EXECUTIVE SUMMARY

Service Centers are units within The University of Texas MD Anderson Cancer Center that provide goods and/or services to internal and external customers. Given that Service Center costs may result in direct or indirect charges to federal grants, MD Anderson must operate its centers in accordance with Office of Management and Budget (OMB) Circular A-21. Each center should operate on a break-even basis, and therefore, rates should be established to recover only the allowable costs of providing the goods and services. As of August 2014, there were 69 active centers, with revenues totaling approximately $12 million and expenses of $15 million.

The objective of this engagement was to evaluate the Institution’s monitoring process and the Service Centers’ compliance with established Institutional Policy and OMB Circular A-21.

Audit Results Summary:
Research Finance is responsible for providing management oversight and monitoring of Service Center activities. In January 2012, the Institution provided guidance on the establishment and maintenance of a Service Center. As of the date of this report, an oversight function had not been established. As a result, key monitoring activities were not developed or implemented to ensure compliance with Institutional Policy and OMB Circular A-21. In addition, detailed testing of select Service Centers identified the following:

- Rates were not based on a break-even analysis.
- Internal and external customers were not consistently billed according to Policy.
- Unrelated costs were charged to Service Center accounts.

Non-compliance with these federal regulations could result in disallowed costs, as well as penalties to MD Anderson. Based on our testing results, this observation is a Priority Finding.

Management Summary Response:
Management agrees with the observations and recommendation documented in this report and has developed an action plan to be implemented no later than August 31, 2016.

Appendix A outlines the scope and methodology for this project.

Number of Priority Findings to be monitored by UT System: One
A Priority Finding is defined as “an issue identified by 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.”
The courtesy and cooperation extended by the Research Finance Team and the Service Centers was sincerely appreciated.

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Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
August 31, 2015
Provide Oversight and Monitoring to Ensure Service Center Compliance (Priority Finding)

MD Anderson’s Service Center Policy has been in effect since January 2012; however, an oversight function has not been established to ensure compliance with Institutional policy and federal regulations. Non-compliance could result in disallowed costs, as well as penalties to MD Anderson.

Oversight and Monitoring
Institutional policy requires oversight and monitoring of all Service Centers. We identified key monitoring activities have not been developed or implemented to ensure compliance with Institutional Policy and OMB Circular A-21, as follows:

- A Service Center Oversight Committee has not been established to authorize new centers, review business plans, and approve billing rates.
- A process has not been developed to identify and approve new and specialized service centers.
- Annual financial operating statements are not reviewed to determine if rate changes are warranted. As a result, 39% of active Service Centers had surpluses or deficits exceeding the allowable threshold of 60 days working capital.
- Twenty-one (30 percent) Service Centers fell below the materiality threshold of $20,000 in annual revenue for more than one year, requiring them to be dissolved according to policy.
- An oversight process is not in place to ensure that Service Centers are consistently billing all customers for goods and services provided.

In addition, no process has been established for handling the residual fund balances from a closed Service Center.

Service Center Compliance
Our detailed testing of 6 Service Centers further identified the lack of oversight and monitoring. We noted the following non-compliance with Institutional Policy and OMB Circular A-21:

- Rates for five of the Service Centers were not based on a break-even analysis.
- Internal and external customers are not consistently billed according to Policy. Specifically:
  - Two Service Centers did not bill external customers the Facilities and Administrative rate, which recovers indirect Institutional overhead costs.
  - Two Service Centers did not bill internal customers.
  - One Service Center provided discounts to select customers, while another advance billed for services provided.
- Unrelated costs were charged to Service Center accounts.

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Recommendation:
Research Finance should develop an oversight function to ensure Service Center compliance with Institutional Policy and OMB Circular A-21. Management should revisit the Institutional Policy to determine if any changes are warranted. In addition, Research Finance should coordinate with Institutional Compliance to ensure training and education is provided to the Service Centers on Institutional policy and federal regulations.

Management's Action Plan:
Responsible Executive: Weldon Gage
Owner: Mike Keneker
Observer: Sue Threlkeld
Due Date: August 31, 2016

Management agrees with the observations noted in the report. In accordance with Institutional policy, a Service Center Oversight Committee will be established. In addition, processes will be developed and implemented to provide oversight and monitoring of Service Center activities. Management will coordinate with Institutional Compliance to ensure training and education is provided to individuals responsible for the Service Centers’ daily operations. Research Finance will develop and implement a process to identify all Service Centers at the Institution, as well as revisit the policy to determine if changes are warranted based on the new proposed processes.
Appendix A

Strategic Area:
Risk Type: Operational, Financial, Compliance

Scope and Methodology:
Our review included documentation and processes for fiscal year 2014 through July 2015 and included the following procedures:

- Interviewed key personnel responsible for the Service Center oversight processes.
- Reviewed institutional policies and procedures and OMB Circular A-21.
- Analyzed all Service Centers’ revenues and expenses for FY 2013 through FY 2015 to determine surpluses and deficits.
- Selected six Service Centers for the following detailed analysis:
  - Interviewed Service Center management.
  - Analyzed FY 2014 Service Center expenses for allowable costs and reasonableness.
  - Examined evidence to determine whether Service Center rates were established within institutional guidelines.
  - Reviewed rate changes for appropriate support, approval, and compliance with Institutional Policy and OMB A-21.
  - Tested Service Center billing transactions for completeness, accuracy, consistency, and appropriate documentation.
  - Reviewed interdepartmental transfers to the Service Centers for timeliness and proper approval.

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