

Cancer Prevention & Research Institute of Texas

IA #03-2020 Internal Audit Report over Governance

Report Date: October 16, 2020

Issued: October 30, 2020

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The Oversight Committee
Cancer Prevention & 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 (CPRIT) during the period March 1, 2019, through February 29, 2020, relating to agency governance processes.

The objective of the internal audit was to assess the design and operating effectiveness of CPRIT's governance infrastructure utilizing the Committees of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework.

To accomplish the objective, we conducted interviews with CPRIT executive leadership responsible for agency governance. We also reviewed documentation and performed specific testing procedures to assess the operating effectiveness of process controls. Due to the COVID-19 pandemic, audit procedures were performed remotely and completed on October 16, 2020.

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

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October 30, 2020

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Background

CPRIT is the state agency established to create and expedite innovation in academic and product development cancer research, and to enhance access to evidence-based innovation prevention programs throughout the state.

The purpose of this audit was to assess CPRIT's governance infrastructure. Governance within an organization is defined as the combination of processes and structures implemented by the organization's board or executive management to inform, direct, manage and monitor the activities of the organization toward the achievement of its strategic objectives. Many of CPRIT's processes required for agency governance have already been evaluated by Internal Audit through the various audits completed in the past several years. The results of those audits were factored into this assessment of the current processes and structures that guide and direct CPRIT's operations.

In order to facilitate the assessment of the governance infrastructure, the internal control framework developed by the Committees of Sponsoring Organizations of the Treadway Commission (COSO) was utilized as the tool to evaluate the existence and completeness of the existing processes in place at CPRIT. COSO is a joint initiative of five private sector organizations that include:

- American Accounting Association,
- American Institute of Certified Public Accountants,
- Financial Executives International,
- The Associate of Accountants and Financial Professionals in Business, and
- The Institute of Internal Auditors.

The COSO internal control framework was developed not only as a basis for evaluating internal controls but also as part of an initiative to assist organizations with achieving their objectives. The framework is divided into five components and 17 principles that support the components. When internal controls are effectively implemented by an organization, they facilitate and support the overall governance processes of that organization by providing reasonable assurance of achieving its objectives.

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COSO Components and Principles



Audit Objective and Scope

The audit evaluated CPRIT's governance processes and structures. We reviewed internal controls in place for appropriate risk coverage, compliance with CPRIT policies and procedures, and alignment with the COSO internal control framework components and principles. We also tested the implementation of the controls. The scope included an evaluation of the processes currently in practice covering the key areas of:

- Board Rules and Oversight
- Strategy, Policies and Procedures
- Structure and Accountability
- Communication and Reporting
- Assessment and Risk Management
- Ethics

We mapped the controls identified in these key areas to the five components of the COSO Internal Control Framework, the 17 principles, and corresponding points of focus within each principle relevant to CPRIT's operating environment.

The objective of the internal audit was to assess the design and operating effectiveness of CPRIT's governance infrastructure utilizing the COSO Internal Control Framework.

Our procedures included interviewing key members of the agency's executive leadership to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from March 1, 2019, through February 29, 2020.

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Executive Summary

Through our interviews, evaluation of internal control design and testing of transactions, we determined that agency controls to support the governance processes and structures are implemented and operating effectively. However, as a result of our procedures, we identified one outstanding finding from a prior internal audit that continues to impact the operating effectiveness of controls. The one finding identified is an instance where internal controls are not operating effectively to cover the possible risks to CPRIT including 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		STRONG
SCOPE AREA	RESULT	RATING
Objective A: Assess the design and operating effectiveness of CPRIT's governance infrastructure utilizing the COSO Internal Control Framework.	We identified that CPRIT has processes and internal controls that align with COSO's five components and 17 principles to support the agency's efforts in achieving its goals and objectives. However, the internal control environment could be strengthened by consistently reviewing the internal controls reports of key outsourced providers in a timely manner. This was identified in a prior internal audit.	STRONG

Conclusion

Based on our evaluation, CPRIT has the appropriate processes and structures in place to support agency governance. However, CPRIT should continue its efforts to implement procedures to consistently review the reports of internal controls of outsourced service vendors in a timely manner to remediate the finding identified in this audit and a prior internal audit.

Follow-up procedures will be performed in fiscal year 2021 to evaluate the effectiveness of the agency's remediation efforts.

**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 and Effectiveness of Governance Processes

Assess the design and operating effectiveness of CPRIT's governance infrastructure utilizing the COSO Internal Control Framework.

1. **Procedures Performed:** We reviewed the five components of the COSO internal control framework, including the 17 principles and their corresponding 77 points of focus, for their applicability to Texas state agencies and CPRIT specifically. We mapped CPRIT's existing controls to the COSO internal control framework and evaluated the design of the internal control structure taking into account controls that had already been identified and tested in prior internal audits.

Results: We determined that 73 of the 77 points of focus were applicable to CPRIT and the governance structure of Texas state agencies. The result of our assessment was that each of the five components and 17 principles are present and operating effectively at CPRIT.

For select critical controls, we selected a sample of occurrences for testing to verify that the controls were operating effectively.

2. **Procedures Performed:** We verified that CPRIT's Code of Conduct and Ethics is in place and distributed to each new Oversight Committee member within 30 days of becoming a board member and to each Program Integration Committee member and agency employee within 30 days of employment.

Results: No exceptions identified.

3. **Procedures Performed:** We verified that CPRIT has administrative rules in place that define the Oversight Committee's roles and responsibilities.

Results: No exceptions identified.

4. **Procedures Performed:** We obtained the Legislative Appropriations Request for the Fiscal Years 2020 and 2021 submission and verified that the certification for dual submission was signed by CPRIT's Chief Executive Officer, Chief Operating Officer and Oversight Committee Chairman.

Results: No exceptions identified.

5. **Procedures Performed:** We verified that CPRIT prepares the *Texas Cancer Plan* in accordance with Texas statutory requirements.

Results: No exceptions identified.

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- 6. Procedures Performed:** We verified the Chief Compliance Officer reviews the conflict of interest certifications, political contribution forms, ethics compliance statements, and personal financial statements from the Oversight Committee members on an annual basis. We also verified that the Chief Compliance Officer reviews the conflict of interest certifications, outside employment forms, and other compliance documents completed by CPRIT employees annually.

Results: No exceptions identified.

- 7. Procedures Performed:** We verified that the Chief Compliance Officer tracks the completion of required trainings for new employees and Oversight Committee members.

Results: No exceptions identified.

- 8. Procedures Performed:** We verified that CPRIT obtains reports over internal controls from key outsourced service providers and reviews the reports for control weaknesses that may adversely affect the agency's operating environment.

Results: We determined that some reports from outsourced service providers are not reviewed by CPRIT in a timely manner.

Finding 1 – Moderate – Outsourced Service Provider Controls Review: Of the two service providers selected for testing from the 24 outsourced services providers, CPRIT did not review one of the reports to ensure that the service provider did not have any internal control weaknesses that could impact CPRIT operations. This was also identified in a prior internal audit.

Recommendation: CPRIT should continue its efforts to implement procedures to consistently review the internal control reports of outsourced service vendors in a timely manner to remediate this issue that has also been identified in a prior internal audit.

Management Response: Management agrees with the recommendation and will ensure that this outstanding issue is remediated by procuring a service provider that augments CPRIT's capability to consistently review the internal control reports of key outsourced services. The report review service provider would summarize the conclusion of every internal control report of key outsourced services that CPRIT receives and provide the written summary to CPRIT, highlighting any critical issues that may be identified in a report.

Implementation Date: March 1, 2021

Responsible Party: Chief Operating Officer, IT Manager

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9. **Procedures Performed:** We verified that the Oversight Committee receives information and reports on a quarterly basis from CPRIT management including reports from:

- Chief Executive Officer
- Chief Compliance Officer
- Chief Operating Officer
- Chief Scientific Officer
- Chief Prevention Officer
- Chief Product Development Officer
- Communications
- Internal Audit

Results: No exceptions identified.

10. **Procedures Performed:** We verified the Chief Compliance Officer maintains a log of grant compliance investigations and, if necessary, ensures that corrective action is appropriately implemented and monitored.

Results: No exceptions identified.

11. **Procedures Performed:** We verified that CPRIT conducts regular performance evaluations of employees to provide them with an assessment of their conduct and work performance in accordance with the expectations of the agency's workplace conduct guidelines and their individual job description.

Results: No exceptions identified.

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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