

Internal Audit Report

Grantee: University of Houston

Report #2013-08

August 30, 2013



CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Introduction

As part of the Cancer Prevention Research Institute of Texas (“CPRIT”) FY 2013 Grantee Internal Audit plan, a review of University of Houston has been completed.

Background

The University of Houston’s (the “University”) research initiatives are organized into clusters that promote the exchange of ideas within emerging research areas, as well as enable scholars to work more effectively with other organizations and the community. One of the University’s health-related research clusters includes the Center for Nuclear Receptors & Cell Signaling (CNRCS). This cluster specializes in research areas such as androgens and cancer, cancer virotherapy, nuclear receptors & cancer, and nuclear receptors and neurodegenerative diseases.¹

Established in 2009, CNRCS, which is a subset of the Biology and Biochemistry department, has 27 total active grants, accounting for more than \$18 million in research funding at the University.² CPRIT has awarded the University nine research grants and one prevention grant totaling over \$8.6 million in funds devoted to cancer research.³ The three audited CPRIT grants provided funds to:

- Purchase an imaging system to perform research on the interactions of tumors with their local tissue environment through the use of animals to fully understand the process of cancer progression (RP120617)
- Develop a postdoctoral training program to foster a new generation of scientists who are multidisciplinary in outlook and experience, integrating the tools, ideas and materials of computational science and biology into the emerging field of computational cancer biology (RP101489)
- Research the roles of alternate nuclear receptors at key steps in prostate cancer progression (RP1104444-P1)

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.

¹ <http://cnrcs.uh.edu/research-areas/index.php>

² http://www.nsm.uh.edu/news-events/stories/2012/0626_nihDodGrants.php

³ Figures provided by the CPRIT website. <http://cprit.state.tx.us/funded-grants/>

Scope

1. The University's expenses, inventory, and matching funds related to the three CPRIT grants identified above, between September 2011 and May 2013 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

Summary of Findings

Internal Audit noted the following findings during the review:

- The University incorrectly categorized over \$850,000 in contractual expenses as "Other" on the quarterly financial status report for the period of September 1, 2011 – February 28, 2013.
- The University also passed along over an estimated \$40,000 in indirect costs as direct expenses associated with the contracts for the audit period, as well as claiming an additional 5% in indirect costs for each financial status report tested.
- Two immaterial errors related to travel expense reimbursements in the amounts of \$117.72 and \$0.10. The discovered overages have been corrected or are in the process of being corrected by the University.

The inconsistencies noted above display potential deficiencies within the University's understanding of CPRIT's allowable and unallowable costs and reimbursement process.

Testing Approach

Analytical and substantive procedures for the University'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 process.

Our procedures included discussions with the following University of Houston personnel:

Name	Title
Beverly Rymer	Director, Post-Award
Javeria Kazi	Research Administrator

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 75% of expenditures within the CPRIT Financial Status Report (FSR). One to five expenditures 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 Consolidated Grants Management System (CGMS) for the selected grants, and both items listed were sampled 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 on randomly ten selected funds that were included in the pool of funds the University utilizes to match the required 50% of CPRIT funds. From the ten selected funds, one expenditure was selected from each fund to ensure that the expenditure was related to cancer research. Documentation was obtained for each of the selected expenditures to support the appropriateness of the fund being used as a match.

Audit Results

Expense Reimbursements

The University’s research grant to develop a training program has incurred over \$850,000 in expenses for contractual agreements with other institutions for the period of September 1, 2011 – February 28, 2013. Expenses associated with contractual agreements with other institutions should be classified as “Contractual” and not “Other” on the FSR.

During the review of the subcontract invoices, Internal Audit noted that the contractual agreement amounts include salaries, benefits, and indirect costs (F&A costs). Indirect costs associated with the subcontracts cannot be charged as a direct cost. The indirect costs associated with these contracts were incorporated in the direct “Other” expenses claimed on the FSR, resulting in an additional 5.26% of all contractual expenses being reimbursed.

Furthermore, the University claimed an additional 5% of total costs as indirect costs on their quarterly financial status reports. The following calculation estimates the potential overage from both claiming indirect costs as direct costs and claiming an additional 5% in indirect costs:

\$1,254,705.80	Total expended "Other" funds from CGMS (Total Expended Funds – line g from CGMS)
x 5.26%	Indirect cost rate being claimed
\$ 65,997.53	Potential overage from indirect costs charged as direct expense
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\$ 1,188,708.27	Adjusted total expended "Other" funds from CGMS (line g in CGMS)
\$ 1,332,364.62	Total adjusted direct charges
\$ 66,618.23	Adjusted indirect costs (at 5%)
\$ 71,714.57	Current indirect costs
\$ 5,096.34	Potential indirect costs overage
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\$ 65,997.53	Potential overage from indirect costs charged as direct expense
\$ 5,096.34	Potential indirect costs overage
\$ 71,093.86	Estimated total potential overage/adjustment

Internal audit also noted two immaterial errors related to travel expense reimbursements. The first error was an overcharge to CPRIT in the amount of \$117.72 for an additional night of lodging that was not grant related. Once brought to the attention of the University, they quickly corrected the issue and removed the excess expenditure from the CPRIT grant cost center. The second error was a miscalculation error that led to a \$0.10 overcharge to the CPRIT cost center. Although these issues are not material to the grant as a whole,

accurate recording and calculation of expenses are imperative to the reimbursement process. These adjustments should also be reflected on the next quarterly FSR.

Inventory & Equipment

Internal audit observed all equipment purchased from the funds of the three grants selected for testing to support the existence and proper recording of inventory purchased with CPRIT funds. Interviews were also conducted with appropriate personnel to ensure that adequate policies were in place for asset management. The University requires pre-approval from delegated officials prior to the requisition of equipment. Internal audit obtained approvals for the two pieces of equipment observed as well as adequate documentation to evidence that equipment was properly recorded.

Matching Funds

To support the University's matching funds certification claimed in attachment C of the CPRIT contract internal audit selected ten expenditures from funds used to meet the matching funds requirement. The University currently has delegated funds to match each of their CPRIT grant, providing for a more direct match. The selected expenditures originated from funds independent of CPRIT and were categorized within the same research areas as the three CPRIT grants selected for testing. The University was able to provide sufficient and appropriate evidence to support each of the selected expenditures. Internal audit concluded that the funds being used for the CPRIT required match are appropriate and meet the requirements described in CPRIT policies and procedures.

Recommendations

To be in compliance with CPRIT's expense reimbursement policies, the University should reverse all indirect expenses incurred for contracts that were claimed as direct expenses to the CPRIT cost center. Furthermore, to align with Texas' Professional Services Procurement Act, the University should move their budgeted contractual expenses totaling over \$25,000 from the "Other" line item on the Form 269A to the "Contractual" line item. CPRIT should ensure that the University understands how costs are allocated before the submission of the next FSR.

The University does have a thorough review process for expenses, which includes a three tier system of ensuring expenses are in compliance with University, State, and CPRIT policies prior to posting to the general ledger. Although the University has adequate procedures established, they should work towards more effectively inspecting expenses to ensure that the expenses being posted are allowable and correctly calculated.

CPRIT Management Action Plan

CPRIT Finance will work with the grantee to remove incorrectly charged indirect costs associated with the subcontracts from direct cost charges to the CPRIT grant in financial reports from 6/17/2010 through 6/17/2013. The grantee will have to issue a credit for the incorrectly charged indirect costs on the next fiscal report to CPRIT.