

# Expenditures Internal Audit Report

Report #2014-1

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June 9, 2014



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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# Executive Summary

As part of the implementation of the FY2014 Internal Audit Plan, an audit of the CPRIT expenditure processes was conducted in March 2014. This audit focused on activity within the accounts payable, purchasing, travel, payroll, and capital asset activities. Internal fiscal procedures provide guidance for the agency's expenditures cycle activities. A three-tiered approval workflow is described in the policy so CPRIT expenditures are requested, approved, and disbursed by separate individuals. Currently, all expenses are approved by the Chief Operating Officer. This policy applies equally to expenditures made for goods, services, supplies, equipment, and employee travel expenses.

CPRIT continues to work towards establishing leading practices to become more efficient and effective in their expenditure approval process. During the internal audit, the following exceptions were noted:

- Three of 35 payments in the sample (8%) were not paid timely, as described in CPRIT's internal policy and procedures, which resulted in \$18.29 of additional interest charges.
- One of the capital assets selected for testing (6%) could not be verified.

Greater detail around these findings and recommendations can be found within the "Observations, Findings, and Recommendations" section of this report. Overall, based on the results of our review and testing, controls provide reasonable assurance that CPRIT's internal expenditure processes are performed accurately and in accordance with agency policies and procedures.

# 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 over 500 grants totaling more than \$1 billion.

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.

## Audit Objectives

The objectives of the audit were to assess current practices and opportunities to improve efficiency and effectiveness in the expenditure process.

The specific audit objectives were:

- Determine if the controls surrounding the CPRIT expenditures process, including accounts payable, purchasing, travel, payroll, and capital assets, are operating effectively
- Verify that payments are properly documented and processed according to agency requirements
- Validate that assets are accounted for and properly recorded
- Validate that the internal controls at CPRIT help mitigate the risk of fraudulent activity

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

- Agency invoices paid during the testing period
- Vendor selection process documentation
- Travel reimbursement requests
- Payroll registers
- Capital assets log

### Scope

The audit performed was designed to evaluate and test compliance with established policies and procedures as of March 2014. Internal Audit interviewed staff and completed field work on a sample of expenditures for the time period July 1, 2013 – February 28, 2014.

### Testing Methodology and Approach

In order to meet the audit objectives stated above, Internal Audit conducted interviews with the responsible management or staff member, evaluated controls over the expenditures review and approval processes, and reviewed agency policies and procedures for compliance. Internal Audit examined and reviewed supporting documentation and performed selected test work as deemed necessary. Statistical sampling was used as part of the test steps performed, and when appropriate, judgmental sampling was used to verify the conclusions drawn in 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
Michelle Huddleston	Accountant

### 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, Findings, and Recommendations

## Accounts Payable

For the time period July 1, 2013 – February 28, 2014, Internal Audit judgmentally selected a sample of disbursements made during the testing period. The judgmental sample included a selection of 37 out of 360 invoices (~10%) that were paid during the testing period.

Each disbursement was tested to verify:

- invoices or receipts were provided as supporting documentation,
- purchase vouchers were created,
- invoice was paid thirty days after receipt,
- the amounts on the purchase vouchers matched the amounts on the supporting documentation,
- purchase vouchers were approved by the appropriate personnel, and
- any changes made to the purchase vouchers were documented and reviewed and approved, as necessary.

Internal audit identified five invoices that were paid 30 days after receipt of the original invoice. Three of the five invoices were due to errors and miscalculations of the dates. As a result, CPRIT was required to pay an additional interest charge, totaling \$18.29. Two invoices required revisions of the original receipt, and were paid accordingly after the revision was made. Internal Audit noted an exception for the three invoices paid after 30 days.

**Recommendation:** To ensure payments are paid in a timely manner, CPRIT should consider using an automated tool to calculate when invoices should be paid. Additionally, payments that are late, and require a late fee/interest to be charged to that particular invoice, should be reviewed and approved by Management on a monthly basis.

### Management Response:

The Accountant will use the payment due date-interest calculator tool in “eXpendit” to schedule payments greater than \$5,000 on the 30-day due date as required by the prompt payment law to avoid interest payments to vendors. The Accountant is also now better able to focus on processing vendor and grant payments because the agency has hired a Purchaser and additional Grant Reimbursement staff to perform duties that the Accountant had been performing in conjunction with processing payments, appropriations reconciliation, and cash management.

**Person Responsible:** Heidi McConnell / Alfonso Royal / Michelle Huddleston

**Target Date for Implementation:** Implemented

### Purchasing / Contract Management

For the time period July 1, 2013 – February 28, 2014, Internal Audit selected a sample of the top ten vendors with the greatest total expenditures. Each vendor was tested for existence of purchasing contracts, and each contract was tested to verify:

- evidence that bid documentation was received from multiple providers,
- statement of reasons for the award were present and reasonable,
- proper approval of award was appropriate,
- notice of award was provided, and
- resulting purchase order was created and approved by the agency director (or designee).

For the vendors selected for testing, Internal Audit obtained the bid documentation, contracts, and amendments to the contracts, where applicable. Internal Audit noted that vendors with a multi-year renewal option did not require new bid documentation but needed signed and approved amendments to the original contract.

For five vendors in the sample, CPRIT used previously negotiated statewide contracts which required no agency bid process. For these five contracts, Internal Audit verified that a purchase order was created, signed and approved by the appropriate CPRIT personnel.

For the remaining vendors, Internal Audit verified that adequate documentation existed for the competitive bid and proposal process. Documentation evidenced CPRIT management review of the responses from vendors and their award decision based on the pre-defined criteria. The reason for the award was present and seemed reasonable.

### Employee Travel Expenses

For the time period July 1, 2013 – February 28, 2014, Internal Audit judgmentally selected a sample of seven (~30%) travel reimbursement vouchers and five (~30%) employee reimbursements to test. Each reimbursement voucher was tested to verify:

- invoices or receipts were provided as supporting documentation,
- stated purpose and amount seemed reasonable and in compliance with CPRIT policies,
- the amounts on the reimbursement vouchers matched the amounts on the supporting documentation,
- reimbursement vouchers were approved by the appropriate personnel, and
- any changes made to the reimbursement vouchers were documented, reviewed, and approved, as necessary.

Internal Audit confirmed that each report submitted was in accordance with the travel expense policy and verified that no issues were identified related to employee travel and expenses during the audit.

### Payroll

An interagency contract is in place with the Texas Health and Human Services Commission (HHSC) to provide payroll and limited human resources support to CPRIT. HHSC processes the payroll after it is certified by CPRIT management. For the time period July 1, 2013 – February 28, 2014, Internal Audit judgmentally selected a sample of 2 payroll runs to test (~10%). Each payroll change was tested to verify:

- new employees are added to the payroll timely,
- employees that transfer to different departments are modified in payroll timely,

- terminated employees are removed from the payroll timely, and
- all changes to payroll follow the internal policies and procedures.

Internal Audit obtained the listing of employees (including new and terminated) from July 1, 2013 – February 28, 2014 and reviewed the related payroll registers for the testing period. Internal Audit verified that the total hours paid agreed to the actual amount of hours the terminated employee worked for during the last month of employment. Internal Audit also noted that the new and terminated employees were properly authorized and approved by the COO and the CEO. Internal Audit verified that no issues were identified related to payroll during the audit.

#### Capital Assets

Internal Audit obtained CPRIT's asset listing as of February 28, 2014, and randomly selected 17 out of 34 (50%) capital assets to test. Each sample selected was tested to verify:

- capital assets exist,
- ID numbers attached to the asset match those recorded in the ledger, and
- assets match the recorded descriptions.

Internal Audit reconciled the State Property Accounting Report (SPA) for CPRIT to the asset listing spreadsheet maintained by the agency and verified that the descriptions and asset cost matched on both lists. Internal Audit was able to physically observe 14 of 17 assets in the Austin, TX office. The three remaining assets are located outside of Austin, TX. For two of the three remaining assets, Internal Audit examined copies of the Temporary Use of Equipment agreement in lieu of physically observing the asset. The Temporary Use of Equipment agreement describes the asset and identifies the serial number associated with the asset. Internal Audit verified that the items matched accordingly. However, Internal Audit was not able to verify one asset which we were informed is located in a storage room in Dallas, TX. Because evidence of the asset's existence was not provided, Internal Audit noted this as an exception.

**Recommendations:** CPRIT should consider reconciling the capital assets on an annual or semi-annual basis to ensure all assets are properly accounted for.

#### Management Response:

CPRIT has implemented procedures to review capital assets on a quarterly basis. With respect to the asset located in storage in Dallas, Texas, the agency will be bringing all of the stored items to Austin when it moves in August 2014. After the move, these items will be available for physical verification and reconciliation with SPA and the asset listing.

**Person Responsible:** Heidi McConnell / Lisa Nelson

**Target Date for Implementation:** September 1, 2014