

# A Review of MD Anderson's Children's Art Project

A coordinated effort by Business Transformation and Internal Audit



## Ensure Profits are Available to Support Mission

The mission of the Children's Art Project (CAP) is to convey to the public the compassionate, caring face of The University of Texas MD Anderson Cancer Center and to generate revenue to enhance patient services through the sale of products created with children's art. Since 1973, CAP has contributed more than \$30 million to fund patient focused programs at the Institution.

For the last two years, however, the program has not been profitable. As depicted in **Appendix 2**, the program has seen a decline in revenue, increase in operating expenses comprised primarily of salaries, and stable cost of goods sold. This has led to declining profits and losses over the last couple of years.

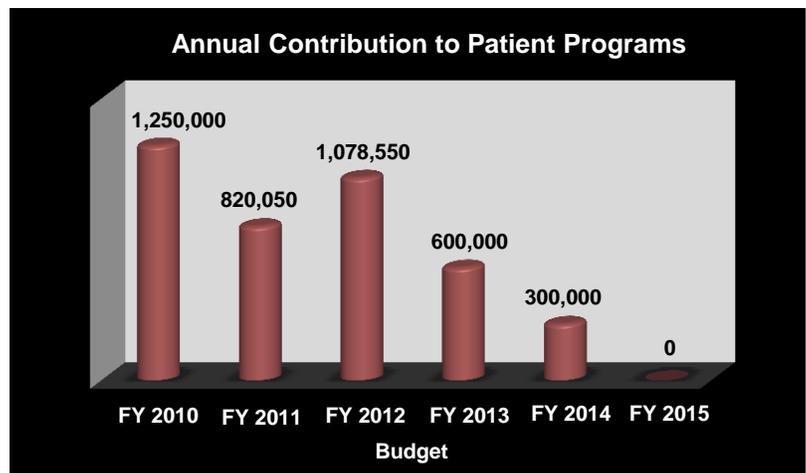
As a result, funds are not available to fulfill their mission of supporting patient programs. CAP has estimated that there will be no available funding for patient programs in FY 2015, forcing these programs to seek assistance from other donors within and external to the institution.

Without a formalized business plan detailing whether or not the current mission is attainable going forward, it is unclear if CAP will be able to achieve its mission in the coming years.

**Recommendation:** CAP management should work with executive management to develop a formalized business plan, ensuring the mission aligns with the mission of the institution and is achievable. The plan should include details as to how goals will be achieved.

### Management's Action Plan:

Responsible Executive: Dan Fontaine  
 Owner: Shannan Murray  
 Observer: Craig Henderson  
 Due Date: April 30, 2016



*Executive management decisions (by the previous VP of Public Affairs) were made over multiple years to continue to fund pediatric support programs at levels that depleted retained earnings. Pending final presentation of this report's findings, a new business plan has been transmitted to the Executive Chief of Staff that addresses the identified issues and better aligns with the institutional mission. That plan will be vetted to the Chief Financial Officer for evaluation and analysis and adjustments made prior to implementation if called for.*

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.

FY 2014 Quick Facts	
Revenue	\$4,537,002
Expenses	\$4,872,581
Profit (Loss)	<b>(\$335,579)</b>
# of Employees	26

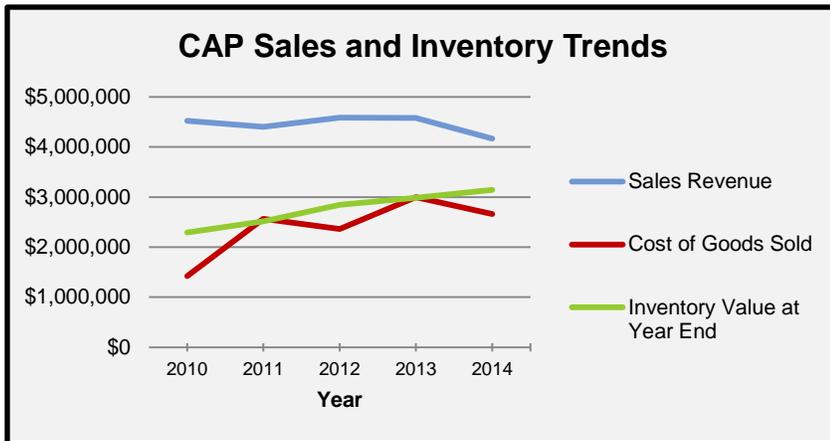
  

Project Objective and Methodology	
This review examined the personnel, operations, and financial activities of the Children's Art Project over the last five years. The recommendations in this report were derived from interviewing key personnel in the department, assessing key financial activities, and researching best practices within the industry. See <b>Appendix 1</b> for further detail.	

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## Re-evaluate Marketing Strategy



While revenue over the last five years remains fairly constant, production costs and marketing costs continue to rise, resulting in a cost of goods sold that increased from 31 percent to over 60 percent in a five-year period. This resulted from an increase in the number of products, as well as an increase in the per-unit cost of production. In addition, inventory values have steadily increased.

We also observed the following:

- During a review of inventory reports for FY 2014, we noted an expansion in the number and variety of products over the last couple of years. It appears that some of these products are not moving, and we may have flooded our current market.
- In FY 2014, CAP spent over \$27,000 to purchase customer names from other sources. The expected value of these mailing lists is yet to be realized.
- CAP holds various Trunk shows and Table Top events to promote their products. While some of these do yield a profit, others do not.

**Recommendation:** CAP management should perform a market analysis and focus on a manageable target market for their products. Based on this analysis, they should re-evaluate the current marketing strategy and make adjustments to the product line as necessary.

### Management's Action Plan:

Responsible Executive: Dan Fontaine

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Due Date: April 30, 2016

*Management agrees with the recommendation, as this is a necessary component of a new business plan and model. A market analysis will be performed and adjustments to the marketing strategy will be considered.*

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## Value Inventory at Lower of Cost or Market

Children's Art Project inventory values continue to rise annually, with a large portion of the inventory at August 31, 2014 being more than three years old. During a 2005 review, Internal Audit recommended that valuation of slow-moving inventory be reviewed and adjusted to reflect the lower of cost or current market value in accordance with generally accepted accounting principles. Inventory values have not been adjusted to reflect current market value.

The inventory at August 31, 2014 totaled \$3,143,782. Inventory that is more than 3 years old carried a value of \$1,367,171, or 43 percent of the asset valuation.

**Recommendation:** CAP management should coordinate with General Accounting to ensure inventory is appropriately valued in accordance with generally accepted accounting principles.

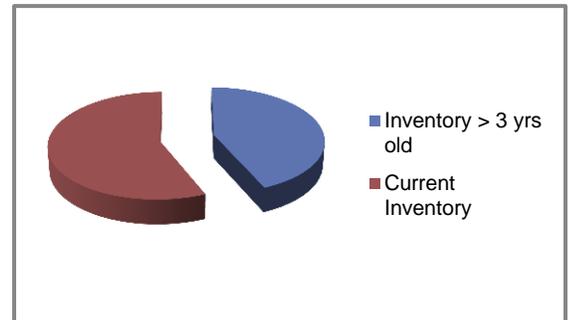
**Management's Action Plan:**

Responsible Executive: Dan Fontaine

Owner: Shannan Murray

Observer: Craig Henderson

Due Date: December 31, 2015



*Management agrees with the recommendation. As part of the overhaul of the business model, management will coordinate with General Accounting to ensure inventory is valued in accordance with generally accepted accounting principles.*

## Management Disclosures

While contributions to patient programs has declined, and no funding is budgeted to support programs for FY 2015, CAP management continues to make statements inferring that the revenue from product sales will be used for this purpose.

During the review, we discovered that the Children's Art Project website stated that "The Children's Art Project at MD Anderson funds more than \$1.25 million annually for patient programs at the institution." When this was brought to management's attention, this verbiage was immediately removed. However, current information on the Children's Art Project website, in marketing materials, and in recent statements made to a local news organization continue to infer that revenue from product sales is used to support patient programs, posing a huge reputational risk for the Children's Art Project, as well as MD Anderson.

**Recommendation:** CAP Management should refrain from making statements regarding contributions to patient programs until the program begins yielding profits and a budget for contributions to patient programs is reinstated.

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## Management's Action Plan:

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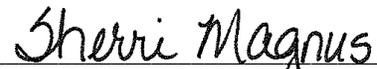
Observer: Craig Henderson

Due Date: April 30, 2015

*CAP has made a mid-year contribution to pediatric programs for this fiscal year. CAP will follow the recommendation.*

## Staffing and Organizational Design

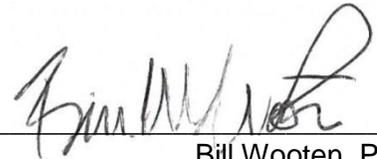
During the review, Compensation performed an assessment of the compensation levels of staff in the Children's Art Project. They concluded that compensation levels within the department are at current market rates. In addition, we determined that the number of staff and organizational design is sufficient to carry out the mission.



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

May 5, 2015



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Bill Wooten, PhD  
Executive Director, Business Transformation

May 5, 2015

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## Appendix 1: Scope and Methodology

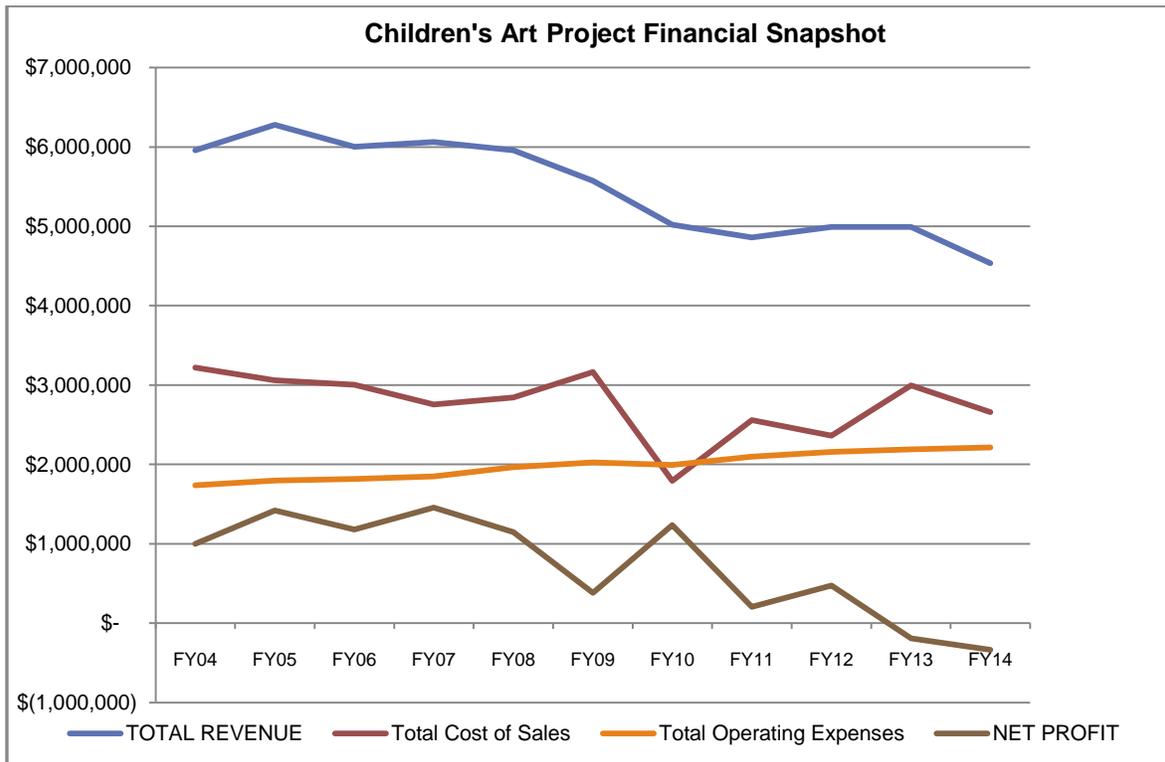
The scope of this review focused on activity from Fiscal Year 2010 to date; however, historical data since Fiscal Year 1997 was used for trending purposes. The following procedures were performed:

- Key management and staff of the Children's Art Project were interviewed.
- An analysis of financial transactions was conducted, including detailed analysis of revenues and expenses.
- The organizational structure was reviewed, and the compensation levels of staff were evaluated based on current market rates.
- Product price comparisons were performed for similar products.

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## Appendix 2: 10-Year Financial Snapshot



Source: Children's Art Project

Note: Operating Expenses are made up primarily of salaries of CAP employees.

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