

CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS

IA # 01-15 – INTERNAL AUDIT REPORT OVER GRANT MANAGEMENT

REPORT DATE: JULY 27, 2015

ISSUED: AUGUST 26, 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 June 15, 2015 through July 27, 2015 relating to the Institute's grant management process.

The objectives of this internal audit were to evaluate the design and effectiveness of CPRIT's grant management processes. The objectives were organized as follows:

- A. Verify that internal controls over Grants Management are designed to ensure the effective management of the process and address all key risks.
- B. Ensure that the controls in place over high-risk processes are operating effectively.

To accomplish these objectives, we conducted interviews with personnel responsible for grant management. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at the Cancer Prevention and Research Institute of Texas Service Center offices and were completed on July 15, 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
August 26, 2015

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BACKGROUND

The Cancer Prevention and Research Institute of Texas (CPRIT or the agency) was established with the goal to expedite innovation in cancer research and product development, and to enhance access to evidence-based prevention programs throughout the State of Texas. To accomplish these goals, CPRIT awards grants for a wide variety of cancer-related research and the delivery of cancer prevention programs and services by public and private entities located in Texas. All CPRIT-funded research will be conducted in state by Texas-based scientists and reflect CPRIT's mission to attract and expand the state's research capabilities and create high quality new jobs in Texas.

Under the guidance of its governing body, the Oversight Committee, CPRIT develops and publishes requests for applications from organizations to solicit their research or development projects for funding. CPRIT reviews those applications and awards grant funds. Throughout the application and grant award processes, applicants and the personnel responsible for evaluating applicants and making grant award recommendations must disclose any conflicts of interest.

After the Oversight Committee approves grant award recommendations, contracts are negotiated and executed with the grant applicants who were awarded funds. Once contracts are executed, CPRIT oversees the performance of grantees through reporting and monitoring mechanisms. Grantees are responsible for providing CPRIT with financial and programmatic reports in order to receive the grant funds as a reimbursement of expended funds.

CPRIT also performs monitoring of the grant recipients through a monitoring program. This program is based on a risk assessment of all the organizations who receive grant funds from the agency. Based upon the risk assessment, desk or field monitoring procedures are performed to evaluate the grantees compliance with the financial and programmatic requirements of the contract and to validate the research and prevention program progress reported in the periodic reports submitted to CPRIT.

Funding for a grant is completed when the term of a contract expires, or when a grantee has expended the total funded award amount. CPRIT monitors each grant award through the life of the grant contract and validates the completion of the required compliance and financial reports before providing the grantee with their final reimbursement and closing out the grant.

AUDIT OBJECTIVE AND SCOPE

The audit focused on the Grants Management processes in place at the Cancer Prevention and Research Institute of Texas (CPRIT). We reviewed the procedures for appropriate risk and regulatory coverage and compliance. Key functions and sub-processes within the Grants Management process that were reviewed include:

- Grant Acceptance and Allocation
- Request for Applications (RFAs)
- Awarding Grant Funds
- Contract Execution
- Contract Compliance
- Financial Reporting
- Grantee Reporting
- Compliance Monitoring
- Contract Extension
- Contract Closeout
- Grant Funding Closeout

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The audit did not include direct monitoring of grant recipients or an evaluation of the future state of procedures and controls. The focus of our evaluation was on reoccurring procedures that were in place throughout the coverage period and are anticipated to remain in place in the future.

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

Grant Acceptance and Allocation

- Grant allocations are in compliance with State requirements

Request for Applications (RFAs)

- RFAs are reviewed for compliance with State requirements
- RFA solicitations are approved prior to issuance

Awarding Grant Funds

- Potential conflicts of interest are reported by individuals making grant award decisions and appropriate steps are taken to recuse reviewers with conflicts during the pre-award process
- Peer review is adequately performed on awards
- Applications are solicited and processed for appropriate qualifications and resources that meet Administrative Review requirements
- Awards are processed for eligible, qualified recipients based on Peer Review, Program Integration Committee, and Oversight Committee approval
- Proposed grant awards are reconciled to available funds to ensure that budget is available for the proposed grants prior to final approval

Contract Execution

- Award commitments/contracts are appropriately authorized by the Oversight Committee
- Use of standard contract templates are appropriate and approved
- Deviations to standard and required contract terms are appropriate and approved
- Contracts clearly define compliance requirements and include State requirements
- Contract renewals are validated via the RFA process
- Required certifications are reviewed and approved prior to contract execution
- Contract amendments and revisions are appropriately reviewed and approved

Contract Compliance

- State grant laws and regulations are met
- Arrangements allowing self-dealing or kickback payments are not in place
- Conflicts of interest by the grantee have been identified and reported
- Contract records are adequately documented and retained

Financial Reporting

- Reimbursement requests are reviewed and approved
- Costs charged to CPRIT grants are monitored by CPRIT personnel
- Grant distributions are approved prior to disbursement
- Periodic grant financial monitoring procedures regarding budgets, coding, and fixed assets are performed
- Use of matching funds is reviewed and validated for completeness and accuracy
- Financial reports and audits from grantees are reviewed and potential irregularities and exceptions are investigated

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Grantee Reporting

- Reports submitted by grantees to CPRIT are monitored for completeness, accuracy and timeliness
- Programmatic/scientific assessments of progress reports are conducted with results accepted
- Reports are reviewed for compliance with contract terms
- Cost analysis of program progress is performed on grantee reported results

Compliance Monitoring

- Grantees receive onboarding and periodic compliance and management training
- Costs charged to CPRIT grants are monitored by CPRIT personnel
- Use of matching funds is reviewed and validated for completeness and accuracy
- Grantee policies and procedures are reviewed by CPRIT
- Grantee accounting systems are reviewed for sufficiency by CPRIT
- Grantee segregation of duties is assessed
- Grantee procurement practices are reviewed to ensure appropriate use of CPRIT funds
- Grantees have appropriate controls and monitoring of inventory purchased with grant funds
- Agreements with subcontractors include all CPRIT contractual requirements and administrative regulations
- Grantees have procedures in place to monitor subcontractors for compliance
- Corrective action follow-up performed for grantees and subcontractor with deficiencies

Contract Extension

- Grantee financial and programmatic performance is evaluated prior to extensions
- Extensions are reviewed and approved

Contract Closeout

- Services and fund expenditures are verified prior to closeout
- All open requests for reimbursement are validated and reconciled
- Grant and grantee documents are archived and retained
- Final grantee progress report evaluations are performed

Grant Funding Closeout

- Final progress reports are verified prior to contract close-out
- Grant funds are reconciled by funding sources prior to close-out
- Close-out final payments are approved

The objectives of this internal audit were as follows:

- A. Verify that internal controls over Grants Management are designed to ensure the effective management of the process and address all key risks.
- B. Ensure that the controls in place over high-risk processes are operating effectively.

Our procedures included interviewing key personnel within the Legal, Compliance, 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. The coverage period of the internal audit was from June 1, 2014 through May 31, 2015.

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EXECUTIVE SUMMARY

Through our interviews, evaluation of internal control design and testing of transactions we identified nine 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.*

OVERALL ASSESSMENT	SATISFACTORY
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SCOPE AREA	RESULT	RATING
<p>Objective A: Verify that internal controls over Grants Management are designed to ensure the effective management of the process and address all key risks.</p>	<p>We identified 50 controls to be in place in the process, 40 of which were determined to be critical to the internal control structure and are defined as “key” controls. There are opportunities to improve the process and control environment, including:</p> <ul style="list-style-type: none"> Review of Financial Status Reports Grantee onboarding and compliance training Subcontractor compliance monitoring Grant close-out 	SATISFACTORY
<p>Objective B: Ensure that the controls in place over high-risk processes are operating effectively.</p>	<p>Controls in place were generally operating as designed. We identified the following opportunities for improvement:</p> <ul style="list-style-type: none"> Review of supporting documentation for Financial Status Reports Follow-up of prior grantee findings Complete reporting by grantees Timely submission of requests for no cost extensions Obtaining reports prior to final grant payments 	SATISFACTORY

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.

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CONCLUSION

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

CPRIT should standardize the procedures for reviewing Financial Status Reports submitted by grantees, including the expectations and requirements of the documentation to support expenditures of grantees. CPRIT should also ensure that grantees have submitted all the required reports prior to releasing the funds related to reimbursement requests. Additionally, CPRIT should add the review of subcontractor compliance, perform follow-up procedures on grantees with prior audit findings, and provide onboarding training to their grant recipients as part of their grant compliance program.

We recommend that CPRIT implement additional formalized procedures over Grant Management and strengthen the control weaknesses identified. Internal Audit will conduct follow-up procedures to validate remediation efforts in Fiscal Year 2016.

**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 Legal, Compliance, 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 Grants Management are designed to ensure the effective management of the process and address all key risks.

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

- Grant Acceptance and Allocation
- Request for Applications (RFAs)
- Awarding Grant Funds
- Contract Execution
- Contract Compliance
- Financial Reporting
- Grantee Reporting
- Compliance Monitoring
- Contract Extension
- Contract Closeout
- Grant Funding Closeout

We evaluated the controls identified against expected controls to determine whether the identified reoccurring grant monitoring procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the Grants Management 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 50 controls in place over the significant activities within the grant management function. We identified five findings where improvements in the processes, polices, and procedures can be made.

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Significant Process	Key Controls	Non-Key Controls	Total Controls	Control Gaps
Grant Acceptance and Allocation	2	0	2	
Request for Applications (RFAs)	2	0	2	
Awarding Grant Funds	15*	2	17*	Finding 2
Contract Execution	7*	0	7*	
Contract Compliance	7*	1*	8*	
Financial Reporting	5*	3	8*	
Grantee Reporting	2	0	2	
Compliance Monitoring	4	2	6	Finding 1 Finding 3
Contract Extension	1	1	2	
Contract Closeout	4*	2	6*	
Funding Closeout	4*	2*	6*	Finding 4
Total	53*	13*	66*	4

*The actual key control count totals 40 "key" controls, 10 non-key controls, and 50 total controls. The totals displayed the table above represents where certain controls address risks in multiple processes. The mapping above presents the coverage of controls throughout the significant grant management processes to demonstrate the mitigation of risks by the control structure in place.

Finding 1 – MODERATE – Review of Financial Status Reports (FSR): CPRIT Grant Accountants have inconsistent standards by which FSRs are reviewed. The inconsistencies relate to determining the sufficiency of the supporting documentation provided by the grantee. For example, some Grant Accountants require third-party supporting documentation such as an invoice to be provided for expenses above \$1,000 while others have a more stringent threshold for the same requirement. In addition, CPRIT does not have a formal timeframe for completion of the FSR review. Grant Accountants are instructed to complete the review as soon as possible. A formal deadline by which Grant Accountants must complete the review has not been established.

Recommendation: CPRIT should implement a standardized FSR review process to ensure that all grantees are treated equally. Detailed descriptions of requirements regarding the supporting documentation should be included in CPRIT's policies and procedures. In addition, CPRIT should establish a "no later than" deadline by which FSR review should be completed and include that information in its policies and procedures.

CPRIT Management Response: CPRIT management agrees that Grant Accountants should use consistent standards to determine there is sufficient documentation to support expenditures in FSRs. The requirement that Grant Accountants apply consistent standards in the review of FSRs has been verbally communicated to them. The agency has also implemented a requirement that Grant Accountants complete FSR reviews within 30 days from the date of FSR submission. The Financial Reports section of CPRIT's Administrative Policies and Procedures is being updated to formally address these requirements. CPRIT is revising the grant Policies and Procedures Guide to incorporate the standards that FSR submissions must meet to be in compliance. In the meantime, CPRIT sent notification of these requirements to grantees through the CARS-CPRIT Grants Management System in July 2015.

Responsible Party: Chief Operating Officer, Deputy Executive Officer and General Counsel
Implementation Date: November 1, 2015

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Finding 2 – MODERATE – Grantee Onboarding and Training: CPRIT does not provide any onboarding training to grantees. CPRIT's General Counsel, Chief Compliance Officer and Grant Specialist Manager provide compliance training to grantees on a periodic basis (several times per year). This training is not mandatory for all grantees to attend.

Recommendation: CPRIT should implement a mandatory onboarding and compliance training for all grantees.

CPRIT Management Response: CPRIT management agrees that onboarding and periodic compliance training for all grantees should be mandatory. An onboarding and grantee training project is currently underway and staff resources have been allocated for this purpose. These trainings may cover administrative rule requirements, reporting requirements, CGMS overview, and compliance program overview, and will be phased in as CPRIT makes necessary administrative rule changes.

Responsible Party: Chief Compliance Officer
Implementation Date: December 31, 2015

Finding 3 – MODERATE– Subcontractor Monitoring: Grantees are responsible for ensuring that CPRIT's contractual requirements and administrative regulations are followed by their subcontractor. Grantees accept this responsibility by executing the grant contract. However, CPRIT has no process in place to verify that contractual requirements and administrative regulations are followed by a grantee's subcontractor. Indirect costs and invoices from subcontractor are reviewed by Grant Accountants as part of the Financial Statement Report review, but they are not treated differently than other vendor invoices.

Recommendation: CPRIT should add a review of subcontractor compliance as a part of desk and onsite reviews of grantees. This review should include identifying subcontractor, assessing subcontractor agreements for inclusion of required elements, and reviewing a sample of subcontractor payments for allowability and appropriateness.

CPRIT Management Response: CPRIT management agrees that grantee desk and onsite reviews should include a review of subcontractor compliance. Monitoring reviews will be revised to include specific protocols to identify subcontractors, assess subcontractor agreements for inclusion of flow-through provisions, and review a sample of subcontractor expenditures for allowability and appropriateness.

Responsible Party: Chief Compliance Officer
Implementation Date: September 30, 2015

Finding 4 - MODERATE - Grant Close-Out: During the audit period, CPRIT considered a grant to be closed and eligible for final payment when a grantee submits their final Financial Status Report (FSR) and Progress Report. However, a grantee may still have been delinquent in submitting other required reports, such as an Inventory Report or Historically Underutilized Business Report. Consequently, CPRIT did not have a mechanism to enforce the submission of all required reports until it began holding final payments until all reports were submitted. CPRIT is in the process of modifying the business rules in the CPRIT Grants Management System (CGMS) to increase the period of time before the system automatically closes a grant, preventing the submission of other required reports.

Recommendation: CPRIT should continue updating its close-out process to ensure that all required documentation is submitted prior to final payment. CPRIT should also consider modifying CMGS to prevent grants from being closed out without all the required reports being included in the file.

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CPRIT Management Response: CPRIT management agrees that all required grant documentation should be complete before making a final payment on and closing a grant. CPRIT will develop a grant contract compliance checklist for grant closeout to document that the final payment can be made on a grant moving through the closeout process. The CPRIT Application Receipt System's post-award Grants Management System (CARS-CGMS) was modified on May 11, 2015, eliminating the business rule that automatically closed grants in the CARS-CGMS system six months after the contract end date. By eliminating this business rule, CPRIT staff with Contract Manager roles in the CARS-CGMS system will manually close a grant record after they have verified that a grantee has submitted all required reports.

Responsible Party: Deputy Executive Officer and General Counsel, Chief Operating Officer, Operations Manager

Implementation Date: September 30, 2015

2. **Procedures Performed:** We verified whether controls have been implemented to address prior internal audit findings. We prepared a schedule of prior findings and compared the controls identified as part of the process evaluation to the schedule of findings to determine prior findings had been adequately addressed.

Results: No findings identified.

Objective B: Effectiveness of Controls

Ensure that the controls in place over high-risk processes are operating effectively.

1. **Procedures Performed:** We selected a sample of 46 new grant awards during the scope period of June 1, 2014 – May 31, 2015. For each award, we obtained the evidence and verified the following:

- Administrative review was performed
- Peer review was performed and grantee score justified advancement
- Review Council review was performed
- Program Integration Committee Review was performed
- CEO Affidavit was completed for the award
- Oversight Committee approved the award
- If a Product Development/Commercialization Grant, Due Diligence and Intellectual Property reviews were performed
- Application Pedigree was completed for the grantee
- Conflict of interest certifications were completed by PIC Members and OC members.
- Conflict of interest certifications were completed by Peer Reviewers.
- Availability of funds was verified prior to award.

Results: No findings identified.

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2. **Procedures Performed:** We selected a sample of 50 new grant contracts executed during the scope period of June 1, 2014 – May 31, 2015 and verified the following:

- Authorization by the Oversight Committee
- Evidence of contract execution by all required parties (CEO and grantee Authorized Signing Official ASO)
- Evidence that required certifications were provided: Matching Funds, Payment of Taxes, Suspension and Debarment, Drug-Free Workplace, and Tobacco Free Workplace
- Evidence of approval of any contract Amendments
- Acknowledgement of reporting requirements
- Evidence of agreement of Intellectual Property and Revenue Sharing requirements
- Evidence grantee was not funded prior to execution of all contract documents.

Results: No findings identified.

3. **Procedures Performed:** We selected a sample of 70 Financial Status Reports submitted during the scope period of June 1, 2014 – May 31, 2015 and verified the following:

- Review of costs for allowability by CPRIT personnel
- Sufficiency of supporting documentation to justify costs charged
- Mathematical validation of the reimbursement request by CPRIT employees
- Reports were submitted timely (within 90 calendar days of the end of the state fiscal quarter)

Results: We identified that the Financial Status Reports selected for testing were reviewed by CPRIT personnel to ensure that costs included in the reports were allowable, that the requests were validated for mathematical accuracy and that reports were submitted by grantees in a timely manner. We also identified that all but one of the selected reports had sufficient supporting documentation.

Finding 5 - MODERATE – Salary Supporting Documentation: For one of 70 grant disbursements reviewed, we determined that the grantee did not provide sufficient support for its Financial Status Report reimbursement request. No employees were listed on the grantee's Personnel Level of Effort submitted with the report, but the grantee claimed reimbursement of salary expenses. The payment was made in June 2014 and CPRIT subsequently began requiring additional supporting documentation for salary and benefit expenses in July 2014.

Recommendation: CPRIT should formally update its FSR review procedures to include the requirement to review the Personnel Level of Effort and ensure that all Grant Accountants and Grant Specialists perform this process as part of their reviews. As of August 2014, CPRIT informally modified its FSR review process to include comparing the names of the employees paid to the Personnel Level of Effort (LOE) submitted by the grantee to ensure that the salary and benefit payments requested for reimbursement were paid to appropriate individuals.

CPRIT Management Response: CPRIT management agrees that Grant Accountants should use consistent standards to determine there is sufficient documentation to support expenditures such as salary expenses in FSRs. The Financial Reports section of the CPRIT's Administrative Policies and Procedures are being updated to formally address these requirements. CPRIT is revising the grant Policies and Procedures Guide to incorporate the expense documentation requirements for FSR submissions from grantees.

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Responsible Party: Deputy Executive Officer and General Counsel, Chief Operating Officer, Operations Manager

Implementation Date: November 1, 2015

4. **Procedures Performed:** We selected all grants that have received either a desk or onsite review during the scope time period of June 1, 2014 – May 31, 2015 and verified the following:

- Review was performed timely and completely
- The use of matching funds was validated by CPRIT
- Grantee policies, accounting systems, segregation of duties, procurement, inventory management, and subcontractor monitoring procedures are reviewed by CPRIT

Results: No findings identified.

5. **Procedures Performed:** We selected all grants that were previously monitored by Internal Audit or CPRIT Grant Specialists and verified whether CPRIT performed follow-up procedures related to the corrective actions.

Results: We determined that follow-up procedures were not consistently executed to verify grantees remediated prior findings.

Finding 6 - MODERATE - No Follow-up of Prior Grantee Monitoring Findings: Twelve of the prior 13 corrective actions recommended as a result of prior internal audit monitoring of grantees did not have evidence of follow-up by CPRIT to validate corrective action had been implemented by grantees.

Recommendation: CPRIT should assign each unresolved finding to a process owner and have routine updates to track the resolution of all remaining findings. The current status of each outstanding finding should be communicated to the Oversight Committee with a plan on how to resolve the finding and what items are still pending. At a minimum, prior findings should be addressed during the Grant Monitoring process.

CPRIT Management Response: CPRIT management agrees that grantee audit findings should be resolved. As part of its work as CPRIT's contracted internal auditor in fiscal year 2015, Weaver and Tidwell performed follow-up procedures on prior outstanding audit findings of grantee monitoring audits and concluded that all of the prior findings have been remediated. During fiscal year 2015, CPRIT transitioned the grant monitoring responsibility from Internal Audit to the Compliance Program under the oversight of the Chief Compliance Officer. The Compliance Program has incorporated grant monitoring findings in the risk assessment used to develop and adjust CPRIT's annual monitoring plan and will conduct follow-up procedures on future grant monitoring findings to ensure they are addressed.

Responsible Party: Chief Compliance Officer

Implementation Date: September 30, 2015

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6. Procedures Performed: We selected a sample of 70 grants that had expenditure reimbursement during the scope period of June 1, 2014 – May 31, 2015 and verified the following:

- All grantees submitted their required reports and matching fund certificates.
- Required reports and matching fund certificate were reviewed by CPRIT
- Grantees were monitored for contract and legal compliance requirements
- Allegations of fraud, waste, abuse and noncompliance were investigated and/or resolved timely
- CPRIT's required annual reports were reviewed prior to submission and were submitted timely
- Annual Progress Reports were submitted timely and reviewed by CPRIT
- Quarterly Progress Reports related to cancer prevention grants were reviewed by CPRIT
- Funds were only disbursed to grantees without delinquent reports

Results: During the audit period, CPRIT implemented a multi-phase reconciliation program to ensure that all required reports were submitted by grantees. As a result of the reconciliation, 32 of the 70 grantees in our sample were identified to have outstanding reports. Across the 32 grantees, 61 of the 544 required financial and progress reports due were outstanding past their due date. One of the past due reports was an Annual Progress Report.

Of the 32 grantees, payments to nine of the grantees were put on hold. However payments were released to the other 23 grantees.

Finding 7 - MODERATE - Incomplete Grantee Reporting: Of the 70 grants tested, funds were distributed to 23 grantees who had reports outstanding and due to CPRIT.

Recommendation: CPRIT should implement a payment release checklist that includes a listing of reports that are required to be submitted by the grantee. The Contract Manager should complete the checklist, verifying the receipt of all required reports, and provide it to the agency accountant to review as part of the documentation for the payment release process.

CPRIT Management Response: CPRIT management agrees that all required grant documentation should be complete before making a payment on a grant. CPRIT will develop a grant contract compliance checklist to document that a reimbursement payment can be released for each grant.

Responsible Party: Deputy Executive Officer and General Counsel, Chief Operating Officer, Operations Manager

Implementation Date: September 30, 2015

7. Procedures Performed: We selected a sample of 72 grant contracts that received an Amendment F – No Cost Extension during the scope period of June 1, 2014 – May 31, 2015 and verified the following:

- Grantee was current with financial reporting (FSRs) prior to the extension
- Grantee was current with Progress Reports prior to the extension
- Extension was reviewed and approved by the CPRIT CEO
- Extension did not allocate any additional funds to the grantee
- Extension was requested between 180 and 30 days prior to contract expiration

Results: For the 72 contract extensions selected for testing, we identified that the grantees who requested extensions were current in filing their FSR and Progress reports and that no additional funds were allocated to the grantees. We also identified that the extensions were appropriately

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reviewed and approved. However, we identified one of the selected extensions was requested within 30 days of the contract expiration.

Finding 8 - LOW – No Cost Extensions: We determined that one out of 72 contract extensions from the period was requested outside the allowed timeframe of 30-180 days from the contract's end date. This no cost extension was requested on June 27, 2014, just 3 days prior to contract expiration date of June 30, 2014. The request for extension received final approval on July 29, 2014. CPRIT adopted an administrative rule effective January 2014 outlining the submission timeline. However, CPRIT did not implement a business rule in CGMS to enforce the timeline until June 27, 2014.

Recommendation: CPRIT should adhere to the no cost contract extension requirements outlined in the Chapter 703 of the Texas Administrative Code. CPRIT should not approve requests for contract extension that are not made between 180 and 30 days prior to the contract expiration date. The implementation of the business rule in the CGMS in June 2014 should enforce this requirement.

CPRIT Management Response: CPRIT management agrees that CPRIT should adhere to the no cost contract extension requirements in Chapter 703 of the Texas Administrative Code. However, the administrative rules lack a process for accommodating exceptional or extenuating circumstances that delay the extension request. CPRIT will implement a process where the CEO may approve no cost extensions not made between 180 and 30 days prior to the contract expiration date. The CEO will publicly report such approvals to the Oversight Committee. CPRIT's administrative rules will be amended to reflect the process for CEO approval of exceptional or extenuating circumstances.

Responsible Party: Deputy Executive Officer and General Counsel, Operations Manager
Implementation Date: March 1, 2016

8. Procedures Performed: We selected all grant contracts with an end date between June 1, 2014 and May 31, 2015, and verified the following:

- Final Financial Status Reports (FSRs) was submitted and reviewed timely
- Final Progress Report was submitted and reviewed timely
- Outstanding invoices or payment claims were reconciled prior to payment
- Final reconciliation was performed to identify any unexpected funds to be returned to CPRIT

Results: For the 42 grants that had a contract termination date between June 1, 2014 and May 31, 2015, we identified that the FSRs and Final Progress Reports were submitted and reviewed timely and that the final reconciliations were performed to identify any unexpected funds to be returned to CPRIT. However, we also identified that five of the 42 grants had at least one required report outstanding, but still received their final payment.

Finding 9 - MODERATE – Grant Close-Out Payments: We determined that for five of 42 grants tested during the period with a termination date between June 1, 2014 and May, 31, 2015, CPRIT processed payment of the Final Financial Status Report while at least one required report from the grantee was outstanding. Four of the five grants were missing at least one required Financial Report, and one of the five did not have a Final Progress Report prior to final payment.

Recommendation: CPRIT should continue updating its close-out process to ensure that all required documentation is provided prior to final payment. Additionally, the final process for close-out should be formally documented in CPRIT's policies and procedures.

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CPRIT Management Response: CPRIT management agrees that CPRIT should update its close-out process to ensure all required documentation is provided prior to final payment. CPRIT will develop a grant contract compliance checklist to document that a final payment can be released for each grant. CPRIT will describe the final close out process set forth in CPRIT's administrative rules, T.A.C. 703.14(d), in the administrative policies and procedures.

Responsible Party: Deputy Executive Officer and General Counsel, Chief Operating Officer, Operations Manager

Implementation Date: November 1, 2015

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 organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk