is shared by multiple agency employees while responsibility for the travel card is assigned to the Accountant
- Travel requisitions are not consistently approved
- P-Card and Travel Card reconciliations are not performed timely

Our follow-up procedures included verification of the following:

- Purchase requisitions are consistently created and approved
- Appropriate purchasing method is utilized and adequately documented
- RFPs are reviewed and approved by the Chief Operating Officer
- Financial Interest Disclosure forms are completed by all CPRIT personnel participating in the evaluation of vendor proposals as part of the formal solicitation process
- Disclosures, certifications, and reviews are completed for each contract
- Purchases are monitored to identify potential split purchases and to consolidate purchases
- The Procurement Plan and Contract Management Handbook has been updated to reflect existing Travel Card procedures and that Travel Card activity is reviewed by the Accountant
- Travel requisitions were consistently approved
- P-Card and Travel Card reconciliations are performed timely

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Executive Summary

The findings from the 2017 Internal Audit Report over Procurement and P-Cards 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.

Through our interviews, review of documentation, observations and testing we determined that of the nine findings where corrective action was evaluated, seven were fully remediated while one was partially remediated, and one was closed by management.

Risk Rating	Total Findings	Remediated	Closed by Management	Partially Remediated	Open
High	-	-	-	-	-
Moderate	7	5	1	1	-
Low	2	2	-	-	-
Total	9	7	1	1	-

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
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SCOPE AREA	RESULT	RATING
Objective: Validate that adequate corrective action has been taken in order to remediate the issues identified in the 2017 Internal Audit Report over Procurement and P-Cards.	We identified that procedures implemented by management addressed and remediated prior open findings. However, management should continue their efforts to remediate the remaining open finding: <ul style="list-style-type: none"> • Ensure that Travel Card reconciliations are performed timely 	STRONG

Conclusion

Based on our evaluation, key personnel in procurement and finance made efforts to remediate the findings from the 2017 Internal Audit Report. However, additional efforts should be made to remediate the one finding that was partially remediated.

We recommend CPRIT continue to remediate the remaining procurement and P-Card finding and strengthen existing processes. CPRIT should ensure that all Travel Card reconciliations and payments of the card are completed in a timely manner.

Follow-up procedures should be conducted in Fiscal Year 2019 to validate the effectiveness of the remediation efforts taken to address the remaining open finding.

**Detailed Follow-Up Results, Findings,
Recommendations and Management
Response**

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Detailed Follow-Up Results, Recommendations and Management Response

Our procedures included interviewing key personnel in Procurement and Finance to gain an understanding of the corrective actions taken in order to address the findings identified in the 2017 Internal Audit Report over Procurement and P-Cards, 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 2017 Internal Audit Report over Procurement and P-Cards.

Finding 1 – MODERATE – Purchase Requisition Creation and Approval: CPRIT does not consistently enforce procedures to submit and approve a purchase requisition for all purchases in accordance with the agency's Procurement Plan and Contract Management Handbook.

Of the 30 purchases tested, 18 exceptions were identified:

- 17 purchases did not have a purchase requisition created; 14 of the 17 were for purchases off of cooperative contracts for contract labor
- 1 purchase had a purchase requisition that was not reviewed and approved by the COO

Of the 30 P-Card purchases tested, 15 did not have a purchase requisition created. These were monthly and annual charges for recurring services provided to CPRIT's IT Department.

Results: Finding remediated

We reviewed the FY 2018 CPRIT Procurement Plan and Contract Management Handbook and verified that purchasing procedures were updated to include a requirement for the Purchaser to create a purchase requisition in CAPPs. In addition, we met with the Purchaser and the Operations Specialist and observed that requisitions must be approved prior to creating a purchase order in CAPPs.

We selected samples of 25 out of 82 purchase orders and 25 out of 107 P-card transactions that occurred during the period of September 1, 2017, through March 31, 2018, and verified that corresponding requisitions were created and approved in CAPPs.

Finding 2 – MODERATE – Purchase Method: CPRIT does not consistently follow the procedures to determine, document, and utilize the most appropriate purchase method as required by the State of Texas Procurement Manual and CPRIT's purchasing requirements.

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Of the 30 purchases tested, 2 exceptions were identified:

- 1 purchase did not have the required documentation of the determination of best value for the purchase method utilized. The UT Document Solutions purchase did not have the required documentation to support the purchase method. The print shop job request was appropriately submitted through the state portal. However, Step 3 of the State of Texas procedure for procuring print related services requires the Purchaser to document the performance of the analysis determining best value for the purchase. No support for the analysis was provided.
- 1 purchase did not have the required support and evaluation for an Open Market Informal Solicitation. The purchase from PDME was within the procurement threshold of \$5,000 and \$25,000, which required a solicitation of goods from at least 3 CMBL vendors, including 2 HUB vendors. However, the purchase was made without the 3 required solicitations.

Results: Finding remediated

We selected a sample of 25 out of 82 purchase orders that occurred during the period of September 1, 2017, through March 31, 2018, and verified that purchasing guidelines were followed and appropriate purchasing method was used based on the purchase amount. In addition, we verified that all supporting documentation was adequately maintained.

Finding 3 – MODERATE – Missing RFP Approval: CPRIT does not consistently document and retain the approval of RFPs. Current RFP approval methods include verbal, email, or signature approvals from the Chief Operating Officer. However, documentation of the approval is not consistently maintained within the procurement file.

Of the 5 contracts requiring formal bids that were tested, CPRIT was unable to provide evidence of the approval for 3 of the RFPs. These 3 were likely verbal approvals.

Results: Finding remediated

We interviewed the Chief Operating Officer and the Purchaser and determined that the formal review and approval of the solicitation document was implemented. In addition, we reviewed the FY 2018 Procurement Plan and Contract Management Handbook and verified that procedures for final approval of the solicitation document by the Chief Operating Officer was included.

We reviewed two solicitations that were posted during the scope period of September 1, 2017 through March 31, 2018 and verified that both solicitations were approved by the Chief Operating Officer, as evidenced by the dated signoff.

Finding 4 – LOW – Financial Interest Disclosure: All CPRIT personnel participating in the evaluation of vendor proposals as a part of the formal solicitation process are not required to sign a Financial Interest Disclosure for that solicitation. The Financial Interest Disclosure is only signed by Oversight Committee members and certain CPRIT staff such as the Purchaser, COO, General Counsel and CEO. CPRIT awards contracts to top-rated vendors based on the evaluation, which includes input from subject-matter experts.

Results: Finding remediated

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We reviewed the updated CPRIT Procurement Plan and Contract Management Handbook and determined that all CPRIT staff involved in the procurement process, including evaluators of proposals, are required to sign the Financial Disclosure of Interest.

We determined that there was only one evaluation of RFP proposals during the scope period of October 31, 2017, through March 31, 2018, RFP 542-18-002. We verified that Financial Interest Disclosure forms were signed by all CPRIT staff who participated in the evaluation of proposals.

Finding 5 – MODERATE – Required Disclosures, Certifications, and Reviews: CPRIT does not have procedures in place to consistently ensure that all disclosures, certifications and reviews are completed prior to entering into a contract with a vendor.

Senate Bill 20, 84R requires Oversight Committee members to disclose that they do not have any financial interest prior to entering into a contract for the purchase of goods and services. Additionally, the Purchaser must obtain the Certificate of Interested Parties (Form 1295) from each vendor on contracts requiring governing board approval or are \$1 million or more prior to signing a contract with the vendor. Form 1295 is a form filed with the Texas Ethics Commission to certify there are no controlling or intermediary interested parties to the contract associated with the vendor. Further, contracts for commodities that exceed \$25,000 and services estimated to exceed \$100,000, require review by the Comptroller's State Procurement Division (SPD).

Of the 5 contracts requiring formal bids tested, we identified 4 exceptions:

- 1 contract did not have the required No Financial Interest Disclosure of an Oversight Committee member
- 2 contracts did not have a signed and notarized copy of the Form 1295 available in the contract file
- 1 contract did not complete the SPD Contract Advisory Team Review

Results: Finding remediated

We reviewed the Contract Award Checklist which is utilized by the Purchaser to ensure that all required disclosures, certifications, and reviews have been completed prior to executing contracts. We verified that the checklist includes the following items:

- The vendor has not been debarred from the General Services Administration's System for Award Management or the State Purchasing Division's Debarred Vendor List
- COO must obtain written certifications of no financial interest with a selected vendor from the Oversight Committee members, the Chief Executive Officer, the General Counsel, and Chief Operating Officer, the Purchaser and all other staff who participated in the procurement process
- Vendor must file Form 1295, Certificate of Interested Parties with the Texas Ethics Commission

Based on the listing of executed contracts and interview with the Purchaser, only one contract was executed during the period of September 1, 2017, through March 31, 2018. We verified that the Contract Award Checklist was completed for this contract.

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Finding 6 – MODERATE – Monitoring Split Purchases and Consolidation of Purchases: CPRIT's Purchaser does not have a documented process in place to monitor serial, sequential or split purchases to ensure that purchases are not "split" for the purpose of avoiding formal procurement requirements, or to identify opportunities to consolidate purchases to leverage purchasing power. CPRIT's Procurement Plan and Contract Management Handbook requires purchases of commodities and services that exceed \$25,000 to follow a formal bidding process and purchases between \$5,000 and \$25,000 require an informal bidding process. The Purchaser maintains a purchase order log; however, the Purchaser does not utilize the log to perform monitor and identify potential split purchases.

Results: Finding closed. Management has determined to accept the risk associated with this finding.

Finding 7 – LOW – Travel Card Usage Authorization: CPRIT Executive Assistants utilize CPRIT's central billed Travel Card, which is assigned to the Accountant, to book travel arrangements, as CPRIT's internal procedures require the Executive Assistants to book travel. Currently, there are three employees with access to the agency's travel card information, including two Executive Assistants and the Special Assistant to the Chief Executive Officer.

Results: Finding remediated

We reviewed the updated version of the CPRIT Procurement Plan and Contract Management Handbook and verified that policies within the Travel Card section conform to the current practices performed by the agency. The Handbook identifies the Accountant as the agency's Travel Coordinator responsible for ensuring that all transactions charged to the Travel Card are for appropriate and approved travel on a travel requisition form signed by the COO or CEO. In addition, the Travel Coordinator supervises the use of travel charge card by the administrative staff when they book airfare and lodging for CPRIT staff. The Travel Coordinator is responsible for reconciling the receipts and folios to the monthly travel charge card statement.

Based on our interview with the Accountant and review of Travel Card reconciliation documentation, a reconciliation is performed monthly prior to issuing a voucher for payment of the travel charge card. The Accountant agrees the receipts and other supporting documentation to each line item on the Citibank Statement and highlights the amounts to evidence the review.

Finding 8 – MODERATE – Travel Requisition Approval: CPRIT does not have procedures in place to consistently document the enforcement of requirements to obtain appropriate authorization and budget verification on travel requisitions prior to using the Travel Card for travel expenditures.

Of the 30 Travel Card transactions tested, we identified 9 exceptions:

- 3 transactions did not have the appropriate approval by the COO or CEO
- 4 transactions did not have the appropriate budget certification
- 2 transactions did not have the appropriate approval by the COO or CEO, or the budget certification.

Results: Finding remediated

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We reviewed the updated version of the CPRIT Procurement Plan and Contract Management Handbook and verified that the Travel Coordinator is responsible for ensuring that all airline, hotel, and other travel payments for employees charged to the travel charge card are approved on a travel requisition form by the Chief Operating Officer or the Chief Executive Officer.

We selected a sample of 25 out of 37 travel card transactions for the period of September 1, 2017, through March 31, 2018 and verified that corresponding requisitions were adequately reviewed and approved in CAPPs.

Finding 9 – MODERATE – Timeliness of P-Card and Travel Card Reconciliations: CPRIT does not have procedures in place to ensure that P-Card and Travel Card reconciliations are performed timely. P-Card and Travel Card reconciliations are performed prior to submitting the transactions for payment. The monthly statements must be reconciled and submitted within 30 days to meet the payment requirement of the Texas Prompt Payment Act.

Of the 6 monthly P-Card reconciliations tested, 1 was not completed and reviewed in a timely manner. The reconciliation was completed and reviewed 45 days after receipt of the statement resulting in a delayed payment of the P-Card.

Of the 6 monthly Travel Card reconciliations tested, 4 were not completed and reviewed in a timely manner. Reconciliations were completed between 34 and 70 days after receipt of the statement resulting in a delayed payment of the Travel Card.

Results: Finding partially remediated

We reviewed the updated version of the CPRIT Procurement Plan and Contract Handbook and determined that the Purchaser must reconcile the procurement card transactions on every payment card statement against the approved Purchase Requisitions and initiate an internal Purchase Order in CAPPs to pay the previously approved purchases on each monthly payment card statement. The Accountant is responsible for reconciling Travel Card Statements.

We reviewed the March P-Card statement reconciliation and related supporting documentation and verified that P-Card statement was reconciled timely with adequate supporting documentation.

We reviewed the 4 Travel Card statement reconciliations for the period of December 2017 through March 2018 and determined that 3 of the 4 reconciliations were not completed timely, within 30 days from the receipt of the statement. Reconciliations were completed 48, 59, and 66 days after receipt of the statement.

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Updated Management Response: CPRIT management agrees that the reconciliation of the P-Card and Travel Card should occur within the 30-day prompt payment period. While the CAPPS system has automated the payment process of purchases and travel expenses, it has not improved the efficiency of reconciling travel receipts against the Travel Card statements because this must still be done manually with documents collected from travelers, hotels, or other systems since the transaction is not recorded in CAPPS. Furthermore, since CPRIT's CAPPS financials access started on September 1, 2017, both the Accountant and Purchaser have sought assistance from the CAPPS support team to complete transactions because there is no user guide for CAPPS. The Accountant is revising procedures to ensure that Travel Card statements are reconciled within the 30-day timeframe.

Responsible Party: Chief Operating Officer, Accountant
Date: August 31, 2018

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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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