

Internal Audit Report

Grantee: Texas A&M Health Science Center

Report #2014-105

July 25, 2014



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Introduction

As part of the Cancer Prevention Research Institute of Texas (“CPRIT”) FY 2014 Grantee Internal Audit plan, a review of Texas A&M Health Science Center has been completed.

Background

Texas A&M Health Science Center (TAMHSC) is an independent state agency and academic unit of Texas A&M University which serves the state through campuses in Bryan-College Station, Dallas, Temple, Houston, Round Rock, Kingsville, Corpus Christi and McAllen. The Center is a premier assembly of colleges devoted to educating health professionals and researchers of extraordinary competence and integrity. It officially began operating in September 1999 and has focused on transforming health through innovative research, education and service in dentistry, medicine, nursing, pharmacy, public health and medical sciences.

Since CPRIT’s establishment in 2008, the TAMHSC at College Station, has received 9 research and prevention grants totaling over \$8 million¹. The three audited CPRIT grants provided funds to:

- Enhance colorectal cancer screening training in a family medicine residency program that serves low-income & underserved populations (PP110176)
- Develop interventions and biomarkers that can be used in future clinical trials to reduce the risk of endometrial and other cancers that can occur due to obesity (PP120855)
- Develop new cancer therapeutics through the combination of existing drugs (RP110532 – P2)

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. TAMHSC’s expenses, inventory, and matching funds related to the three CPRIT grants identified above, between September 2012 and May 2014, 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

Texas A&M Health Science Center demonstrated some inaccuracies around their expense reimbursement and matching funds documentation processes. Internal Audit identified the following exceptions:

- One expense totaling \$1,650 was incorrectly categorized
- Fifteen transactions totaling \$98,436 were claimed in the subsequent Financial Status Report (FSR) period after the correct FSR reimbursement dates
- A reimbursement was made for \$5.29 for an unallowable penalty payment, and the associated indirect cost of \$0.28 was also claimed
- Several inconsistencies such as incorrect account descriptions in the system, cost share amounts due to an incorrect calculation formula, and missing expenditures used for matching funds were not included in the original matching funds documentation provided.

Although sufficient matching funds evidence was provided in the end, the inaccuracies noted above display potential deficiencies within the internal recording and matching funds processes.

Testing Approach

Analytical and substantive procedures for TAMHSC'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 selected 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 TAMHSC personnel:

Name	Title
Michele Lacey	Director, Contracts & Grants, Sponsored Research Services
Evan Bryant	Senior Manager, Quality Assurance, Sponsored Research Services

Substantive testing was performed on subjectively selected transactions. These transactions were selected from financially material categories (such as payroll, fringe benefits, travel, equipment, supplies, contractual, and other) comprising approximately 70% of expenditures within the CPRIT Financial Status Reports (FSR). Expenditures were sampled from 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 CPRIT Grants Management System (CGMS) for the selected grants, and a sample of listed inventory items was selected for observation. 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 to verify TAMHSC evidenced the required 50% match of CPRIT funds. Documentation was obtained and reviewed for selected expenditures to support the appropriateness of the monies being used as match and to ensure that the expenditure was related to cancer research.

Audit Results

Expense Reimbursements

Interviews with key personnel regarding the expense reimbursement process were conducted to ensure that appropriate controls were in place to comply with CPRIT policies. To evaluate the effectiveness of TAMHSC's expense reimbursement process, Internal Audit performed substantive testing on 885 expense reimbursement transactions totaling over \$1.5 million during the period of September 2012 – May 2014 for the three grants selected as part of the review. Internal Audit vouched the expenses per the general ledger to the supporting documents. All supporting documentation was available for the selected sample.

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, Internal Audit noted the following:

- One expense totaling \$1,650 was incorrectly categorized as 'Supplies' instead of 'Other'
- Fifteen transactions totaling \$98,436 were claimed in the subsequent FSR period after the actual payment date. All fifteen transactions were claimed within 30 days of the correct FSR period.
- An amount of \$5.29 was claimed in error for a late vendor payment penalty. An indirect cost of \$0.28 was also claimed in conjunction with this penalty payment. TAMHSC has acknowledged that this was claimed in error, and per conversation with CPRIT staff, will include a credit of \$5.57 in the next possible FSR submission.

Inventory & Equipment

During the inspection of the five randomly selected pieces of equipment, Internal Audit noted the following:

- One item had been sent off for repair, and the related repair form was observed. The asset number on the repair form tied to the asset number included on the inventory listing.
- Two items of inventory were maintained at TAMHSC's Houston location. Internal audit obtained photographs of the pieces of inventory and their serial and inventory numbers.

Matching Funds

To support TAMHSC's matching funds certification claimed in attachment C of the CPRIT contract, Internal Audit obtained the accounting record of all the funds and expenditures which were 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 two CPRIT grants which required matching funds. TAMHSC was able to provide sufficient and appropriate evidence to support the matching funds. Internal Audit concluded that the funds being used for the CPRIT match required are appropriate and meet the requirements described in CPRIT policies and procedures.

The original evidence of matching funds provided to Internal Audit was not sufficient to meet the 50% match requirement for grant RP110532-P2, year 1. However, upon making the accounting department aware of this, a reassessment was performed, and the errors were identified and rectified.

Internal Audit noted the following items related to TAMHSC's matching funds:

- An account description in the system was labeled "Rice University" and not "TAMHSC" – upon further research, this was incorrectly input and subsequently changed to TAMHSC.

- TAMHSC reported incorrect matching funds amounts due to an incorrect calculation formula on the documentation provided. The original amount entered was less than the funds set aside for match and underreported their potential matching funds.
- Expenditures for salary, fringe benefits, and other matching funds were not included in the original matching funds calculation. However, corrections were made during the audit.

Although these errors were identified during the audit, TAMHSC was able to show evidence that the 50% matching funds requirement was met. The inaccuracies identified may also point to other potential deficiencies within TAMHSC internal matching funds recording process.

Recommendations

Prior to their FSR submission to CPRIT, TAMHSC should verify that all reimbursements are categorized correctly. TAMHSC should also verify that all costs being claimed are allowable and are included in the correct FSR period. TAMHSC should also work with the CPRIT staff to ensure that the unallowable amount of \$5.57 claimed in error is credited on the next FSR submission.

Finally, TAMHSC should work towards developing appropriate review procedures to ensure the appropriate expenses and matching funds information is input accurately and completely. These procedures may include verifying the description of the funding source, validating the formula being used to calculate the matching funds, and corroborating the completeness of funds used in the calculation.

TAMHSC Management's Response

- **Finding #1:** One expense totaling \$1,650 was incorrectly categorized
 - TAMUHSC concurs with this finding. The expense was categorized as "supplies" and should have been categorized as "other."
- **Finding #2:** Fifteen transactions totaling \$98,436 were claimed in the subsequent Financial Status Report (FSR) period after the correct FSR reimbursement dates
 - We disagree with these findings based upon processes that have been agreed upon with CPRIT and other extenuating circumstances.
 - On sample items 108, 235, 236, 110, 365, 366, 378, and 433 the posting date is the date we use to report expenditures. The check or ACH date is usually 1 to 2 business days following the posting date. Our process has verbal approval from CPRIT.
 - On sample items 90, 91 and 92 the posting date of 9/14/2012 was the date these costs were posted to the correct budget period on which we reported. They were previously posted and paid to the prior year's budget, and then corrected to the correct budget period on 9/14/12 and reported correctly on the FSR for period 9/1/12 – 11/30/12 using the posting date.
 - On sample items 444, 214 and 217, we reported the costs for the budget period on which the services were performed. We were unable to request carry forward during CPRIT's "reconciliation period" due to the short deadlines.
 - On sample item 368, the FSR period of 6/1/13 – 6/30/13 was the final financial reporting period for that budget period. The invoice date on the vendor invoice was prior to 6/30/13, and we reported it for the period of time reflected by the invoice date.

- **Finding #3:** A reimbursement was made for \$5.29 for an unallowable penalty payment, and the associated indirect cost of \$0.28 was also claimed
 - TAMUHSC concurs with this finding. A refund check was issued to CPRIT on 09/08/14 in the amount of \$5.57.

- **Finding #4-6:** Several inconsistencies such as incorrect account descriptions in the system, cost share amounts due to an incorrect calculation formula, and missing expenditures used for matching funds were not included in the original matching funds documentation provided.
 - TAMUHSC concurs with the finding of inconsistencies and has implemented a review process prior to reporting cost sharing to CPRIT. However, the matching was allowable, the calculations and the documentation was corrected.