

UT Southwestern
Medical Center™

Office of Institutional Compliance
and Audit Services

Third Party Audit - Animal Resource Center

Internal Audit Report 24:14

April 24, 2024



Executive Summary

Vendor governance is an area of increased focus in the healthcare industry as related inefficient processes can increase risk in various areas, including financial, reputational, and regulatory compliance (e.g., disqualified parties, exclusions, quality of care, etc.). Many organizations depend on vendors to provide services, equipment, software, hardware, drugs, etc. that are necessary to meet the demands of the industry, while ensuring the protection of sensitive information and minimizing service disruption.

Mechanisms for regular monitoring and governance of vendor relationships (e.g., contract compliance, payments, performance metrics, etc.) are essential to mitigate risk and maximize value when utilizing vendors. This requires a meaningful level of resources to oversee and monitor each vendor to ensure they are operating consistently with UT Southwestern's business goals and strategies, and in the manner envisioned when the contractual agreement was formed. In addition, appropriate vendor monitoring ensures leadership's awareness of performance inefficiencies, legal issues (e.g., significant litigation, regulatory investigations, etc.), and/or contract compliance concerns.

Currently, individuals within each department are assigned responsibility for monitoring and governing vendor spend and contract / arrangement compliance. From a system level, Supply Chain oversees the entire vendor management process, including contract execution, risk ranking vendors, creating monitoring programs for high-risk vendors, monitoring spend, etc. Accounting and Fiscal Services uploads new vendors into PeopleSoft, which in turn links the vendor to the contract management system (CMS), Jaggaer, where vendor information and all contract related documentation (e.g., amendments, due diligence documentation, approvals, etc.) are retained. Accounting and Fiscal Services are also responsible for running financial exclusion checks prior to payment and Visual Compliance runs federal exclusion checks nightly for all active vendors.

Animal Resource Center (ARC) conducted business with 125 vendors in 2023. The vendors that the department manages are related to personal protective equipment (PPE), equipment preventive maintenance (PM), animal feed and bedding, equipment testing services, waste and recycling management, etc.

Audit Results

The Office of Institutional Compliance & Audit Services (OICAS) conducted a third-party audit specific to ARC. Overall, we recognized multiple strengths for the process including overall contract management and oversight. However, certain control gaps were identified that require management to strengthen processes related to spend monitoring and contract execution. A summary of observations is outlined on the following page:

AREA	Opportunities	
Vendor Management and Monitoring	<ul style="list-style-type: none"> • Vendor Spend • Contractual Terms • Procedure Documentation • Exclusive Acquisitions 	MEDIUM
Citibank OneCard Monitoring	<ul style="list-style-type: none"> • Citibank OneCard Monitoring 	LOW

Further details are outlined in the Detailed Observations section.

Management Summary Response:

Management agrees with the observations and recommendations and has developed action plans to be implemented on or before 08/31/2024.

Appendix A outlines the objective, scope, methodology, stakeholder list, and audit team for the engagement.

Appendix B outlines the Risk Rating Classifications and Definitions.

The courtesy and cooperation extended by the personnel in the Animal Resource Center (ARC), Supply Chain Management and Accounting and Fiscal Services are appreciated.

Natalie A. Ramello

Natalie A. Ramello, JD, CHC, CHPC, CHRC, CHIAP
Vice President, Chief Institutional Compliance Officer & Interim Chief Audit Executive
Office of Institutional Compliance & Audit Services
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DETAILED OBSERVATIONS

Vendor Management and Monitoring

Vendor contract management and monitoring processes are not consistently performed by ARC in accordance with the Procurement & Contract Management Handbook, leadership’s expectations, and/or leading practice. Without formal vendor management and monitoring processes in place, ARC may be at risk for inaccurate payments, contractual terms not followed by the vendor, quality supplies / services not received, etc.

MEDIUM

1. Vendor Spend	Recommendation	Management Action Plan
<p>For calendar year 2023, the following were noted for ARC related to vendor spend:</p> <ul style="list-style-type: none"> 1 of 30 payments sampled (~3%) were for services (i.e., travel / repair costs) that did not align with the active Exclusive Acquisition Justification (EAJ), totaling \$4,650. 1 of 30 payments sampled (~3%) included shipping fees and evidence was not retained to approve the fee per contract, totaling \$1,215. 1 of 30 payments sampled (~3%) had overpayments totaling \$54. <p>Additionally, there is not a process to reconcile and/or monitor spend through Account Payable (AP) and OneCard. Specifically:</p> <ul style="list-style-type: none"> 10 vendors, when analyzing all spend, were found to have spends in both OneCard and AP data. <ul style="list-style-type: none"> 3 of 10 vendors with both AP and OneCard spend (30%) have an active contract where all spend should be performed through AP (i.e., ALLENTOWN LLC, LYNX PRODUCT GROUP LLC, and AVIDITY SCIENCE LLC). 	<p>Management should review the identified payment exceptions and take any necessary action (e.g., update EAJ, request refund from vendor, etc.), as applicable.</p> <p>Management should establish a process to reconcile spend between OneCard and AP data to identify overlap and provide feedback on OneCard usage, as applicable.</p>	<p>Action Plan Owner: Linda Dao Action Plan Executive: Dr. Bart Carter Due Date: 08/31/2024</p> <p><i>ARC management requested and received a refund for the \$54 overpayment (Complete). ARC will review the remaining exceptions noted to ensure no additional actions are required.</i></p> <p>Action Plan Owner: Linda Dao Action Plan Executive: Dr. Bart Carter Due Date: 05/31/2024</p> <p><i>During ARC monthly review of OneCard purchases, ARC will add the process of identifying any overlap of OneCard and AP data and address with the card holder.</i></p>

	<p>Management should routinely (e.g., monthly, quarterly, annually, etc.) provide feedback, trainings, education / awareness, etc. to all individuals who have a OneCard regarding usage appropriateness and any trending errors noted by the accounting team's audits and/or Management's monitoring.</p>	<p>Action Plan Owner: Linda Dao Action Plan Executive: Dr. Bart Carter Due Date: 05/31/2024</p> <p><i>ARC management will provide feedback to OneCard users and their supervisor of any questionable purchases after monthly review of all OneCard transactions. OneCard users will be retrained on appropriate use of OneCard with regards to vendor selection, when to use Purchase Orders (POs), and appropriate procedures for emergency purchases. On 04/01/2024 and 04/02/2024 ARC hosted OneCard training with card holders.</i></p>
	<p>Management should ensure services align with the approved EAJ prior to services being performed or work to update the active EAJ, as applicable.</p>	<p>Action Plan Owner: Zeb Freeman Action Plan Executive: Dr. Bart Carter Due Date: 08/31/2024</p> <p><i>All requestors that enter EAJs will be reminded they may need to update an approved EAJ if the scope of work expands or there are significant cost increases for the work being performed.</i></p>
	<p>Management should ensure invoices align with requisitions, EAJs, etc. prior to approving payments.</p>	<p>Action Plan Owner: Linda Dao Action Plan Executive: Dr. Bart Carter Due Date: 05/31/2024</p> <p><i>Approvers will be retrained on the appropriate review process to ensure invoices align with requisitions, contracts, EAJs, etc. prior to approving payments.</i></p>
	<p>Management should routinely (e.g., monthly, quarterly, etc.) audit a sample of transactions to ensure appropriateness of payment and take any necessary action if variances are identified.</p>	<p>Action Plan Owner: Linda Dao Action Plan Executive: Dr. Bart Carter Due Date: Complete</p> <p><i>ARC management has and will continue to review and perform monthly financial analysis of all</i></p>

		<i>OneCard and AP expenses to ensure congruency of source documents and financial reports and will take appropriate action if variances are identified.</i>
2. Contractual Terms	Recommendation	Management Action Plan
<p>For the sampled vendor arrangements, the following were noted:</p> <ul style="list-style-type: none"> 2 of 5 vendor arrangements (40%) do not have an executed / signed current amendment (i.e., AVIDITY SCIENCE LLC and IDEXX DISTRIBUTION INC). 1 of 5 vendor arrangements (20%) does not have evidence that the vendor maintains active insurance coverage per contractual terms (i.e., LYNX PRODUCT GROUP). 	<p>Management should review the identified contracts and take any necessary action (e.g., execute the amendments, ensure vendor has active insurance coverage, etc.), as applicable.</p>	<p>Action Plan Owner: Julie Wood Action Plan Executive: Dr. Bart Carter Due Date: 08/31/2024</p> <p><i>ARC management will follow up with Sourcing and Contracts to determine if amendments are needed for yearly price changes in multi-year contracts. Our initial meetings with representatives from Purchasing indicate that this is not a requirement.</i></p> <p><i>ARC management will follow up with Sourcing and Contracts to review contract language and update or amend the contracts as needed.</i></p>
	<p>Management should routinely (e.g., monthly, quarterly, etc.) audit a sample of contracts to ensure all final documents are retained, vendor is adhering to all contractual terms, etc., and take any necessary action.</p>	<p>Action Plan Owner: Tiffany Perry Action Plan Executive: Sharonda Lawson Due Date: 8/31/2024</p> <p><i>Management agrees with this recommendation. Management will implement a routine audit cadence to validate contract records.</i></p>
3. Procedure Documentation	Recommendation	Management Action Plan
<p>The following improvement opportunities were noted:</p> <ul style="list-style-type: none"> A policy exception allowing two ARC employees who have the authority to purchase drugs utilizing Citibank's OneCard was understood but not formally documented. 	<p>Management should review the identified areas of improvement opportunities and work to formalize the current processes and communicate out to applicable employees to ensure a complete and thorough understanding.</p>	<p>Action Plan Owner: Julie Wood Action Plan Executive: Dr. Bart Carter Due Date: 08/31/2024</p> <p><i>ARC management revised the ARC SOP 341 to outline drug ordering processes (completed). ARC management met with the Director of Purchasing on 04/09/2024 to discuss alternative options for receiving items on amount only POs.</i></p>

<ul style="list-style-type: none"> • Evidence to support the receipt of goods / supplies is not consistently documented / retained. • Completion / usage reports are not consistently requested and/or obtained upon completion of services. 		<p><i>The vendor provides usage reports to ARC upon ARC request. The reports have proven to not be of value to ARC management and are no longer requested by the department.</i></p> <p><i>ARC management will remind the service vendors to provide completion of service reports in a timely manner so the department can compare provided service against the contract.</i></p>
4. Exclusive Acquisitions	Recommendation	Management Action Plan
<p>For one sampled vendor (i.e., Ronnie Turner), there is an active EAJ that is reviewed and approved annually; however, Management’s expectations would be to execute a contract for any long-term arrangements.</p>	<p>Management should consider executing a contract with the identified vendor.</p>	<p>Action Plan Owner: Zeb Freeman Action Plan Executive: Dr. Bart Carter Due Date: 08/31/2024</p> <p><i>ARC management will work with Sourcing to establish a long-term contract with Ronnie Turner.</i></p>

Citibank OneCard Monitoring

The Citibank OneCard is not consistently monitored and tracked by employee by Accounting which could lead to inappropriate usage / spend.

LOW

5. Citibank OneCard Monitoring	Recommendation	Management Action Plan
<p>There is not a process to reconcile Citibank OneCard holders to usage by department.</p>	<p>Management should routinely (e.g., monthly, quarterly, etc.) reconcile the active Citibank OneCard holders with each department to ensure no inappropriate holders have an active card and take any necessary action if variances are identified.</p>	<p>Action Plan Owner: Sharon Corcoran Action Plan Executive: Sharon Leary Due Date: Complete</p> <p><i>Accounting and Fiscal Services developed a standard process, OneCard Cardholder Audit Procedure, by providing the departments with a full list of all active cards biannually to ensure cardholders are valid.</i></p>

Appendix A

Objective, Scope, and Methodology:

The objective of the review is to review processes and controls for monitoring and department oversight of vendor activities and billing invoices and payments for ARC's contracted vendors.

The audit scope period included activities of ARC from 01/01/2023 to 12/31/2023. The review included all vendors utilized by ARC with spend within the audit scope period.

Our procedures included but were not limited to the following:

- Interviewed key personnel and reviewed relevant organizational policies.
- Evaluated key vendor management and monitoring activities.
- Analyzed data for accounts payable and credit card spend.
- Tested a sample of vendor arrangements to validate that contractual terms agreed to supporting documentation / evidence.
- Tested a sample of payments to validate that vendor payments were reviewed, approved, in line with contractual terms, and monitored.

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Executive Sponsor:

Dr. Joan Conaway, Vice Provost & Dean, Basic Research

Key Stakeholder List:

Dr. Ralph Callicott, Associate Director, Animal Resource Center
Dr. Bart Carter, Assistant Vice President, Animal Resource Center
Charles Cobb, Associate Vice President, Supply Chain Management
Sharon Corcoran, Director, General Accounting, Accounting and Fiscal Services
Linda Dao, Manager, Financial Affairs, Animal Resource Center
Zeb Freeman, Assistant Director, Operations, Animal Resource Center
Ryan Garrett, Senior Analyst, Financial Affairs, Animal Resource Center
Sharonda Lawson, Director, Sourcing and Contract Management, Supply Chain Management
Sharon Leary, Assistant Vice President, Accounting and Fiscal Services
Tiffany Perry, Manager, Sourcing and Contract Management, Supply Chain Management
Julie Wood, Project Manager, Animal Resource Center
Dr. Mary Wight-Carter, Assistant Director, Diagnosis Lab, Animal Resource Center

Audit Team:

Jarod Baccus, Director, Oversight and Quality Assurance, Protiviti

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Appendix B

Risk Classifications and Definitions

Each observation has been assigned a risk rating according to the perceived degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management. The following chart is intended to provide information with respect to the applicable definitions, color-coded depictions, and terms utilized as part of our risk ranking process:

Degree of Risk and Priority of Action	
Priority	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
High	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college / school / unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
Medium	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college / school / unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.
Low	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college / school / unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.