

Internal Audit Report

Grantee: Baylor College of Medicine

Report #2013-05

August 29, 2013



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Introduction

As part of the Cancer Prevention Research Institute of Texas (“CPRIT”) FY 2013 Grantee Internal Audit plan, a review of Baylor College of Medicine has been completed.

Background

Baylor College of Medicine (the “College” or “Baylor”) is recognized as a premier academic health science center and is known for excellence in education, research and patient care. The College was founded in 1900 as the University of Dallas Medical Department and later affiliated with Baylor University in 1903. Baylor is comprised of four separate colleges including a medical school, a graduate biomedical sciences school, an allied health school and a school of tropical medicine. Baylor has 25 departments and more than 90 research and patient care centers nationwide. The College is also among the nation’s leading biomedical research institutions and is ranked one of the top 20 medical schools for research by the U.S. News & World Report’s America’s Best Graduate Schools 2014 and is ranked 1st in Texas in funding from the National Institutes of Health.

Since CPRIT’s establishment in 2007, the College has received 87 research and prevention grants totaling over \$77 million¹. The three audited CPRIT grants provided funds to:

- Purchase a mass spectrometer that enables researchers to find and characterize molecular changes in cells caused by the administration of drugs, which may lead to the development of better targeted therapeutics in the future (RP110784)
- Recruit Dr. Jin Wang to perform research through nanotechnology to address unmet needs in the development of cancer therapeutics and to improve the quality of life of cancer patients (R1104)
- Recruit Dr. Daisuke Nakada to investigate how stem cell maintenance and tumorigenesis are controlled by mechanisms that regulate chromosome stability and energy metabolism, which may yield new therapeutic strategies for cancer (R1201)

Audit Objectives and Scope

Objectives

1. To determine if expenditures were appropriate, adequately documented, and in compliance with CPRIT’s policies.
2. To evaluate the effectiveness and timeliness of current administrative processes related to the CPRIT grant.
3. To evaluate the internal control environment for expenses related to the CPRIT grant.
4. To determine if CPRIT award recipients have an amount of matching funds equal to one-half of the award dedicated to the research that is the subject of the grant request.
5. To determine if CPRIT award recipients are utilizing matching funds towards the same area of cancer research that is the subject of the award.
6. To determine if equipment was approved appropriately prior to acquisition, adequately documented, and in compliance with CPRIT’s policies.
7. To observe and verify existence of acquired equipment.

Scope

1. Baylor’s expenses, inventory, and matching funds related to the three CPRIT grants identified above, between September 2011 and May 2013 were covered under the scope of this audit.
2. Detailed testing of selected expense transactions was performed.
3. Selected equipment over \$5,000 was observed on-site.
4. Detailed testing of selected matching fund expenditures was performed.

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

Summary of Findings

Baylor demonstrated some inaccuracies around record keeping and retention in their expenses and inventory processes.

The College was unable to provide adequate documentation of all requested expenses in a timely manner. Internal Audit requested supporting documentation for 179 expenses, and one could not be produced in the amount of \$131.39 for a shipping charge.

Internal Audit also noted differences in the serial numbers and inventory numbers recorded by Baylor and those reported to CPRIT. The value of one observed inventory item was incorrectly keyed into Baylor's system, resulting in a \$5 difference in the amount claimed in the CPRIT inventory report and the amount recorded in Baylor's records.

The inconsistencies noted above are immaterial to the grant as a whole, but display potential deficiencies within the Baylor's internal recording processes.

Testing Approach

Analytical and substantive procedures for Baylor's expenses, inventory, and matching funds related to the three selected CPRIT grants were performed to ensure the grantee complied with CPRIT policy. Through interviews with appropriate personnel, detailed testing of expenditures, observation of equipment, and analysis of the matching funds process, Internal Audit developed an understanding of the key processes and activities related to the CPRIT grant expense reimbursement, inventory, and matching funds process.

Our procedures included discussions with the following Baylor College of Medicine personnel:

Name	Title
Leanne B. Scott	Director of Sponsored Programs
Chryll Batiste	Grants & Contracts – Accounting Manager

Substantive testing was applied subjectively to selected CPRIT expense transactions. These transactions were selected from financially material categories (such as payroll, fringe benefits, travel, equipment, supplies, contractual, and other) comprising 75% of expenditures within the CPRIT Financial Status Report (FSR). One to five expenditures were sampled for each material category and supporting documents were reviewed for accuracy, completeness, appropriateness, classification and timing. Examples of supporting documents include invoices, receipts, and employee expense reports. Internal Audit also verified that each sampled expense was allowable per CPRIT's Expense Reimbursement Policy.

Internal Audit obtained a complete listing of inventory from the Consolidated Grants Management System (CGMS) for the selected grants and randomly selected 10 items to observe. During the observation, Internal Audit observed another piece of equipment since it was in the same location as another piece of equipment, resulting in a total of 11 items observed. Observations were performed on selected inventory to ensure the equipment existed, was properly identified and recorded, and was in working condition.

Detailed testing of matching funds was performed on randomly 10 selected funds that were included in the pool of funds Baylor utilizes to match the required 50% of CPRIT funds. From the ten selected funds, one expenditure from each fund was selected to validate that the expenditure was related to cancer research. Documentation was obtained for each of the selected expenditures to support the appropriateness of the fund being used as a match.

Audit Results

Interviews with key personnel regarding the expense reimbursement process, inventory management, and matching funds were conducted to ensure that appropriate controls were in place to comply with CPRIT policies. To evaluate the effectiveness of Baylor's expense reimbursement process, Internal Audit performed substantive testing on 179 expense reimbursement transactions totaling over \$1.7 million during the period of September 2011 – May 2013 for the three grants selected as part of the review. Internal Audit vouched the expenses per the general ledger to the supporting documents. Not all documentation was available or adequately supported. The College was unable to provide one invoice in the amount of \$131.39 for a shipping expense.

Internal Audit then traced the transactions within the general ledger to the Form 269A to ensure that all amounts were accurately reported and that expenses were appropriately categorized and reported to CPRIT.

Internal Audit also determined that all expenses were incurred within the dates set forth in the CPRIT grant contract and that no expense was reimbursed prior to it being incurred by the grantee. Upon review of all requested documentation, it was noted that only one sample of CPRIT grant expenses was not accompanied by complete, accurate, and appropriate supporting documentation.

Internal Audit observed 11 pieces of equipment to verify the existence and proper recording of inventory purchased with CPRIT funds. Internal Audit noted the following:

- Differing serial numbers: for four of the inventory items sampled, the inventory numbers from CPRIT's annual inventory report differed from the inventory listing provided by Baylor.
- Difference in valuation: one item, number 5013590, was listed at \$726,276, instead of \$726,281. We ascertained that the \$5 difference was due to manual entry error in the property department.
- Inaccurate location: the primary investigator recently changed labs, resulting in an inaccurate identified room location for four of the items sampled.

To support Baylor's matching funds certification claimed in attachment C of the CPRIT contract, Internal Audit selected 10 expenditures from funds used to meet the matching funds requirement. The selected expenditures originated from funds independent of CPRIT and were categorized within the same research areas as the three CPRIT grants selected for testing. Baylor was able to provide sufficient and appropriate evidence to support each of the selected expenditures. Internal Audit concluded that the funds being used for the CPRIT required match are appropriate and meet the requirements described in CPRIT policies and procedures.

Recommendations

To improve the timeliness and effectiveness of obtaining and storing documentation, Baylor should work towards implementing a more centralized system of storing documentation related to grant expenditures. Currently, documentation related to invoices is stored at a departmental level and many invoices are part of an electronic batch that is not attached to a document number. The lack of an identifying number within a batch requires more effort and time to obtain from the appropriate department.

Additionally, accurate recording and reporting of equipment is integral to asset management. Validation checks should be implemented within Baylor's processes to ensure that equipment is recorded consistently, not only internally, but externally to CPRIT.

CPRIT Management Action Plan

CPRIT Finance will require Baylor College of Medicine to issue a credit for \$131.39 on the next fiscal report of the grant for which there is no invoice to document the charge.