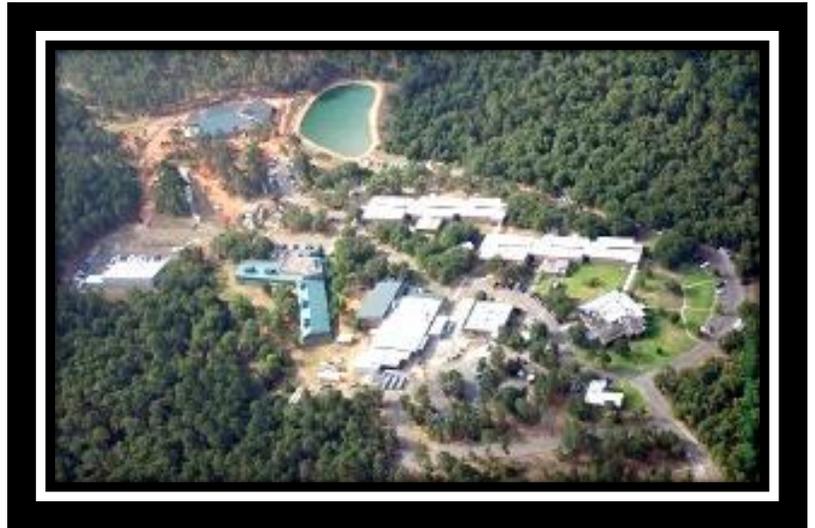


16-206 Departmental Review – Epigenetics and Molecular Carcinogenesis

EXECUTIVE SUMMARY

The Department of Epigenetics and Molecular Carcinogenesis (Department) is a basic science research facility dedicated to examining the molecular biology of cancer, as well as developing methods for cancer prevention and detection. The Department, located on 717 acres of land at Science Park, combines scientific research, education, and community outreach to fulfill its mission.



Currently, the Department is the largest basic science department at MD Anderson Cancer Center, with approximately 200 employees and an operating budget of \$10.7 million. As of June 30, 2016, the Department had more than \$14 million in grants and contracts.

Audit Results:

A review of key administrative functions was performed to provide management with a general assessment of activities within the Department of Epigenetics and Molecular Carcinogenesis. Our review revealed that the Department has control processes in place over the following areas:

- Grant administration, including effort reporting certification and sub-recipient monitoring;
- Statistical sampling certification of expenditures;
- Procurement card transactions, including allowability and reconciliations; and
- Asset management, including encryption and certification.

We identified opportunities for management to enhance controls over the following areas by:

- Monitoring program income and service center billing rates;
- Ensuring material transfer agreements (MTAs) are enforced for research materials transferred to and from the Department;
- Monitoring and promptly resolving deficit accounts;
- Monitoring correction requests for over-commitment of effort;
- Accurately recording faculty extramural leave;
- Reviewing and approving grant reconciliations;
- Approving employee leave in Kronos.

Further details are outlined in the *Detailed Observations* section of this report.

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.

Management Summary Response:

Management agrees with the observations and recommendations and has developed action plans to be implemented on or before December 31, 2016.

Appendix A outlines the objective, scope, and methodology for this project.

The courtesy and cooperation extended by the Department of Epigenetics and Molecular Carcinogenesis are sincerely appreciated.

Sherri Magnus

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
August 31, 2016

DETAILED OBSERVATIONS

Observation 1:**RANKING: Medium****Monitor Histology Program Income and Service Center Billing Rates**

Institutional policy requires service centers to establish billing rates based on allowable costs and monitor activity to ensure an annual break-even status. Additionally, adjustment to future billing rates must be made if the service center generates operating surpluses or operating deficits beyond 60 days of working capital.

During our review of the Research, Histology, Pathology and Imaging service center, we noted that detailed documentation of a cost analysis was not available for review. In addition, the center's billing rates, established in fiscal year 2015, were not based on the cost to provide the service, which may result in potential questioned costs for some services. The amount of questioned costs could not be determined without a full analysis of all costs supporting the service center. Overall, most services appear to be under billed. For instance, histology service rates do not include the cost of labor to provide the service. This may be contributing to the combined deficit in the program income and service center accounts of \$21,995 for fiscal year 2016.

Recommendation:

Management should calculate the average current cost of providing each service, including all labor costs, to arrive at reasonable billing rates effective September 2014, ensuring only allowable costs are included in the calculation. Based on those calculated rates, management should coordinate with Institutional Compliance and take the necessary actions to identify and resolve the questioned costs billed to federal grants for the period of September 2014 through June 2016. In addition, management should ensure future billing rates are reviewed annually and based on allowable costs, as required by policy and federal regulation.

Management's Action Plan:

Management will recreate the schedule of component supply costs to include volume and size metrics to ensure comparability when reviewing component costs purchased from different vendors in different quantities. Management will pull invoices for the component supply costs of the core services to obtain the average cost to purchase each supply used. Management will use the average costs to compare to the component costs used to set prices for the period of September 2014 through June 2016 to identify material discrepancies. The core has provided an estimate of service completion times to use as a basis to determine labor costs.

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.

Management will re-calculate the rates based on the average supply costs and labor costs and compare the new rates to what was charged during the period of September 2014 and June 2016. Management will then work with Research Finance/iLab Team/Grants and Contract/ORI and/or Institutional Compliance to determine next steps based on the results of the rate comparison. Management will review billing rates annually to ensure these are based on allowable costs.

Responsible Executive: Ethan Dmitrovsky
Owner: Sharon Dent
Due Date: December 31, 2016

Observation 2:**Obtain Material Transfer Agreements (MTAs)****RANKING: Medium**

Material transfer agreements (MTAs) are contracts between a provider and recipient which define the terms related to the transfer of research materials. The Department of Epigenetics and Molecular Carcinogenesis does not consistently have MTAs in place for research materials transferred from their facilities. A review of 15 shipments from the Department to outside entities revealed that 2 shipments, or 13%, were missing MTAs. Institutional policy specifies which research materials are required to have an approved MTA prior to shipment. An MTA is necessary to ensure the institution's intellectual property rights are protected.

Recommendation:

The Department should ensure that MTAs are in place for all research materials transferred to and from MD Anderson, as required by policy.

Management's Action Plan:

Management will develop a system to log all outbound shipments of research materials leaving the Smithville Campus and request that those shipped to anywhere other than the MDA Houston Campus have either an MTA number, PO number, iLab Service request or other descriptor (with administrative approval and justification). These shipments will be identified in our shipping log. The log will be provided to management for periodic review and compliance.

Responsible Executive: Ethan Dmitrovsky
Owner: Sharon Dent
Due Date: December 31, 2016

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.

Observation 3:
Resolve Deficit Account Balances

RANKING: Low

We identified deficit balances totaling \$143,051 for eight non-grant accounts in fiscal year 2016. This represents less than 1.5% of the Department's overall budget of \$10.7 million and includes the deficit for the Research, Histology, Pathology and Imaging service center, addressed in *Observation 1*. Although the deficit amount is immaterial to the departmental budget, management has a fiscal responsibility to monitor departmental accounts to help prevent deficit balances. Management provided evidence of corrective action that was initiated during the fiscal year and has continued to follow up on the deficit status.

Recommendation:

The Department should continue to monitor the status of deficit accounts and ensure they are resolved in a timely manner.

Management's Action Plan:

Management will continue to monitor the status of deficit accounts and ensure that they are resolved in a timely manner. Deficit accounts will be discussed monthly at the Finance Meeting. Each fund will be evaluated and appropriate action identified (i.e. interest income allocation, lagging revenue, subsidy from institution allocation and/or budget/expenses will be transitioned to/from alternative funding source as needed).

Responsible Executive: Ethan Dmitrovsky

Owner: Sharon Dent

Due Date: December 31, 2016

Observation 4:
Monitor Over-Commitment

RANKING: Low

According to the Effort Certification Policy (ACA007), tenure & tenure-track faculty may not commit more than 90% effort to sponsored projects, and no individual may be committed to more than 100%.

We observed that two faculty members had committed effort in excess of 100% for fiscal year 2016. Management was aware of the over commitments and requested Grants & Contracts Accounting (GCA) to correct the error for one of the faculty members but had not requested a correction for the other faculty member.

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.

Recommendation:

The Department should submit all effort commitment changes to Grants & Contracts Accounting, monitor the status of those changes, and follow up to ensure timely completion.

Management's Action Plan:

Management will ensure that Budget Authorization Forms submitted do not include non-key personnel. Management will also continue to submit committed effort changes on the GCA SharePoint form. We will work with GCA to ensure that changes are made, input correctly and updated in a timely manner.

Responsible Executive: Ethan Dmitrovsky

Owner: Sharon Dent

Due Date: December 31, 2016

Observation 5:**RANKING: Low****Accurately Record Extramural Leave**

Each fiscal year, 30 days of extramural leave are granted to eligible faculty to pursue outside professional activities or interests with or without personal financial gain. Additional days may be granted with the approval of the Provost.

A review of extramural leave (EXT) for 10 faculty within the Department of Epigenetics and Molecular Carcinogenesis revealed that five EXT days were not accurately recorded in Kronos. For example:

- Four EXT days for one faculty member were not recorded in Kronos since the days were not originally documented and approved in WebSchedule;
- One EXT day for another faculty member was deducted from Kronos in error and was not credited back to the faculty's EXT balance.

When extramural leave is not accurately recorded, leave balances may be incorrect and extramural leave limits may be exceeded. Institutional policy requires that time and leave data is entered accurately in Kronos.

Management took immediate action to resolve these errors during our review.

Recommendation:

The Department should ensure that all extramural leave taken by employees is accurately recorded in the timekeeping system.

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.

Management's Action Plan:

Management will work closely with the Vice Provost's office to ensure that extramural leave taken by faculty is accurately recorded in the timekeeping system.

Responsible Executive: Ethan Dmitrovsky

Owner: Sharon Dent

Due Date: December 31, 2016

Observation 6:**RANKING: Low****Approve Restricted Account Reconciliations**

According to institutional policy ADM1100, Departmental Fund Transaction Reviews, restricted accounts (fund 90) must be reconciled monthly. Additionally, the Institution's Internal Control Policy requires that reconciliations and/or transactional reviews should be reviewed by an authorized signatory. While the Department is performing reconciliations as required, the reconciliations were not consistently reviewed. Appropriate review and approval allows the Department to detect and correct errors in a timely manner.

Recommendation:

The Department should work to ensure that all restricted account reconciliations are appropriately reviewed and approved, and that approval is documented.

Management's Action Plan:

Management will ensure all restricted account reconciliations are appropriately reviewed and approved, and that approval is documented on a monthly basis.

Responsible Executive: Ethan Dmitrovsky

Owner: Sharon Dent

Due Date: October 31, 2016

Observation 7:**RANKING: Low****Approve Employee Leave in Kronos Timely**

Institutional policy requires departmental managers to review weekly Kronos data to ensure accuracy and sign off before 11:59 p.m. on Tuesdays. Any timecards that are unapproved after the established deadline will be automatically approved via a "Global Sign-Off".

A review of five weeks, randomly selected between September 2015 and May 2016, revealed that 624 timesheets were approved using global sign-off. When the required review and approval do not occur, errors may not be identified or corrected.

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.

Recommendation:

The Department should implement a process to ensure that all timecards are reviewed and approved by the established deadline, in accordance with institutional policy.

Management's Action Plan:

Management will implement a process by which the timekeeper will notify the approver prior to Tuesdays at 11:59 p.m. that the cards are available for formal signoff. Two additional approvers will be added to provide continuity to the approval process.

Responsible Executive: Ethan Dmitrovsky

Owner: Sharon Dent

Due Date: December 31, 2016

Appendix A

Objective, Scope and Methodology

The objective of this review was to provide a general assessment of the internal controls over key administrative functions. Testing periods varied based upon the area or process reviewed; however, all selected transactions occurred between September 2014 and May 2016.

Our methodology included the following procedures:

- Interviewed key personnel responsible for the administrative processes within the department
- Reviewed relevant departmental and organizational policies and procedures.
- Reviewed the results of the 2015 physical inventory performed by Asset Management and physically examined missing assets
- Reviewed reimbursements for fiscal year 2016 to ensure IT assets purchased on personal funds were encrypted and tagged
- Reviewed IT assets reported as non-encrypted and validated current status
- Tested procurement card transactions and reconciliations
- Reviewed statistical sampling documentation to ensure required monthly certification of selected expenditures
- Reviewed account activity for non-grant funds to determine whether deficit balances were properly resolved.
- Reviewed and analyzed service center costs, rates, and billings for accuracy and reasonableness
- Reviewed grant administration processes related to effort reporting and certification; timely progress reports; use of material transfer agreements; allowable expenditures; account reconciliations; and management of deficit accounts
- Examined timekeeping and leave records in Kronos and WebSchedule to determine if institutional guidelines were followed

Our internal audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Government Auditing Standards*.

Number of Priority Findings to be monitored by UT System: None

A Priority Finding is defined as “*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.*”

Please note that this document contains information that may be confidential and/or exempt from public disclosure under the Texas Public Information Act. Before responding to requests for information or providing copies of these documents to external requestors pursuant to a Public Information Act or similar request, please contact the University of Texas MD Anderson Cancer Center Internal Audit Department.