

CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS

**IA # 05-16 – INTERNAL AUDIT FOLLOW-UP PROCEDURES REPORT OVER
PRIOR YEAR GRANT MANAGEMENT FINDINGS**

REPORT DATE: JUNE 9, 2016

ISSUED: JULY 15, 2016

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

This report presents the results of the internal audit follow-up procedures performed for the Cancer Prevention and Research Institute of Texas (the Institute) during the period June 5, 2016 through June 9, 2016 relating to the findings from the 2015 Internal Audit Report over CPRIT Grant Management, dated July 27, 2015.

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 prior year Internal Audit Report over Grant Management.

To accomplish this objective, we conducted interviews with key personnel responsible for grant management. We also reviewed documentation and performed specific testing procedures to validate actions taken. Procedures were performed at the Cancer Prevention and Research Institute of Texas office and were completed on June 9, 2016.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

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WEAVER AND TIDWELL, L.L.P.
Austin, Texas
July 15, 2016

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BACKGROUND

In 2015, internal audit procedures over the Institute's grants management process were completed and reported to the Oversight Committee. The internal audit report over the CPRIT's grant management structure and activities identified nine areas for improvement related to financial reporting, grantee training, and monitoring.

The 2016 Internal Audit Plan included performing procedures to validate that CPRIT management has taken steps to address the internal audit findings.

FOLLOW-UP PROCEDURES OBJECTIVE AND SCOPE

The follow-up procedures focused on the remediation efforts taken by CPRIT management to address the findings included in the 2015 CPRIT Grant Management Internal Audit Report, and to validate that appropriate corrective action had been taken. The 2015 report identified the following findings:

1. CPRIT Grant Accountants used inconsistent standards to determine the adequacy of the supporting documentation provided by the grantee for Financial Status Report (FSR) expenditures.
2. CPRIT did not provide any onboarding training to grantees. Compliance training was provided on a periodic basis, but it was not mandatory for all grantees to attend.
3. CPRIT had no processes in place to verify that contractual requirements and administrative regulations were followed by a grantee's subcontractor.
4. CPRIT did not have a formalized process to ensure that all required reports were submitted prior to processing final grant expenditure reimbursements.
5. One grantee did not provide sufficient support for its Financial Status Report reimbursement request or provide adequate detail on salary expenses within the Personnel Level of Effort report.
6. CPRIT did not perform follow-up procedures on prior grantee monitoring findings to ensure the grantee had taken appropriate corrective action.
7. Funds were distributed to grantees with outstanding reports due to CPRIT.
8. CPRIT approved a no cost extension that was not made between 30 and 180 days prior to the contract expiration date, as required.
9. CPRIT processed final payment of the Financial Status Report while at least one required report was outstanding.

Our follow-up procedures included the following:

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

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EXECUTIVE SUMMARY

The findings from the 2015 Grant Management Internal Audit included non-compliance issues with CPRIT policies and procedures or rules and regulations required by law. The audit also identified an overall lack of internal controls in place to cover financial and operational risks to the agency.

Through our interviews, review of documentation, observations, and testing, we determined that all nine of the 2015 Grant Management findings were remediated.

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
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SCOPE AREA	RESULT	RATING
Objective A: Validate that management has addressed and implemented procedures to remediate prior grant monitoring findings from the 2015 CPRIT grant management audit.	We identified that nine out of nine findings identified in the 2015 CPRIT Grant Management Internal Audit Report have been remediated by CPRIT management.	STRONG

CONCLUSION

Based on our evaluation, CPRIT management has remediated all nine of the findings from the 2015 CPRIT Grant Management Internal Audit Report.

**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, examining existing documentation or communication, and performing test procedures to validate corrective actions taken. In addition, we evaluated the existing policies, procedures and processes.

FY 15 Finding 1 – MODERATE – Review of Financial Status Reports (FSR): CPRIT Grant Accountants have inconsistent standards by which FSRs are reviewed. The inconsistencies relate to determining the sufficiency of the supporting documentation provided by the grantee. For example, some Grant Accountants require third-party supporting documentation such as an invoice to be provided for expenses above \$1,000 while others have a more stringent threshold for the same requirement. In addition, CPRIT does not have a formal timeframe for completion of the FSR review. Grant Accountants are instructed to complete the review as soon as possible. A formal deadline by which Grant Accountants must complete the review has not been established.

Procedures Performed: We reviewed the FSR Required Supporting Documentation guidelines and verified that it was updated to provide detailed explanations on documentation requirements for CPRIT. We verified that the Grant Report Verification Procedures for Grant Payment Release were updated to state that the objective is to complete FSR reviews within 30 days of receipt. We verified that the CPRIT Grant Policy and Procedures Guide was updated to specify that CPRIT requires supporting documentation for all costs reported on an FSR.

We selected a sample of 30 FSRs and verified that the FSRs were reviewed within 30 days.

Results: Finding remediated.

Finding 2 – MODERATE – Grantee Onboarding and Training: CPRIT does not provide any onboarding training to grantees. CPRIT's General Counsel, Chief Compliance Officer and Grant Specialist Manager provide compliance training to grantees on a periodic basis (several times per year). This training is not mandatory for all grantees to attend.

Procedures Performed: We reviewed the Required Training for Grant Recipients found in Texas Administrative Code 25.11.703.22 and verified that grantees are required to complete the initial compliance training prior to receiving disbursement of Grant Awards Funds. Additionally, all Grant Recipients are required to complete an annual compliance training program.

We determined that the onboarding training contained appropriate information and that training was attended by appropriate grantee personnel. We verified the one new grantee during the period of January 1 through April 30, 2016 attended onboarding training. We also verified that the Compliance group is monitoring the completion of periodic compliance training for all grantees. The monitoring includes ensuring that training was attended by appropriate grantee personnel, including the Authorized Signing Official and at least one other individual employed by the grantee. The compliance training materials contained all recommended and required components, including Administrative Rule Requirements, Reporting Requirements, CGMS Overview, Compliance Program Review, and Change Requests and Grant Closeouts.

Results: Finding remediated.

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Finding 3 – MODERATE– Subcontractor Monitoring: Grantees are responsible for ensuring that CPRIT’s contractual requirements and administrative regulations are followed by their subcontractor. Grantees accept this responsibility by executing the grant contract. However, CPRIT has no process in place to verify that contractual requirements and administrative regulations are followed by a grantee’s subcontractor. Indirect costs and invoices from subcontractor are reviewed by Grant Accountants as part of the Financial Statement Report review, but they are not treated differently than other vendor invoices.

Procedures Performed: We verified that the CPRIT Onsite Review Checklist was updated to include requiring that grantees verify subcontracting agreements include all clauses required by CPRIT and that the grantee has appropriate policies and procedures in place to monitor subcontractor performance. The Grantee Annual Compliance Attestation was updated to include a section on subcontractor monitoring. Grantees complete the attestation annually and confirm that they have procedures in place to ensure that subcontractor agreements contain all requirements, subcontractors are monitored, and that payments are made in accordance with Texas Governmental Code, Chapter 2251.

Results: Finding remediated.

Finding 4 - MODERATE - Grant Close-Out: During the audit period, CPRIT considered a grant to be closed and eligible for final payment when a grantee submits their final Financial Status Report (FSR) and Progress Report. However, a grantee may still have been delinquent in submitting other required reports, such as an Inventory Report or Historically Underutilized Business Report. Consequently, CPRIT did not have a mechanism to enforce the submission of all required reports until it began holding final payments until all reports were submitted. CPRIT is in the process of modifying the business rules in the CPRIT Grants Management System (CGMS) to increase the period of time before the system automatically closes a grant, preventing the submission of other required reports.

Procedures Performed: We reviewed the Grant Applications and Funding Awards policies and procedures and verified that Closeout Reviews are conducted upon grant termination. The review consists of verifying that all final reports were submitted, validating the accuracy of final expenditures, and verifying that all grant post-close out requirements are met. CPRIT implemented the Grant Award Pedigree form which is used to monitor grantee reporting submissions and verify that all required reports are submitted prior to releasing payment.

We selected a sample of 10 closed contracts and verified that the Grant Award Pedigree was completed and all required reports were submitted prior to processing the final payment.

Results: Finding remediated.

Finding 5 - MODERATE – Salary Supporting Documentation: For one of 70 grant disbursements reviewed, we determined that the grantee did not provide sufficient support for its Financial Status Report reimbursement request. No employees were listed on the grantee’s Personnel Level of Effort submitted with the report, but the grantee claimed reimbursement of salary expenses. The payment was made in June 2014 and CPRIT subsequently began requiring additional supporting documentation for salary and benefit expenses in July 2014.

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Procedures Performed: We reviewed the FSR required supporting documentation and verified that it was updated to state that grantees must submit a personnel cost report for salary reimbursements and the names and titles must match the Personnel Level of Effort form in the CGMS system. Grantees must provide copies of payroll ledger information with supporting documentation, such as timesheets and payroll statements.

We selected a sample of 30 FSRs and verified that all salary reimbursements contained appropriate supporting documentation.

Results: Finding remediated.

Finding 6 - MODERATE - No Follow-up of Prior Grantee Monitoring Findings: Twelve of the prior 13 corrective actions recommended as a result of prior internal audit monitoring of grantees did not have evidence of follow-up by CPRIT to validate corrective action had been implemented by grantees.

Procedures Performed: We reviewed the Desk and Onsite Review workbook provided by the third party grant monitoring vendor and verified that grantees were monitored for compliance, training, and corrective action for prior audit findings with desk or onsite reviews. The workbook contains adequate supporting detail and documentation, including descriptions of findings or concerns, follow-up procedures performed, and commentary for closed findings. Grantees are given notice of corrective action required and correspondence is recorded in the Findings and Concerns log.

Results: Finding remediated.

Finding 7 - MODERATE - Incomplete Grantee Reporting: Of the 70 grants tested, funds were distributed to 23 grantees who had reports outstanding and due to CPRIT.

Procedures Performed: We verified that CPRIT created a Required Reports and Consequences Table, which lists the following: required reports, due dates, and consequences for late filing of reports. CPRIT implemented a Grant Award Pedigree to monitor grantee reporting submissions and verify that all required reports are submitted prior to releasing payment.

We selected a sample of 30 FSRs and verified that all required documentation was submitted prior to processing payment.

Results: Finding remediated.

Finding 8 - LOW – No Cost Extensions: We determined that one out of 72 contract extensions from the period was requested outside the allowed timeframe of 30-180 days from the contract's end date. This no cost extension was requested on June 27, 2014, just 3 days prior to contract expiration date of June 30, 2014. The request for extension received final approval on July 29, 2014. CPRIT adopted an administrative rule effective January 2014 outlining the submission timeline. However, CPRIT did not implement a business rule in CGMS to enforce the timeline until June 27, 2014.

Procedures Performed: We reviewed TAC 25.11.703.14 and verified that the code was updated to state that if a Grant Recipient requests a no cost extension outside of the required timeframe, the Chief Executive Officer may approve the no cost extension and must notify the Oversight Committee and provide justification for the approval.

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We selected a sample of six No Cost Extensions and verified that they were submitted between 30-180 days prior to the contract end date and were appropriately reviewed and approved.

Results: Finding remediated.

Finding 9 - MODERATE – Grant Close-Out Payments: We determined that for five of 42 grants tested during the period with a termination date between June 1, 2014, and May, 31, 2015, CPRIT processed payment of the Final Financial Status Report while at least one required report from the grantee was outstanding. Four of the five grants were missing at least one required Financial Report, and one of the five did not have a Final Progress Report prior to final payment.

Procedures Performed: We reviewed the updated Grant Applications and Funding Awards policies and procedures and verified that closeout reviews are conducted upon grant termination. The review consists of verifying that final reports were submitted, validating final expenditures, and verifying that grant post-close out requirements are complete. CPRIT implemented a Grant Award Pedigree used to monitor grantee reporting submissions and to verify that all required reports are submitted prior to releasing payment.

We selected a sample of 10 closed contracts and verified that the Grant Award Pedigree was completed and all required reports were submitted prior to processing the final payment.

Results: Finding remediated.

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