

CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS

IA # 04-15 – INTERNAL AUDIT REPORT OVER EXPENDITURES

REPORT DATE: AUGUST 24, 2015

ISSUED: OCTOBER 7, 2015

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The Oversight Committee
Cancer Prevention and Research Institute of Texas
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This report presents the results of the internal audit procedures performed for the Cancer Prevention and Research Institute of Texas (the Institute) during the period August 3, 2015 through August 24, 2015 related to the Institute's expenditures process.

The objectives of this internal audit were to evaluate the design and effectiveness of the Institute's expenditures process. The objectives were organized as follows:

- A. Verify that internal controls over payable expenditures are designed to ensure the effective management of the process and that the relevant risks have corresponding key controls to ensure that payments are only approved, initiated, processed and disbursed for valid expenditures and vendors.
- B. Ensure that the controls in place over high-risk processes are operating effectively to ensure the accuracy of the receipt, review, approval, recording, classification, period and payment of payable expenditures is complete and accurate.

To accomplish these objectives, we conducted interviews with key personnel responsible for expenditures. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at the Cancer Prevention and Research Institute of Texas office and were completed on August 24, 2015.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.
Austin, Texas
October 7, 2015

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BACKGROUND

The Cancer Prevention and Research Institute of Texas (CPRIT or the agency) expends funds for both the operations of the agency and to reimburse the expenditures of other organizations as part of a grant reimbursement. Expenditures related to the reimbursement of grant funds originate through the grants management process and were included with the Grants Management Internal Audit. Expenditures related to the operations of the agency for expenses such as travel, legal, consulting, auditing, IT expenses, construction/remodeling costs, and other recurring operating expenditures such as utilities and rents. Invoices for expenditures are received by CPRIT's Accountant, matched to Purchase Orders, routed for review and approval, and then entered into the Uniform Statewide Accounting System (USAS) for payment.

AUDIT OBJECTIVE AND SCOPE

The audit focused on the Payable Expenditures process in place at CPRIT. We reviewed the procedures for appropriate risk and regulatory coverage and compliance with CPRIT and State requirements. We evaluated the design and effectiveness of the process to ensure that payments are only approved, initiated, processed and disbursed for valid expenditures and vendors. Key function and sub-processes within the Payable Expenditure process that were reviewed include:

- Receipt, validation and approval of payable invoices
- Recording and classification of payable invoices
- Payment date identification, entry and validation
- Authorization of payments
- Disbursement of funds

The audit did not include the purchasing, payroll or grant administration processes except as they pertain to the release of funds.

Our procedures were designed to ensure relevant risks are covered and verified the following:

Receipt, Validation and Approval of Payable Invoices

- Invoices for goods and services are received in a timely manner
- Invoices and vouchers are properly reviewed
- Invoices and vouchers match purchase orders or requisitions
- Invoices and vouchers are approved by appropriate personnel
- Expenses are valid
- Duties to review and approve invoices are appropriately segregated

Recording and Classification of Payable Invoices

- Vouchers for approved invoices are created and recorded in USAS in a timely manner
- Vouchers are recorded in the proper period
- Vouchers are coded to the correct account
- All invoices and vouchers are recorded

Payment Date Identification, Entry, and Validation

- Valid payment dates are identified for invoice payment
- Payment dates are in compliance with policies and procedures
- Vouchers are paid within required terms
- Vouchers are monitored to ensure disbursements are in compliance with State requirements

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Authorization of Payments

- Distribution of funds are authorized by proper personnel
- Authorization to release payment is appropriately segregated
- Payments for all approved vouchers are made in a timely manner
- Payments are reconciled back to invoices and vouchers
- Payments are made for the correct amount

Disbursement of Funds

- Disbursements are not for fictitious and duplicate transactions
- Segregation of duties are appropriate
- Funds are disbursed only after proper authorization
- Disbursed amounts agree with the amount paid
- Disbursements are recorded when paid
- Encumbrances are completely and accurately relieved

The objectives of this internal audit were as follows:

- A. Verify that internal controls over payable expenditures are designed to ensure the effective management of the process and that the relevant risks have corresponding key controls to ensure that payments are only approved, initiated, processed and disbursed for valid expenditures and vendors.
- B. Ensure that the controls in place over high-risk processes are operating effectively to ensure the accuracy of the receipt, review, approval, recording, classification, period, and payment of payable expenditures is complete and accurate.

Our procedures included interviewing key personnel within the Accounting and Operations groups to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state. Our coverage period was from July 1, 2014 through June 30, 2015.

EXECUTIVE SUMMARY

Through our interviews, evaluation of internal control design and testing of transactions we identified two findings. The listing of findings include those items that have been identified and are considered to be non-compliance issues with documented CPRIT policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover significant risks to CPRIT. These issues could have significant financial or operational implications.

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.*

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OVERALL ASSESSMENT	STRONG
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SCOPE AREA	RESULT	RATING
<p>Objective A: Verify that internal controls over payable expenditures are designed to ensure the effective management of the process and that the relevant risks have corresponding key controls to ensure that payments are only approved, initiated, processed and disbursed for valid expenditures and vendors.</p>	<p>We identified 11 controls to be in place in the process. There are opportunities to improve the process and control environment, including:</p> <ul style="list-style-type: none"> Tracking invoices received, but not recorded in USAS Invoice validation and payment authorization segregation of duties 	STRONG
<p>Objective B: Ensure that the controls in place over high-risk processes are operating effectively to ensure the accuracy of the receipt, review, approval, recording, classification, period, and payment of payable expenditures is complete and accurate.</p>	<p>Controls in place were identified to be operating effectively. We did not identify any findings during our testing.</p>	STRONG

Other opportunities for improvement were identified through our interviews, evaluation of internal control design and transactional testing. These observations include those items that are not considered to be non-compliance issues with documented agency policies and procedures. These are considered process improvement observations and the intent for the recommendations are to strengthen current agency processes and controls. These observations were provided to management separately

CONCLUSION

Based on our evaluation, the expenditures function has procedures and controls in place to conduct effective management of the significant processes within CPRIT. However, we identified opportunities to improve the processes within the Payable Expenditures process.

CPRIT should implement an invoice tracking system in order to ensure that all invoices received are routed for the proper approvals and entered into USAS to be paid. Additionally, CPRIT should ensure that all invoices are reviewed for validity and authorized for payment by separate individuals who have the proper authority and knowledge of the services or goods provided.

**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 within the Accounting and Operations groups to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state.

Objective A: Design of Internal Controls

Verify that internal controls over payable expenditures are designed to ensure the effective management of the process and that the relevant risks have corresponding key controls to ensure that payments are only approved, initiated, processed and disbursed for valid expenditures and vendors.

1. Procedures Performed: We gained an understanding of the current expenditures process by conducting interviews with key personnel; reviewing existing procedures, standardized forms and documents used by CPRIT's personnel; and assessing the CPRIT's administrative rules to identify key controls. We examined the following sub-processes:

- Receipt, validation and approval of payable invoices
- Recording and classification of payable invoices
- Payment data identification, entry and validation
- Authorization of payments
- Disbursement of funds

We evaluated the controls identified against expected controls to determine whether the identified reoccurring expenditures procedures and internal controls are sufficiently designed to mitigate all critical risks associated with the process. We also identified unacceptable risk exposures due to control design inadequacy and opportunities to strengthen the effectiveness and efficiency of the existing control design.

Results: We identified 11 controls in place over the significant activities within the expenditures function. We identified two findings where improvements in the processes, polices, and procedures can be made.

Finding 1 – LOW – Invoice Tracking: The current CPRIT invoice processing procedures do not have controls in place to ensure that all invoices received and routed for approval are returned to the Accountant and entered into USAS to be processed for payment. Invoices are stamped with their received date, but there is no formalized method to track invoices through the process of routing for approval and entry into USAS.

Recommendation: CPRIT should maintain a log of all received invoices in order to have a record of all invoices that have been submitted to the agency. Invoices should be recorded in the log upon their receipt and prior to being routed for approval. The log should include the date received, invoice number, vendor, the employee to whom the invoice was routed for approval, and the status of the invoice in the approval and payment process. The log should be reviewed on a monthly basis to ensure that all invoices received by CPRIT have been posted to USAS for payment.

CPRIT Management Response: CPRIT management agrees that a log of invoices received by the agency should be developed to track invoices through the payment process. CPRIT will establish a process to review the log on a monthly basis, comparing the logged invoices to payments posted in the document register.

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Responsible Party: Chief Operating Officer, Accountant
Date: November 1, 2015

Finding 02 – LOW – Segregation of Duties: The COO reviews and approves audit service invoices for validity of the expense and payment as well as authorizes the release of funds for the same invoices. There is not an initial reviewer to segregate the validation of the invoice, allowing an independent individual to provide oversight and approval over the payment of those invoices.

Recommendation: CPRIT should segregate the duty to review invoices for validity and to authorize their payment. Service invoices could be reviewed by the Operations Manager and payment could be authorized by the COO. Alternatively the COO could review the invoices for validity and another officer of the agency could authorize the invoice for payment.

CPRIT Management Response: CPRIT management agrees that the review of the validity of invoices and the authorization of the payment of invoices should be segregated. When the Chief Operating Officer serves as the contract administrator for a service contract and reviews invoices related to that contract for validity, the Chief Executive Officer must sign the purchase voucher to authorize payment.

Responsible Party: Chief Operating Officer, Accountant
Date: November 1, 2015

Objective B: Effectiveness of Controls

Ensure that the controls in place over high-risk processes are operating effectively to ensure the accuracy of the receipt, review, approval, recording, classification, period, and payment of payable expenditures is complete and accurate

1. **Procedures Performed:** We selected a sample of 50 payables expenditures during the scope period of June 1, 2014 through July 31, 2015. For each expenditure, we obtained supporting evidence and verified the following:
 - Expenditure amounts agreed to the invoice and corresponding purchase order
 - Invoices were appropriately reviewed, approved, and authorized for payment
 - Vouchers for payment were entered and released in USAS by separate personnel
 - Coding of the expense is accurate and appropriate
 - Disbursements were made on a timely basis and in accordance with the Prompt Payment Act
 - If applicable, interest was appropriately calculated, applied to the payment, and disbursed to the vendor
 - Amounts disbursed were appropriately reviewed and approved

Results: No findings identified.

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2. **Procedures Performed:** We selected a sample of two months during the scope period of June 1, 2014 through July 31, 2015. For each month, we obtained supporting documentation and verified the following:

- The monthly reconciliation between USAS and the manual Document Register was prepared by the Accountant and reviewed by the COO. This reconciliation focuses on differences related to coding, dates and amounts between USAS and the manual Document Register.

Results: No findings identified.

3. **Procedures Performed:** We selected a sample of two months during the scope period of June 1, 2014 through July 31, 2015. For each month, we obtained supporting documentation and verified the following:

- The budget report to track expenditures and open purchase orders against the budget was appropriately prepared, reviewed, and approved.

Results: No findings identified.

4. **Procedures Performed:** We obtained the access settings to the secured drives that contain the Document Register that is used to maintain a listing of all agency expenditures and verified that the access to modify the Document Register is appropriately restricted.

Results: No findings identified.

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 group
- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior Institute 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 Institute
- 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