

# **UT Southwestern** Medical Center

## **Third-Party Audit - Auxiliary Enterprises Review**

**Internal Audit Report 23:21**

**April 21, 2023**

# Table of Contents

---

- I. Executive Summary 3
  - Background/Scope and Objectives 3
  - Conclusion 4
  
- II. Detailed Observations and Action Plans Matrix 6
  
- III. Appendix 8
  - Appendix A - Risk Classifications and Definitions 8

## **Executive Summary**

---

### **Background**

Vendor governance is an area of increased focus in the health care industry as related inefficient processes can increase risk in various areas, including financial, reputational, regulatory compliance (e.g., disqualified parties, Physician-Owned Distributorships (PODs), exclusions, Business Associate Agreements (BAAs), quality of care, etc.). Many organizations depend on vendors to provide services, equipment, software, hardware, etc., 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 that the vendor is operating consistently with UT Southwestern's (UTSW) 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 or regulatory investigations, etc.), and/or contract compliance concerns.

Currently, contract owners are responsible for the monitoring and governing of vendor contract compliance, spend and associated approvals, and performance metrics (as applicable). From a system level, Supply Chain oversees the entire vendor management process, including the contract execution process, 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.

The Auxiliary Enterprises Department conducted business with 105 vendors in 2022 and currently manages 26 vendor contracts. The vendors that the department manages are related to parking, valet, food, mail, printing, and student stores. Business owners monitor metrics related to people (e.g., customer count, FTEs, etc.), service (e.g., customer satisfaction, etc.), quality (e.g., timeliness, etc.), and finance (i.e., revenue vs. budget) specific to their service type.

It is important to note that UTSW initiated a BAA assessment that is owned by the Legal and Compliance Departments to review legacy contracts and determine if BAAs are or are not warranted and take the necessary action based on the review of each of the contracts. This initiative started prior to the kick-off of this audit and has a target completion date of 8/31/23, and as such, was deemed out of scope for this review.

### **Scope and Objectives**

The Office of Internal Audit has completed its Third-Party Audit - Auxiliary Enterprises Review. This is a risk-based audit and part of the fiscal year 2023 Audit Plan.

## Executive Summary

The audit scope period included activities of the Auxiliary Enterprises Department from January to December 2022. The project included reviewing processes and controls for monitoring and department oversight of vendor activities, invoice receipt, and payments for vendors contracted and managed by the Auxiliary Enterprises Department. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, testing of select key contract terms and related payment activities, and data analytics.

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

Fieldwork was initiated, performed, and completed between January and March 2023 and consisted of the following primary objectives:

- Evaluated the reasonableness of policies, procedures, processes, and tools for Auxiliary Enterprises Department’s vendor governance, oversight/monitoring, invoice receipt, and payments.
- Validated that contractual terms agree to supporting documentation/evidence for a select sample of vendors.
- Validated that vendor payments are reviewed, approved, in line with contractual terms, and monitored for a select sample of payments.

### Conclusion

Overall, opportunities exist to strengthen the oversight processes related to vendor management to ensure contractual obligations are adhered to. Additionally, opportunities exist to enhance internal monitoring processes to ensure compliance with internal policies and leadership expectations as it relates to non-contract spend.

Included in the table below is a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (1)	Low (0)	Total (1)
--------------	----------	------------	---------	-----------

Key observations are listed below.

- **Auxiliary Enterprises Vendor Management** - Vendor contract management processes are not consistently occurring by the Auxiliary Enterprises Department in accordance with the Contract Management Handbook and/or leading practice; specifically, lack of required reports consistently provided by vendors as well as evidence that vendors are in compliance with contractual requirements (i.e., vaccine requirements and trainings). Additionally, the Auxiliary Enterprises Department is not consistently initiating/modifying active contracts/amendments timely. Furthermore, opportunities exist for Auxiliary Enterprises to better utilize UTSW’s preferred contracted vendors, where possible.

## Executive Summary

---

Management has plans to address the issues identified in the report and in some cases have already implemented corrective actions. Action Plan Owners are designated individuals responsible for implementing the issue resolution. Action Plan Executives are individuals responsible for overseeing or managing the issue resolution. Executive Sponsors are Senior Leadership members who are responsible for ensuring the identified issue is resolved. These responses, along with additional details for the key observation identified on the prior page are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

We would like to take the opportunity to thank the departments and individuals included in this audit for the courtesies extended to us and for their cooperation during our review.

Sincerely,

*Natalie Ramello*

Natalie Ramello, J.D., Vice President of Compliance and Chief Compliance Officer / Interim Audit Executive

**Audit Team:**

Abby Jackson, Assistant Vice President, Compliance & Audit Operations

Matt Jackson, Managing Director, Protiviti

Jarod Baccus, Director, Protiviti

Cody McShan, Associate Director, Protiviti

Rhyn Page, Manager, Protiviti

Ada Dye, Senior Consultant, Protiviti

Autumn Sudrala, Consultant, Protiviti

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p><b>Risk Rating: Medium</b> ●</p> <p><b>1. Auxiliary Enterprises Vendor Management</b></p> <p>Vendor contract management processes are not consistently occurring by the Auxiliary Enterprises Department in accordance with the Contract Management Handbook and/or leading practice. The following was noted:</p> <ul style="list-style-type: none"> <li>Lack of required reports consistently provided by vendors (American Business Forms).</li> <li>Lack of evidence that vendors are in compliance with contractual requirements (i.e., vaccine requirements and trainings) (Jack Boles and Lanier Parking Meter Services).</li> </ul> <p>Additionally, the Auxiliary Enterprises Department is not consistently initiating/modifying active contracts/amendments timely. Specifically, one (1) of five (5) sampled vendor agreements (Ussery) (20%) expired on 11/30/2022; however, an amendment or extension letter has yet to be executed as of 03/15/2023 and services are still being provided by the vendor. It is important to note that communication was provided that an updated amendment was in the process of being developed; however, the communication did not indicate that the current agreement's</p>	<ol style="list-style-type: none"> <li>The Auxiliary Enterprises Department should review the detailed testing exceptions that were provided under separate cover and work with process owners and vendors to ensure expected and required practices are performed, required documentation is retained, validate vendors are meeting contractual requirements, etc., as applicable.</li> <li>The Auxiliary Enterprises Department should implement monitoring and oversight processes to ensure all vendors are in compliance with contractual terms and are following expected and required practices.</li> <li>The Auxiliary Enterprises Department should review the identified exception related to the expired contract and take the necessary actions (e.g., execute an extension letter, execute a new amendment, etc.), as applicable.</li> <li>The Auxiliary Enterprises Department should continue to review agreements with upcoming terminations on a regular (e.g., monthly, etc.) basis and if it is determined an amendment/new contract will not be executed prior to termination, an extension letter should be developed (with the support of Legal and Compliance) and signed by both UTSW and the vendor to ensure the</li> </ol>	<p><b><u>Management Action Plans:</u></b></p> <ol style="list-style-type: none"> <li>We will review the exceptions noted and validate the requirements per the contract. We will require the vendor to provide all necessary documentation, feedback, etc. If upon further review the requirements listed are no longer warranted, the contract will be amended accordingly.</li> <li>High-risk vendors will be required to provide attestations monthly that all contractors actively working on UTSW premises have undergone background, DMV checks, drug screenings, and contractual required training (as applicable).</li> <li>Any contractual vaccination requirements will be reviewed with Legal, and contract will be amended as necessary. If vaccine requirements are still warranted, Auxiliary Enterprises will work in coordination with Occupational Health to document all requirements set forth in the vendor contract.</li> <li>In addition to the current monitoring processes in place, we will complete semi-annual performance business reviews for all high-risk vendors as outlined in the Risk Mitigation log.</li> </ol>

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>requirements were to continue until the new amendment was executed.</p> <p>Furthermore, opportunities exist for Auxiliary Enterprises to better utilize UTSW's preferred contracted vendors, where possible.</p> <p>Internal Audit analyzed all the Auxiliary Enterprises Department's Accounts Payable (AP) spend in 2022 and identified 65 vendors (~62% of all vendors) with spend ranging from approximately \$100 to \$137,600, totaling approximately \$1.2M, that do not have an active contract with UTSW. It is important to note that the department is in compliance with UTSW policy and purchasing thresholds for Purchase Orders (POs).</p>	<p>current agreements stay in place until the new amendment is executed.</p> <ol style="list-style-type: none"> <li>5. The Auxiliary Enterprises Department should review the identified vendors with accumulated PO spend and work with Supply Chain to determine if there is a similar contracted vendor that should be used for one-off purchases or potentially execute contracts where necessary.</li> <li>6. The Auxiliary Enterprises Department should work with Supply Chain before executing a PO with a non-contracted vendor to ensure a preferred vendor is not already contracted with and to get the best price, as applicable.</li> <li>7. The Auxiliary Enterprises Department should continue to routinely (e.g., monthly, quarterly, etc.) review spend for all vendors without an active contract and ensure that new contract needs are assessed and executed timely in compliance with applicable policy requirements and leadership's expectations.</li> </ol>	<ol style="list-style-type: none"> <li>5. As of 3/17/23, a new Master Service Agreement (MSA) went into effect with Ussery and an extension letter is no longer warranted. Complete.</li> <li>6. Moving forward, prior to when contracts/amendments expire, are renewed, or are updated, an extension letter will be executed that indicates the current arrangement will be followed until the contract/amendment is executed.</li> <li>7. We will prioritize the use of preferred contracted vendors and work with Supply Chain when unable to locate a contracted vendor.</li> <li>8. Moving forward, we will work with Supply Chain to annually review vendors with accumulated PO spend and collaboratively determine if an alternative vendor should be used for one-off purchases.</li> <li>9. Moving forward, we will review all off-contract vendor spend in our monthly reviews and will work with Supply Chain to ensure that new contract needs are executed in compliance with applicable policy requirements.</li> </ol> <p><b><u>Action Plan Owner(s):</u></b></p> <p>Kevin Gulbronsen, Administrative Coordinator, Auxiliary Enterprises</p>

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		<p><b><u>Action Plan Executive(s):</u></b> Brian O’Grady, Director, Auxiliary Enterprises</p> <p><b><u>Executive Sponsor(s):</u></b> Michael Serber, Vice President, Finance and Institutional Chief Financial Officer</p> <p><b><u>Target Completion Date:</u></b> September 1, 2023</p>



## Appendix A - Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<p><b>Risk Definition-</b> The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.</p>	<b>Degree of Risk and Priority of Action</b>	
	<b>Priority</b>	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.
	<b>High</b>	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.
	<b>Medium</b>	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.
	<b>Low</b>	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 presented on the subsequent pages of this report. 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.