

CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS

**IA # 01-16 – INTERNAL AUDIT REPORT OVER COMMODITY AND
SERVICE CONTRACTS**

REPORT DATE: MAY 13, 2016

ISSUED: JUNE 10, 2016

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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 procedures performed for the Cancer Prevention and Research Institute of Texas (the Institute) during the period May 2, 2016 through May 13, 2016 relating to the Institute's commodity and service contracts processes.

The objectives of this internal audit were to evaluate the design and effectiveness of CPRIT's commodity and service contracts processes. The objectives were organized as follows:

- A. Verify that internal controls over Commodity and Service Contracts are designed to ensure effective management of the process and address all key risks.
- B. Ensure that the controls in place over high-risk processes are operating effectively.
- C. Ensure expenditures comply with the contract terms and CPRIT's internal policies and procedures.

To accomplish these objectives, we conducted interviews with key personnel responsible for the commodity and service contracts process. We also reviewed documentation and performed specific test procedures to assess controls. Procedures were performed at the Cancer Prevention and Research Institute of Texas office and were completed on May 13, 2016.

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
June 10, 2016

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BACKGROUND

The Cancer Prevention and Research Institute of Texas (CPRIT) was established with the goal to expedite innovation in cancer research and product development, and to enhance access to evidence-based prevention programs throughout the State of Texas. CPRIT enters into service and commodity contracts in order to conduct its operations and achieve these goals.

The Comptroller has delegated authority to CPRIT to make the following purchases:

- Purchases of commodities or services with an estimated purchase price not greater than \$5,000
- Commodities with an estimated purchase price not greater than \$25,000, except for commodities on the Texas Procurement and Support Services (TPASS) TxSmartBuy term or TPASS Managed contracts
- Services with an estimated purchase price not greater than \$100,000
- Purchases of publications directly from the publisher

When possible, CPRIT makes commodity or service purchases through purchasing cooperatives such as the Department of Information Resources (DIR) contracts, TIBH Industries, Inc., Texas Correction Industries (TCI), TPASS Managed Contracts, TPASS TxSmartBuy Term Contracts, or TPASS Texas Multiple Award Schedule (TXMAS) contracts.

If a commodity or service is not available through a cooperative agreement, CPRIT proceeds with a competitive bidding process for commodities and services with a value above \$5,000. CPRIT develops and issues a Request for Proposal (RFP), Invitation for Bid (IFB), Request for Offer (RFO), Request for Information (RFI), or Request for Qualifications (RFQ) to solicit offers from vendors for service and commodity contracts. CPRIT reviews all bids received, evaluates submissions, and awards commodity and service contracts. Throughout the application and contract award processes, applicants and the personnel responsible for evaluating applicants must disclose any conflicts of interest.

CPRIT's governing body, the Oversight Committee, reviews and approves contracts that exceed \$100,000. In addition, the Legislative Budget Board reviews and approves all contracts that exceed \$250,000 as required by the agency's appropriation rider. After the Oversight Committee approves contract recommendations, contracts are negotiated and executed with the approved vendor. Once contracts are executed, CPRIT oversees the performance of vendors through periodic meetings and continuous communication with the vendor.

As a State of Texas agency, CPRIT is required by the Texas Administrative Code to complete a vendor performance evaluation upon completion of services, for any contract and/or purchase greater than \$25,000.

AUDIT OBJECTIVE AND SCOPE

The audit focused on the Commodity and Service Contracts processes in place at the Cancer Prevention Research Institute of Texas (CPRIT). We reviewed the procedures for appropriate risk and regulatory coverage and compliance. Key functions and sub-processes within the Commodity and Service Contracts process we reviewed included:

- Contract Initiation and Execution
- Contract Management
- Contract Close-out

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The audit did not include an evaluation of the future state of procedures and controls. The focus of our evaluation was on reoccurring procedures that were in place throughout the coverage period and were anticipated to remain in place in the future. Further, the audit evaluated only non-grant contracts and did not evaluate the procurement process.

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

Throughout the Process

- Policies and procedures are in place to ensure that inconsistencies or errors are identified in the authorization, processing, and monitoring of contracts
- Appropriate segregation of duties exists in the review, approval, execution, and monitoring of contracts

Contract Initiation and Execution

- Vendors whose goods or services require contracts are appropriately identified
- Standard contract terms and conditions are identified and documented
- Contract elements are in compliance with State requirements
- Contract modifications are properly reviewed and approved
- Contracts are properly authorized and executed by appropriate individuals
- Contracts exceeding oversight thresholds are appropriately approved
- Usage of cooperative contracts is appropriately reported
- Vendors are properly on-boarded

Contract Management

- Contract obligations are accurately computed
- Contract invoices are reviewed for compliance with contract terms
- Contract budgets are monitored
- Changes, modifications, and/or amendments to existing contracts are appropriately addressed by authorized individuals
- Contracts that are set to renew are renewed timely and appropriately
- Contract performance is monitored or managed to ensure timely delivery of services, compliance with contract terms, and performed as agreed
- Vendor performance evaluations are performed in accordance with State statutes
- Program Managers have adequate training to comply with vendor evaluation and reporting requirements

Contract Close-out

- Contracts that are expired or become obsolete are identified
- Contracts are adequately closed for subsequent monitoring and reporting

The objectives of this internal audit were as follows:

- A. Verify that internal controls over Commodity and Service Contracts are designed to ensure effective management of the process and address all key risks.
- B. Ensure that the controls in place over high-risk processes are operating effectively.
- C. Ensure expenditures comply with the contract terms and CPRIT's internal policies and procedures.

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Our procedures included interviewing key personnel within the Operations group to gain an 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 September 1, 2014, through March 31, 2016.

EXECUTIVE SUMMARY

Through our interviews, evaluation of internal control design and testing of transactions we identified five findings. The listing of findings include those items that have been identified and are considered to be non-compliance issues with documented CPRIT policies and procedures, 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. These issues could have significant financial or operational implications.

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	SATISFACTORY
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SCOPE AREA	RESULT	RATING
<p>Objective A: Verify that internal controls over Commodity and Service Contracts are designed to ensure effective management of the process.</p>	<p>We identified 26 controls to be in place in the process. There are opportunities to improve the process and control environment, including:</p> <ul style="list-style-type: none"> Document commodity contract determination Maintain accurate contract listing Perform vendor on-boarding Certify budget availability Track and report vendor performance 	SATISFACTORY
<p>Objective B: Ensure that the controls in place over high-risk processes are operating effectively.</p>	<p>Controls in place were generally operating as designed. We identified the following opportunities for improvement:</p> <ul style="list-style-type: none"> Track and report vendor performance 	STRONG
<p>Objective C: Ensure expenditures comply with the contract terms and CPRIT's internal policies and procedures.</p>	<p>Expenditures generally comply with contract terms and internal policies and procedures. There are opportunities to improve the process and control environment, including:</p> <ul style="list-style-type: none"> Approve invoices timely Certify budget availability 	STRONG

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Other opportunities for improvement were identified through our interviews, evaluation of internal control design, and transactional testing. These observations include those items that are not considered to be non-compliance issues with documented agency policies and procedures. These are considered process improvement observations and the intent for the recommendations are to strengthen current agency processes and controls. These observations were provided to management separately.

CONCLUSION

Based on our evaluation, the Commodity and Service Contracts function has procedures and controls in place to conduct effective management of the significant processes within CPRIT. The controls and processes for the management of service contracts are strong.

However, we identified several opportunities to improve the processes and effectiveness of the controls over commodity contracts and purchases. CPRIT staff should maintain an updated listing of all contracts in place.

CPRIT should also implement processes to evaluate vendor performance at the end of a contract and report the performance to the Comptroller, as well as to validate budget availability for commodity and service purchases is fully completed and filed for record keeping purposes.

We recommend that CPRIT implement additional formalized procedures over Commodity and Service Contracts and strengthen the control weaknesses identified. Internal Audit will conduct follow-up procedures to validate remediation efforts in Fiscal Year 2017.

**DETAILED PROCEDURES PERFORMED, FINDINGS,
RECOMMENDATIONS AND MANAGEMENT RESPONSE**

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DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS
AND MANAGEMENT RESPONSE

Our procedures included interviewing key personnel responsible for the commodity and service contracts process to gain an 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.

Objective A: Design of Internal Controls

Verify that internal controls over Commodity and Service Contracts are designed to ensure effective management of the process and address all key risks.

Procedures Performed: We gained an understanding of the current commodity and service contracts processes by conducting interviews with key personnel; reviewing existing procedures, standardized forms and documents used by CPRIT's personnel; and assessing CPRIT's administrative rules to identify key controls. We examined the following sub-processes:

- **Contract Initiation and Execution**
 - Vendor selection/contract identification
 - Contract negotiations
 - Contract review and recommendation
 - Approval, award and execution
 - Vendor on-boarding
- **Contract Management**
 - Review and approval of invoices
 - Budget monitoring
 - Change order processing and approval
 - Contract amendment
 - Contract extension
 - Contract renewal
 - Contract compliance and term monitoring
 - Performance metrics identification
 - Vendor performance evaluation
 - Agreements with subcontractors
 - Cooperative reporting
- **Contract Close-out**
 - Validation of service performance/delivery of goods
 - Final payment release

We evaluated the controls identified against expected controls to determine whether the identified reoccurring contract monitoring procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the Commodity and Service Contracts process. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

Results: We identified 26 controls in place over the significant activities within the Commodity and Service Contracts function. We identified five findings where improvements in the processes, polices, and procedures can be made.

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Cancer Prevention and Research Institute of Texas Commodity and Service Contracts - Control Design Evaluation		
Sub-Process	Identified Controls	Findings
Contract Initiation and Execution		
Vendor Selection / Contract Identification	1	
Contract Negotiations	1	
Contract Review and Recommendation	3	
Approval, Award, and Execution	4	Finding 1
Vendor On-Boarding	1	Finding 2
Contract Management		
Review and Approval of Invoices	1	Finding 3
Budget Monitoring	1	Finding 1, Finding 4
Change Order Processing and Approval	1	
Contract Amendment	3	
Contract Extension	3	
Contract Renewal	1	
Contract Compliance and Term Monitoring	1	Finding 1
Performance Metrics Identification	1	
Vendor Performance Evaluation	-	Finding 5
Agreements with Subcontractors	1	
Cooperative Reporting	1	
Contract Close-Out		
Validation of Service Performance / Delivery of Goods	1	Finding 5
Final Payment Release	1	
Total	26	5

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:

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

Recommendation: CPRIT should implement a process to review the contract list to verify it is updated when new contracts are executed. The contract listing should be distributed each time it is updated to all individuals who are responsible for managing contracts and recording contract transactions. On a monthly basis, the Accountant should perform a secondary review to validate that the listing is accurate by comparing the list to the contracts on hand.

CPRIT Management Response: CPRIT agrees with this finding and will adjust its processes so that the Purchaser provides an updated contract list to the Chief Operating Officer when new contracts or contract renewals are executed during the fiscal year. The updated contract list will be provided to the Accountant in conjunction with a copy of the executed new contract or contract renewal to ensure that the expenses for each active contract are monitored appropriately.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: September 1, 2016

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.

Recommendation: CPRIT should implement a vendor/contractor on-boarding checklist to ensure all considerations are addressed when on-boarding a new vendor/contractor. The on-boarding should include addressing expectations for timelines, billing and payment, expected deliverables, and any reporting requirements. The checklist should be completed by the Contract Administrator and kept with the contract file.

CPRIT Management Response: CPRIT agrees with the finding and will develop a vendor on-boarding checklist document that the Purchaser will complete with the assistance of the Contract Administrator to verify expected deliverables and any reporting requirements. The Purchaser will transmit the on-boarding document along with notification of the CPRIT Contract Administrator to a vendor following the vendor's acceptance of the notification of award for a new or renewed contract. The Contract Administrator will ensure that the vendor understands all of the items listed in the checklist document at their initial on-boarding meeting.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: September 1, 2016

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.

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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.

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.

CPRIT Management Response: CPRIT agrees with the finding. However, it will modify the implementation of the recommendation by having one of the three administrative assistant staff verify that general office supply commodities received match the goods invoiced and acknowledge that verification by signing the invoice to demonstrate the appropriate segregation of duties. Given the small number of employees in the agency, there is not always staff with sufficient authority and knowledge of each purchase of office supplies beyond the Chief Operating Officer and the Purchaser. To add additional purchasing authority in this respect would impact the efficiency of the agency operations. It is already standard practice for the receipt of information technology commodities to be matched with the invoice and acknowledged by the Information Technology Manager.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: September 1, 2016

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.

Recommendation: CPRIT should ensure the budget certification is verified and signed-off on the purchase order or purchase request, prior to the procurement of the good or service. The Purchaser should not process purchase requests that do not have evidence of completed budget certification. In the event of an emergency purchase, the Purchase should retroactively document the budget certification to ensure the documentation is complete.

CPRIT Management Response: CPRIT agrees with the finding. The Purchaser will seek a sign-off on the budget certification retroactively when a purchase order or purchase request is processed in the absence of the staff responsible for the budget verification.

Responsible Party: Purchaser
Implementation Date: September 1, 2016

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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.

Recommendation: CPRIT should reassign the vendor performance reporting function to the Contract Administrator level, since the Contract Administrators have the most experience working with the Contractors. The Purchaser should be responsible for tracking to ensure performance reporting is complete and timely. This would distribute the vendor performance reporting responsibility and help ensure that CPRIT meets the reporting requirements, and that the feedback is accurate and relevant for each contract.

CPRIT Management Response: CPRIT agrees that vendor performance should be reported. However, the recommendation will be modified in implementation by having the Purchaser complete the Vendor Performance Evaluations in the Vendor Performance Tracking System with the input necessary from the Contract Administrator. The system is not simple to use for those unfamiliar with the procurement performance reporting process and requires a password to access. The Purchaser will develop an evaluation document with the vendor performance information required by the system for the Contract Administrator to complete, and the Purchaser will use the completed evaluation document to enter information into the system.

Responsible Party: Chief Operating Officer, Purchaser
Implementation Date: September 1, 2016

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Objective B: Effectiveness of Controls

Ensure that the controls in place over high-risk processes are operating effectively.

Procedures Performed: We obtained a listing of service contracts active during the scope period of September 1, 2014, through March 31, 2016, and selected a sample of 14 contracts. For each, we obtained evidence to verify the following:

- Contract was authorized by the Oversight Committee (if necessary)
- Contract was authorized by the Legislative Budget Board (if necessary)
- Contract was executed by an authorized individual
- Amendments were approved
- Renewals were approved
- Contract closing checklist was completed
- Contracts were not executed with vendors on the State's Debarred List
- Vendor performance evaluation was completed (if necessary)

Results: All 14 contracts and any associated amendments and extensions were appropriately authorized and executed. No contracts were made with debarred vendors. However, none of the three closed contracts in our sample with a value over \$25,000 had evidence that vendor performance was evaluated.

Finding 5 - MODERATE - Vendor Performance Tracking

Objective C: Expenditures Testing

Ensure expenditures comply with the contract terms and CPRIT's internal policies and procedures.

1. **Procedures Performed:** We selected a sample of 30 service contract expenditures submitted during the scope period of September 1, 2014, through March 31, 2016, and verified the following:

- Invoice charges were in line with the contracted terms, the work performed was within the scope of the contracted work, and the rates charged agreed to the contract
- Invoices were reviewed and approved by the Contract Administrator
- The Chief Operating Officer or the Chief Executive Officer reviewed and approved the payment
- The contract budget was monitored to ensure the contract expenditures did not exceed the contracted amounts
- The contract expenditures remained within the budgeted amounts

Results: All expenditures were allowable, appropriately reviewed and approved, and remained within budgeted amounts. We identified four expenditures on contracts that were not included on the contract listing. The budgets were not tracked for these expenditures.

Finding 1 – MODERATE – Contract Listing

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2. Procedures Performed: We selected a sample of 30 commodity expenditures submitted during the scope period of September 1, 2014, through March 31, 2016, and verified the following:

- Invoice charges were in line with the contracted terms, the work performed was within the scope of the contracted work, and the rates charged agreed to the contract
- Invoices were reviewed and approved by the Contract Administrator
- The Chief Operating Officer or the Chief Executive Officer reviewed and approved the payment
- The contract budget was monitored to ensure the contract expenditures did not exceed the contracted amounts
- The contract expenditures remained within the budgeted amounts

Results: All expenditures were allowable and within budgeted amounts. We identified one purchase for which the invoice was not approved, and two invoices were not approved by an authorized individual. Additionally, the budget was not checked prior to payment for one expenditure and the purchase order was not retained for another.

Finding 3 - LOW - Invoice Approval

Finding 4 - MODERATE - Budget Certification

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