

# Fiscal Year 2014 Internal Audit Annual Report

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November 10, 2014



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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# I. Compliance with House Bill 16

House Bill 16 requires state agencies and higher education institutions, as defined in the bill, to post their Internal Audit Plan, Internal Audit Annual Report, and other audit information on the Internet.

The CPRIT Oversight Committee will review and approve the agency's internal audit plan and internal audit annual report at the recommendation of the Audit Subcommittee. Once the Oversight Committee has approved these reports at an open meeting, the reports will be posted to the agency's website in a section designated for audit reports within 30 days of approval. In addition, the agency will post to the website the individual internal audit reports related to the internal audit annual report.

## II. Planned Work Related to the Proportionality of Higher Education Benefits

On May 29, 2014, Governor Perry requested that internal auditors for higher education institutions conduct work to determine whether “proportionality is being applied according to the established guidelines.” This section does not apply to CPRIT.

### III. Internal Audit Plan for Fiscal Year 2014

The internal audits planned for fiscal year 2014 were selected to address the agency’s highest risk areas, based on the risk assessment process conducted during the fall of 2013, which included input from CPRIT management. The audits conducted during fiscal year 2014 are listed below, along with a brief description of each.

| Audit Name & Description   | Report #  | Report Date | Status    |
|--|-----------|-------------|-----------|
| <b>Expenditures</b> – this review took into consideration whether controls are in place to help validate that the Agency’s expenditure process and controls are operating effectively to mitigate the risk of fraudulent activity.   | 2014 – 01 | 6/9/14      | Completed |
| <b>Governance</b> – this audit will validate if activities and communication of information among the board, external parties and management is present to promote appropriate ethics and values within the organization. Areas to review may include conflict of interest disclosures, on-boarding and training of Oversight Committee members, and understanding of policies and procedures. | 2014 – 02 | 6/19/14     | Completed |
| <b>SRA International Managed Information Systems</b> – this review focused on understanding the control environment at CPRIT’s third-party grants management administrator.  | 2014 – 03 | 6/18/2014   | Completed |

| Audit Name & Description   | Report #   | Report Date | Status    |
|--|------------|-------------|-----------|
| <b>Grants Management</b> – this audit consisted of a review of the grants management processes and controls to determine whether controls are in place to help validate that the grant application process and the subsequent review of programmatic and financial activities are operating effectively. The audit will also review whether grantee activity is adequately monitored periodically and throughout the duration of grant programs. | 2014 – 04  | 7/25/14     | Completed |
| <b>Information Technology</b> – this audit considered whether controls are in place to help validate that the Agency’s IT environment is compliant with Texas Administrative Code. The internal audit will also consider whether general computer controls are in place and operating effectively.   | 2014 – 05  | 7/25/14     | Completed |
| <b>Grantee Field Audit – UT Southwestern</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.  | 2014 – 101 | 8/28/14     | Completed |
| <b>Grantee Field Audit – Texas Nurse’s Foundation</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.   | 2014 – 102 | 6/27/14     | Completed |
| <b>Grantee Field Audit – Molecular Templates</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.  | 2014 – 103 | 7/11/2014   | Completed |
| <b>Grantee Field Audit – UT Health Science Center – Houston</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.   | 2014 – 104 | 7/16/2014   | Completed |

| Audit Name & Description  | Report #   | Report Date | Status    |
|---|------------|-------------|-----------|
| <b>Grantee Field Audit – Texas A&amp;M Health Science Center</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.       | 2014 – 105 | 7/25/2014   | Completed |
| <b>Grantee Field Audit – UT Austin</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.                                 | 2014 – 106 | 7/24/2014   | Completed |
| <b>Grantee Field Audit – Texas AgriLife Extension Service</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.          | 2014 – 107 | 8/1/2014    | Completed |
| <b>Grantee Field Audit – UT Health Science Center – San Antonio</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.    | 2014 – 108 | 8/6/2014    | Completed |
| <b>Grantee Field Audit – The Methodist Hospital Research Institute</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines. | 2014 – 109 | 8/18/2014   | Completed |
| <b>Grantee Field Audit – Rice University</b> – this audit validated if the grantee had a clear understanding of CPRIT’s policies and procedures and reviewed whether CPRIT funds were used in accordance with the established guidelines.                           | 2014 – 110 | 8/18/2014   | Completed |

There were no deviations from the audit plan that was previously submitted in the fiscal year 2013 internal audit annual report.

## IV. Consulting Services & Non-Audit Services Completed

As defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the *Government Auditing Standards*, 2011 Revision, Sections 3.33 – 3.58, CPRIT completed the following consulting and non-audit services for FY 2014:

- CPRIT engaged Grant Thornton as the third party to observe each in-person and telephone conference peer review meetings. The purpose of the peer review panel observations was to document that:
  - Procedures on conflict of interest are followed during peer review sessions (e.g., reviewers leave room or do not participate in the telephone conference if they are conflicted on a certain proposal, etc.);
  - CPRIT program staff participation is appropriate, offering points of information when asked by the peer review panel and not engaging in the panel's discussion on the merits of applications; and
  - The discussion by the peer review panel is appropriately focused on the merits of each application.
  - The following meetings were attended:

| Review Panel   | Report # | Report Date | Status    |
|--|----------|-------------|-----------|
| Scientific Review Council Meeting – Recruitment of First-Time Tenure-Track Faculty Members | 2014-201 | 12/20/2013  | Completed |
| Product Development Review Council Meeting   | 2014-202 | 1/13/2014   | Completed |
| Scientific Review Council Meeting – Research Training Awards                               | 2014-203 | 1/31/2014   | Completed |
| Scientific Review Council Meeting – Multi-Investigator Research Awards                     | 2014-204 | 2/3/2014    | Completed |
| Product Development Screening Review Panel 1 (teleconference)                              | 2014-205 | 2/27/2014   | Completed |
| Product Development Screening Review Panel 2 (teleconference)                              | 2014-206 | 2/28/2014   | Completed |
| Product Development Screening Review Panel 1 (in-person)                                   | 2014-207 | 4/1/2014    | Completed |



| <b>Review Panel</b>  | <b>Report #</b> | <b>Report Date</b> | <b>Status</b> |
|--|-----------------|--------------------|---------------|
| Product Development Screening Review Panel 2 (in-person)   | 2014-208        | 4/1/2014           | Completed     |
| Scientific Review Council Meeting - Recruitment Review Panel - 2   | 2014-209        | 4/17/2014          | Completed     |
| Prevention Peer Review Panel A   | 2014-210        | 5/6/2014           | Completed     |
| Prevention Peer Review Panel A   | 2014-211        | 5/7/2014           | Completed     |
| Product Development Review Council Meeting   | 2014-212        | 5/8/2014           | Completed     |
| Scientific Research Cancer Biology Panel Review Meeting  | 2014-213        | 6/12/2014          | Completed     |
| Scientific Research Imaging Technology and Informatics Panel Review Meeting  | 2014-214        | 5/30/2014          | Completed     |
| Basic Cancer Research-1 Panel Review Meeting   | 2014-215        | 6/12/2014          | Completed     |
| Cancer Prevention Research Panel Review Meeting  | 2014-216        | 6/12/2014          | Completed     |
| Basic Cancer Research-2 Panel Review Meeting   | 2014-217        | 6/12/2014          | Completed     |
| Translational Cancer Research Panel Review Meeting   | 2014-218        | 6/12/2014          | Completed     |
| Clinical and Translational Cancer Research Panel Review Meeting  | 2014-219        | 6/12/2014          | Completed     |
| Scientific Review Council Meeting – High-Impact/High- Risk Research Awards & Individual Investigator Research Awards | 2014-220        | 7/7/2014           | Completed     |
| Prevention Review Council Meeting  | 2014-221        | 7/7/2014           | Completed     |
| Product Development Review Council Meeting   | 2014-222        | 7/7/2014           | Completed     |
| Scientific Review Council Meeting – Recruitment Program Applications   | 2014-223        | 7/12/2014          | Completed     |
| Product Development Screening Review Panel - 1   | 2014-224        | 7/16/2014          | Completed     |
| Product Development Screening Review Panel - 2   | 2014-225        | 7/16/2014          | Completed     |
| Product Development Review Panel - 1   | 2014-226        | 8/13/2014          | Completed     |
| Product Development Review Panel - 2   | 2014-227        | 8/15/2014          | Completed     |

- CPRIT also engaged Weaver and Tidwell for consulting services to develop a plan that provided strategic guidance and direction to CPRIT in the design of a comprehensive compliance program.

## V. External Quality Assurance Review (Peer Review)

In accordance with professional standards, and to meet the requirements of the Texas Internal Auditing Act, Internal Audit is required to undergo an external quality assurance review at least once every three years. CPRIT did not engage in an external quality assurance review during FY 2014. CPRIT intends to have a quality assurance review take place in spring 2015.

## VI. Internal Audit Plan for Fiscal Year 2015

The internal audits planned for fiscal year 2015 were selected to address the agency's highest risk areas, based on the agency's risk assessment performed in fall 2013. Although the Internal Audit Plan contains various audits, it is not intended to cover every risk, and it does not provide coverage for all CPRIT's activities. This internal audit plan may be adjusted if significant changes in risk occur. Additional projects, such as management requests, may be conducted or some of the audits included may not be performed. Adjustments in the audit plan will be communicated to the CPRIT Audit Subcommittee, as appropriate. The internal audit plan for FY 2015 is as follows:

| <b>Internal Audit</b>  | <b>Description</b>  | <b>Budgeted Hours</b> |
|------------------------|---|-----------------------|
| Grants Management      | An internal audit of grants management processes and controls will consider whether controls are in place to help validate that the grant application process and the subsequent review of programmatic and financial activities are operating effectively. The audit will also review whether grantee activity is adequately monitored periodically and throughout the duration of grant programs. | 400                   |
| Expenditures           | An internal audit of expenditures will consider whether controls are in place to help validate that the Agency's expenditure process and controls are operating effectively to mitigate the risk of fraudulent activity.  | 150                   |
| Information Technology | An internal audit of information technology will determine whether controls are in place to help validate that the Agency's IT environment is compliant with Texas Administrative Code. The internal audit will also consider whether general computer controls are in place and operating effectively.   | 100                   |
| Grantee Field Audits   | Internal audits of various grantees will help validate if the grantees have a clear understanding of CPRIT's policies and procedures and will review whether CPRIT funds have been used in accordance with the established guidelines.  | 800                   |
| Special Projects       | To be determined by Management or the Audit Subcommittee.   | TBD                   |
| <b>Total Hours</b>     |   | <b>1,450</b>          |

## VII. External Audit Services Procured in Fiscal Year 2014

CPRIT engaged McConnell & Jones, LLP, a certified public accounting and consulting firm, as their external auditors for FY 2014. McConnell & Jones, LLP is registered with the Public Company Auditor Oversight Board (PCAOB).

## VIII. Reporting Suspected Fraud and Abuse

| Reference  | Description of Entity's Actions   |
|--|---|
| Fraud Reporting (Article IX Section 7.09, 83rd Legislature, Conference Committee Report) | On the CPRIT website, the agency provides the State Auditor's Office toll free fraud, waste, and abuse hotline and website address for individuals to anonymously and directly report suspected fraud, waste, and abuse involving CPRIT or other state resources.   |
| Coordination of Investigations (Chapter 321, Texas Government Code, §321.022)            | The CPRIT Chief Compliance Officer is the designated staff member within the agency to receive written or verbal allegations of suspected fraud, waste, and abuse. The Compliance Officer has the authority to examine and investigate those allegations and turn over information of verified instances of fraud, waste, or abuse to the State Auditor's Office. |