

Internal Audit Report

Grantee: The Methodist Hospital Research Institute

Report #2014-109

August 18, 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 The Methodist Hospital Research Institute (“TMHRI”) has been completed.

Background

The Methodist Hospital Research Institute’s mission of leading medicine is grounded in a commitment to translational and interdisciplinary research and education. Their mission is to innovate in health care technology and train current and future clinicians and translational researchers from around the world in cutting edge health care advances. TMHRI supports a global research collaboration network of faculty with nontraditional platform technologies and research programs, administrative support, staff, and facilities that are needed to rapidly translate discoveries made in the laboratory and the clinic into new diagnostics, therapies and treatments.

Since CPRIT’s establishment in 2008, TMHRI has received 11 research grants totaling over \$25 million.¹ The three audited CPRIT grants provided funds for:

- Recruitment of an established investigator to validate the most promising candidate cancer genes by determining whether the structure or expression of a cancer gene is altered in human samples (R1112)
- Recruitment of an established investigator to complete transposon screens initiated overseas, continue research on several new screens for lung and ovary cancers, and research which genes are important for different stages of cancer development: initiation, progression and metastasis (R1113)
- Development of a multimodality image-guided system for early diagnosis and treatment of lung cancer (RP100627)

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. TMHRI’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.

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

4. Detailed testing of selected matching fund expenditures was performed.

Summary of Findings

Internal Audit did not note any significant findings or exceptions during the audit of TMHRI. During the review of TMHRI, Internal Audit did note some confusion around the matching funds requirement. However, supporting documentation for matching funds was provided after clarification of the requirement was discussed with TMHRI staff for their CPRIT awards under review. No additional issues related to expense reimbursements or inventory were identified during the audit.

Testing Approach

Analytical and substantive procedures for TMHRI'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 requirement.

Our procedures included discussions with the following TMHRI personnel:

Name	Title
Gary Lingle	Director, Office of Grants and Contracts
Rhonda Davenport	Finance Manager – Post Award, Office of Grants and Contracts
Alecia Rister	Director, Financial Reporting and Budgets

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 approximately 60% of expenditures within the CPRIT Financial Status Report (FSR). Expenditures greater than \$1,500 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 provided Asset Register for the selected grants and selected the 29 items greater than \$5,000 to observe. Observations were performed to verify the equipment existed, was properly identified and recorded, and was in working condition.

Detailed testing of matching funds was performed to validate that TMHRI met the required match of 50% of CPRIT funds. Documentation was obtained and reviewed for selected expenditures to support the appropriateness of the monies being used as match was related to cancer research.

Audit Results

Expense Reimbursements

To evaluate the effectiveness of TMHRI's expense reimbursement process, Internal Audit performed substantive testing on approximately 160 expense reimbursement transactions totaling over \$2.3 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.

Internal Audit then traced the transactions within the general ledger to the submitted FSR (Form 269A) to verify 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 the requested documentation for expense reimbursements, it was noted that all samples of CPRIT grant expenses were accompanied by complete, accurate, and appropriate supporting documentation.

Inventory & Equipment

Internal Audit obtained a complete listing of inventory from the grantee for the selected grants and observed equipment over \$5,000. Internal Audit noted that the cost of assets was shared between grant R1112 and R1113. Internal Audit observed 29 pieces of equipment to verify the existence and proper recording of inventory purchased with CPRIT funds. All pieces of inventory were accessible during the audit and were included in the original approved budget.

Matching Funds

To support TMHRI's matching funds certification claimed in Attachment C of the CPRIT contract for the research grants audited, Internal Audit requested the accounting records of all the funds and expenditures which were used to meet the matching funds. Testing was performed to ensure that TMHRI met the required match of 50% of CPRIT funds. Evidence of expenditure in relation to each fund was obtained in order to validate that the expenditure was related to cancer research.

While TMRHI was not specifically setting aside funds to match CPRIT awards at the beginning of each period, TMRHI was able to provide appropriate supporting documentation that a match of at least 50% was provided from non-CPRIT awards to correspond with the amount reimbursed by CPRIT. The selected expenditures originated from funds independent of CPRIT. Internal Audit concluded that the funds being used for the CPRIT required match were appropriate and met the requirements described in CPRIT policies and procedures.

Recommendations

TMHRI should verify that their program staff members are aware of CPRIT's matching funds requirement and understand the documentation requirements. Appropriate, accurate and sufficient matching funds documentation to support all grants should be maintained by TMRHI programs staff.

TMHRI's Management Response

Grants management staff are aware of the CPRIT Matching Funds requirement. Non-CPRIT cancer-related awards will be identified as received. A schedule will be maintained listing the non-CPRIT cancer awards and the specific CPRIT awards they are being used to match. At the anniversary of each CPRIT award, the expenses associated with these awards will be reflected in the schedule and reported in a timely manner.