

# Grants Management Internal Audit Report

Report #2013-01

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July 19, 2013



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

# Table of Contents

<b>Executive Summary.....</b>	<b>3</b>
<b>Background Information.....</b>	<b>4</b>
Background .....	4
Audit Objectives.....	5
Scope .....	5
Testing Approach.....	5
Statement of Auditing Standards .....	6
<b>Observations and Findings .....</b>	<b>7</b>
Summary of Findings and Related Recommendations .....	7
<b>Additional Recommendations.....</b>	<b>11</b>

# Executive Summary

In support of the FY2013 Internal Audit Plan, an audit of the grants management process was conducted in June 2013. The 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 the program's achievement of goals and periodically report this information to evaluate the success and sustainability of the programs.

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:

- **Inconsistent Matching Funds Documentation Requirement** – Texas law requires that prior to the execution of a final research award contract between CPRIT and the recipient; the recipient must have an amount of funds equal to one-half of the award dedicated to the research that is the subject of the grant request. CPRIT grantees provide a certification of matching funds but are not required to provide detailed evidence of matching funds before the contract process.
- **Missing Requirements around Reporting Disclosures** – State law specifies CPRIT disclose several elements for their annual report. During the audit it was noted that the 2012 annual report was missing three required disclosures. CPRIT policies and procedures also include guidance around the “Buy Texas” initiative, but the grantees are not consistently required to provide evidence or reporting related to their Buy Texas compliance.
- **Closing and Extending Grant Contracts** – Since some of the grants are reaching the end of their contract term, questions have arisen as to how the grantees close out or extend their grant contracts. CPRIT procedures are still being developed because of the recent changes in legislation; however, CPRIT has developed a process regarding no cost extensions, in the interim.

# 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 almost 500 grants totaling \$835,820,450.<sup>1</sup>

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 commercialization. Each group is led by an executive officer with vast experience in their fields of expertise. The programs staff is charged with coordinating efforts with their support staff to establish guidelines for the grant writing application process, review panel process, and progress reporting criteria. Due to some personnel changes within CPRIT, there is currently an open Chief Commercialization Officer position. Due to legislative changes in SB 149, this position will be referred to as the Chief Product Development Officer as of June 14, 2013.

Applications for grants are submitted through an online application receipt system that is managed by SRA International, Inc. Once applications are approved and move towards the executed contract stage, CPRIT's grant management system, CGMS, tracks the contract, correspondence, and other compliance documentation for each grant. CGMS is expected to be fully implemented by September 2013.

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

### Audit Objectives

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

- Determine if subsequent reviews of programmatic grant activities are operating effectively
- Determine if subsequent reviews of financial grant activities are operating effectively

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

- Compliance with grantee financial reporting requirements
- Compliance with grantee programmatic reporting requirements
- Validity of reimbursement requests
- Timely submission of reimbursement requests

### Scope

Although current legislation may potentially change procedural and reporting requirements for CPRIT, the audit performed was designed to evaluate and test compliance with established policies and procedures as of June 2013. Internal Audit interviewed staff and completed field work on a sample of grants that were managed during Fiscal Year 2013.

### Testing Approach

During the grants management audit, Internal Audit inspected and reviewed 82 expense reimbursements. The inspection 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 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
- Completeness and accuracy of reimbursement
  - Financial Status Reports reconciled to supporting General Ledger provided by grantee
  - Proper signature of approval on both Form 269A and purchase voucher
  - Remaining encumbered funds documented by CPRIT reconciled to grantee expense reimbursements

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
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
<p><b>1. Matching Funds Requirement</b></p>	<p>High</p>	<p>Internal Audit observed during testing that grantees have not provided detailed supporting documentation for Attachment C (matching funds) as required by CPRIT's Policy and Procedures Guide. Texas law requires that prior to the execution of a final research award contract between CPRIT and the recipient; the recipient must have an amount of funds equal to one-half of the award dedicated to the research that is the subject of the grant request. Grantees only provided Attachment C as evidence which simply showed a calculation of half of the award granted.</p> <p>Furthermore, during the individual grantee field audits, it was noted that there was some confusion amongst grantees around the matching funds requirement. Grantees provided evidence of matching funds for incurred expenses only. See individual grantee audit reports for detailed findings.</p>	<p>Attachment C and detailed supporting documentation for matching funds should be provided prior to the execution of the grantee contract. CPRIT should enforce their policies already set forth in the CPRIT Policies and Procedures Guide. CPRIT should consider utilizing CGMS as a control to monitor compliance with proper matching funds requirements before reimbursing the grantee.</p> <p>CPRIT should also consider providing a “refresher course” or updated training on the matching funds requirement to clarify any misunderstandings around the subject. CPRIT should also provide the information on an FAQ page on the website or within CGMS so the grantees can access the information easily.</p>
<p><b>Management's Response:</b> CPRIT has revised its procedures to require that grant recipients provide documentation of the amount of matching funds or the approved federal indirect cost rate they certify for that award. CPRIT's governing statute, Texas Health and Safety Code, Chapter 102, was substantially changed with the passage of Senate Bill 149, 83rd Legislature, R.S. to allow institutions of higher education with an approved federal indirect cost rate to apply the difference of their approved rate less the five percent indirect costs</p>			

Description	Priority	Risk/Observation	Recommendation
<p>allowed on CPRIT awards to the matching funds required for each grant award they receive. CPRIT will update requirement in the CPRIT Policies and Procedures Guide, add this information to the FAQ page on the website, and address the requirement in its updated training for grantees.</p> <p><b>Person(s) Responsible:</b> Heidi McConnell / Alfonso Royal / Kristen Doyle  <b>Target Date for Implementation:</b> February 28, 2014</p>			
<p><b>2. CPRIT Annual Report Required Disclosures</b></p>	<p>High</p>	<p>CPRIT is subject to annual reporting requirements. State law requires several specific elements to be disclosed in CPRIT's annual report. The following disclosures were missing from the 2012 annual report:</p> <ul style="list-style-type: none"> <li>• Assessment of the availability of funding for cancer research from sources other than the institute.</li> <li>• Assessment of the relationship between the institute's grants and the overall strategy of its research program.</li> <li>• Estimate of how much cancer has cost the state during the year including the amounts spent by the state relating to cancer by Child Health program, the Medicaid program, the Teacher Retirement System of Texas, and the Employees Retirement System of Texas.</li> </ul> <p>However, it was noted in the Letter from the Interim Executive Director that the assessment of the relationship between the institute's grants and the overall strategy of its research program (point #2 above) would not be included within the report due to current circumstances surrounding the Agency.</p>	<p>With the pending legislative changes, management should determine the metrics that are required to be reported and review the reports to ensure that all required disclosures have been made. If information for the required disclosure is not readily available, disclose the reason for omission within the report.</p> <p>Management should also continue to monitor any changing disclosure requirements.</p>
<p><b>Management's Response:</b> CPRIT will provide assessments of funding for cancer research from sources other than the institute and of the relationship between its grants and the strategy of its research program. Furthermore, CPRIT will document the availability or non-availability of cost of cancer data from the state agencies responsible for the administering the programs outlined in Health and Safety Code, Chapter 102.</p> <p><b>Person(s) Responsible:</b> Wayne Roberts  <b>Target Date for Implementation:</b> January 31, 2014</p>			



Description	Priority	Risk/Observation	Recommendation
<b>3. Procedures for Closing, Renewing and Extending Grants</b>	High	Due to recent changes in legislation, CPRIT procedures and rules are still in development for closing out grants and renewing or extending grants because the legislature just recently signed the bill. However in the interim, CPRIT developed a process regarding no cost extensions.	CPRIT should continue to develop and formalize the process for closing, extending, and renewing grants and incorporate the detailed guidance within the updated policies and procedures, website, or training.
<p><b>Management's Response:</b> 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><b>Person(s) Responsible:</b> Kristen Doyle / Lisa Nelson  <b>Target Date for Implementation:</b> February 28, 2014</p>			
<b>4. Remaining Encumbered Funds</b>	Medium	<p>Although CPRIT uses CGMS to track grant activity, hard copies of financial records are maintained separately by the Finance staff. Within the hard copy grantee contract files, CPRIT internally calculates and documents the remaining encumbered funds for individual grantees based on what the grantee has expended at a point in time.</p> <p>During the audit, it was noted that on six occasions the stated remaining encumbered funds could not be reconciled to the funds reimbursed to the grantee. Furthermore, there was no documentation supporting CPRIT's calculations of remaining encumbered funds for six samples.</p>	Develop procedures regarding the calculation of remaining encumbered funds to ensure that the process of calculating the remaining funds is consistent and that the calculation is properly supported by grantee expense reimbursements.
<p><b>Management's Response:</b> CPRIT Finance staff will develop standard procedures to calculate remaining encumbered funds and reconcile the with grantee expense reimbursements.</p> <p><b>Person(s) Responsible:</b> Alfonso Royal  <b>Target Date for Implementation:</b> June 30, 2014</p>			

Description	Priority	Risk/Observation	Recommendation
5. Desk Reviews	Low	<p>Policies and procedures outlining the guidelines and timeline for desk reviews were not included within the CPRIT Policies and Procedures Guide.</p> <p>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>Implement policies and procedures related to desk reviews to ensure the process is consistent and performed in a timely manner.</p>
<p><b>Management's Response:</b> 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 and Procedures Guide.</p> <p><b>Person(s) Responsible:</b> Alfonso Royal / Kristen Doyle / Lisa Nelson  <b>Target Date for Implementation:</b> February 28, 2014</p>			
6. "Buy Texas"	Low	<p>CPRIT's Policy and Procedures state that more than 50% of the goods and services used in CPRIT-supported research and programs should be purchased from Texas suppliers. During the review of grant reimbursements, it was noted that most grantees did not include support or evidence of the "buy Texas" policy.</p> <p>Per inquiry with management, grantees claimed that the specialized goods and/or services were provided only by vendors outside of Texas.</p>	<p>After Texas SB149 has been finalized, management should verify if this issue will still be a requirement.</p> <p>If Texas suppliers are stated as a goal, we recommend that further procedures be put into place to ensure proper reporting and disclosures of these requirements. Management should consider utilizing their grants management system to assist with tracking this requirement.</p>
<p><b>Management's Response:</b> CPRIT has developed a "HUB &amp; Texas Suppliers Form" for grantees to report the grant funds amount expended outside the state as part of the annual reporting requirements. The form includes a justification for the expenditure of grant funds outside Texas exceeding 40%. The form will be implemented in the grants management system in December 2013.</p> <p><b>Person(s) Responsible:</b> Heidi McConnell / Lisa Nelson  <b>Target Date for Implementation:</b> December 31, 2013</p>			

# Additional Recommendations

The following observation(s) were noted to improve overall efficiency and effectiveness of the Grants Management operations going forward. The table below details the observation and impact to CPRIT.

Area(s) of Improvement	Impact	Observation	Operational Impact & Recommendation
CGMS	High	<p>CPRIT is in the process of implementing a new automated system, CGMS, for the grants management process which allows grantees to submit contracts, expense reimbursements, and other forms to CPRIT electronically. CGMS also has the functionality to notify the grantee when a form needs to be completed, and CGMS can also notify the authorized CPRIT employee when a form has been submitted and needs to be reviewed.</p> <p>While this process has become automated from the grants management perspective, the Finance staff still is required to print out all the forms for approval prior to processing for payment.</p> <p>In addition, as reporting in CGMS is currently limited, financial and budgetary information is still being tracked in spreadsheets outside of CGMS.</p>	<p>The implementation of CGMS has allowed for a faster, more efficient communication with grantees, tracking grantee contracts, expense reimbursements, progress reporting, and other critical information related to the grants management process.</p> <p>As CGMS is further developed, reporting functionality should be determined and specified ahead of time by management to ensure reporting is sufficient and able to replace some spreadsheets currently being used by the Finance staff.</p>
<p><b>Management's Response:</b> CPRIT is expanding reporting functionality from the grants management system for grant data, including financial data.</p> <p><b>Person(s) Responsible:</b> Heidi McConnell / Therry Simien</p> <p><b>Target Date for Implementation:</b> June 30, 2014</p>			