

# **Cancer Prevention & Research Institute of Texas**

IA #03-2019 Internal Audit Report over

Budget and Planning

Report Date: January 16, 2019

Issued: January 25, 2019

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The Oversight Committee  
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This report presents the results of the internal audit procedures performed for the Cancer Prevention and Research Institute of Texas (CPRIT) during the period December 3, 2018, through January 16, 2019, relating to the state reporting processes.

The objectives of the internal audit were to evaluate the design and effectiveness of CPRIT's budget and planning process. The objectives were organized as follows:

- A. Determine whether internal controls over budget and planning processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Ensure that controls over critical budget and planning processes are operating effectively and according to authoritative guidance.

To accomplish these objectives, we conducted interviews with CPRIT personnel responsible for the budget and planning processes. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at CPRIT's office and completed on January 16, 2018.

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  
January 25, 2019

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### **Background**

The Texas budget process begins the year prior to each regular state legislative session held in odd-numbered years. The process begins with each state agency preparing a five-year strategic plan that lays the foundation for the preparation of a detailed legislative appropriations request (LAR) under the guidance of the Legislative Budget Board (LBB) and Governor's Office of Budget and Policy (GOBP). LARs are submitted to the LBB, GOBP, Comptroller's office, and several other legislative agencies by the end of August in even-numbered years. The LBB and GOBP are statutorily required to hold a hearing about each agency's budget request in order to develop budget recommendations for the next biennial general appropriations act. The LBB produces a draft biennial budget that is made available at the beginning of each legislative session. During the legislative session, both houses develop their own versions of the appropriations act. The differences between the two budgets are ironed out during a budget conference committee at the end of the legislative session. The Comptroller of Public Accounts must certify that there is sufficient revenue to cover the appropriations made by the legislature before the bill is forwarded to the Governor for signature, the final step in the budget process.

As part of the LAR preparation process, each state agency must complete a base reconciliation schedule in order to ensure that an agency and the LBB are in agreement on the base budget for the next biennium. This step enables reconciliation of each agency's original appropriations by method of finance and full-time-equivalent (FTE) positions to the final expenditures for the previous fiscal year, the estimated amounts for the current fiscal year, and the budgeted amounts for the upcoming fiscal year.

CPRIT's Chief Operating Officer (COO) is responsible for preparing the agency's strategic plan, base reconciliation, and LAR. Once the base reconciliation is finalized, the COO evaluates current budget items against forecasts of future needs particularly for the agency's largest expenses including service contracts and staff payroll and benefits to develop the LAR. The COO also reviews and updates assumptions of available general obligation bond revenue. The draft LAR is reviewed by the Chief Executive Officer (CEO) before it is presented to the Oversight Committee for approval prior to submission to the LBB and GOBP.

After a new biennial appropriations act is signed by the Governor, the Accountant must complete an appropriation allocation worksheet for each fiscal year of the new biennium in the Uniform Statewide Accounting System (USAS) based on the final biennial appropriations in the Automated Budget and Evaluation System of Texas (ABEST). The Office of the Comptroller of Public Accounts uses this information to set up CPRIT's annual operating budgets in USAS, the state's accounting system of record.

During each biennium, CPRIT monitors its operating budget through a monthly financial report that reflects a reconciliation of actual to budgeted expenditures. This report is produced by the Operations Specialist and reviewed by the COO. The monthly financial reports produced in the third month of each fiscal quarter are presented to the Oversight Committee at each of their public meetings and submitted to the LBB in compliance with the quarterly budget reporting requirement in the general appropriations act.

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## Audit Objective and Scope

The audit focused on the budget and planning processes at CPRIT. We reviewed procedures in place for appropriate risk coverage, compliance with state requirements, and compliance with CPRIT policies and procedures for the budget and planning processes, including preparation and submission. The scope included an evaluation of the processes currently in practice covering activities within the following key areas:

- Legislative Appropriations Request
- Budgeting and Planning Process
- Budget Monitoring
- Review and Adjustment

The scope of the audit did not include an evaluation of the processes in place for preparing and submitting the Agency Strategic Plan as those processes were included in prior internal audits.

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

### Legislative Appropriations Request

- Funding requests are appropriate for agency needs
- Headcount requests are appropriate for agency needs
- Requests are based on reasonable assumptions
- Requested amounts have adequate support to facilitate review
- Exceptional item requests have adequate support
- Authorized FTE positions are appropriately identified

### Budgeting and Planning Process

- Categories of financing and corresponding estimates are reasonable
- Costs are appropriately identified
- Cost estimates are reasonable
- Budgeted amounts are appropriately classified
- Budgeted amounts are allocated to the appropriate period
- Budget aligns with historical experience
- Once approved, budgets align with appropriated amounts
- Access provisioned in ABEST is appropriate

### Budget Monitoring

- Budget setup in ABEST is reviewed by authorized personnel
- Encumbrances and obligations are appropriately identified
- Encumbrances and obligations are appropriately classified and recorded in the correct period
- Authorized FTE positions are routinely tracked and monitored
- Budget variances are appropriately identified and analyzed

### Review and Transfer

- Budget is periodically reviewed by executive management
- Appropriation transfer requests are reviewed by authorized personnel
- Appropriation transfer requests are submitted timely

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The objectives of this internal audit were as follows:

- A. Determine whether internal controls over budget and planning processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Ensure that controls over selected high-risk processes within budget and planning processes are operating effectively and according to authoritative guidance.

Our procedures included interviewing key personnel responsible for budgeting and planning to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from May 1, 2017, through November 30, 2018.

**Executive Summary**

Through our interviews, evaluation of internal control design and testing of transactions, we determined controls over budget and planning processes were in place to ensure that consistent processes are implemented and designed to effectively address the risks within budget and planning processes and sub-processes. 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 CPRIT policies and procedures. These are considered process improvement observations and the intent of the recommendations are to strengthen current CPRIT processes and controls. These observations were provided to management separately.

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.

<b>OVERALL ASSESSMENT</b>	<b>STRONG</b>
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SCOPE AREA	RESULT	RATING
<p><b>Objective A:</b>            Determine whether internal controls over budget and planning processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.</p>	<p>We identified seven controls in place within the budget and planning processes and sub-processes to ensure that consistent processes are implemented and designed effectively to address the associated risks.</p>	<b>STRONG</b>

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SCOPE AREA	RESULT	RATING
<b>Objective B:</b> Ensure that controls over high-risk processes within budget and planning processes are operating effectively and according to authoritative guidance.	Controls appear to be in place over high-risk processes within the budget and planning processes and are operating effectively and according to authoritative guidance.	<b>STRONG</b>

## Conclusion

Based on our evaluation, the budget and planning processes have procedures and controls in place to conduct effective management of the significant budget and planning processes at CPRIT. We recommend continued diligence in maintaining internal controls over the processes to ensure effective operations.

**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 associated with budget and planning processes to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state.

### Objective A: Design of Internal Controls

Determine whether internal controls over budget and planning processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

**Procedures Performed:** We conducted interviews of key personnel associated with budget and planning processes and examined existing documentation to gain an understanding of current state reporting processes. We documented understanding of the processes and identified internal controls over the following sub-processes:

- Legislative Appropriations Request
- Budget and Planning Process
- Budget Monitoring
- Review and Adjustment

We evaluated the controls identified against expected controls to determine whether the identified reoccurring budget and planning procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the communication process. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

**Results:** We identified seven controls in place over the significant activities within the budget and planning processes. Internal controls over budget and planning processes were in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

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Process Area	Control Coverage	Findings
Legislative Appropriations Request	1	
Budget and Planning Process	2	
Budget Monitoring	4	
Review and Adjustment	3	
<b>Total</b>	<b>10*</b>	

**\*Duplicate Control:** The total number of identified controls is 7. However, based on their design, controls address risks in multiple processes. We have mapped the 7 unique controls to the processes in which they mitigate the risks within the processes

## Objective B: Effectiveness of Internal Controls

Ensure that controls over critical communication processes are operating effectively and according to authoritative guidance.

- 1. Procedures Performed:** We examined the Legislative Appropriations Request submitted for the 2020-2021 biennium and verified the following:
  - Funding requests are appropriate for agency needs and based on reasonable assumptions
  - Categories of financing and corresponding estimates are reasonable
  - Costs are appropriately identified and estimates are reasonable
  - Requested amounts including exceptional item requests have adequate support
  - Headcount requests are appropriate for agency needs based on accurate assumptions
  - Authorized FTE positions are appropriately identified

**Results:** No findings identified.

- 2. Procedures Performed:** For the 2018 and 2019 biennium, we examined the CPRIT appropriation schedules submitted to the Comptroller's Appropriations Control Officer for fiscal years 2018 and 2019 and verified the following:
  - Budgeted amounts are appropriately classified
  - Budgeted amounts are allocated to the appropriate period
  - Budgets align with historical experience
  - Budgets align with appropriated amounts
  - Budget setup in ABEST is reviewed by authorized personnel

**Results:** No findings identified.

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- 3. Procedures Performed:** We reviewed the most recent list of CPRIT active users of the Legislative Budget Board's ABEST system and verified that the access provisioned in ABEST is appropriate.

**Results:** No findings identified.

- 4. Procedures Performed:** We randomly selected four out of 18 monthly financial reports from May 1, 2017, through November 30, 2018, and verified the following:

- Budget variances were appropriately identified and analyzed
- Budgets are periodically reviewed by executive management.

In addition, for each of the selected monthly financial reports, we randomly selected 20 budget entries to perform testing procedures. The selected entries were classified as either expenditures, encumbrances, or obligations. For each selected budget entry, we verified encumbrances and obligations were appropriately:

- Identified
- Classified
- Recorded in the correct period

**Results:** No findings identified.

- 5. Procedures Performed:** We randomly selected two quarterly FTE reports submitted by the Operations Manager from May 1, 2017, through November 30, 2018, and verified whether authorized FTE positions were routinely tracked and monitored.

**Results:** No findings identified.

- 6. Procedures Performed:** For the single appropriation transfer request submitted to the LBB during the period from May 1, 2017, through November 30, 2018, we examined supporting documentation and verified the request was reviewed by authorized personnel and submitted in a timely manner.

**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 department
- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior agency 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 agency
- 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 agency
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk