September 19, 2013

Dr. Daniel,

We have completed an audit of Procurement Management as part of our fiscal year 2013 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing. The objectives of the audit were to provide assurance to UT Dallas management that an adequate system of internal controls is in place in the Office of Procurement Management and to provide reasonable assurance of sound management.

Overall, we found that the Office of Procurement Management appears to have an adequate system of internal controls in place. The attached report details recommendations that will further enhance internal controls and compliance with UT Dallas policies and procedures.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though Management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Executive Director of Audit and Compliance

UT Dallas Responsible Parties:
Pete Bond, Assistant Vice President for Procurement Management

Members of the UT Dallas Audit and Compliance Committee:
Dr. Hobson Wildenthal, Executive Vice President and Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
Dr. Bruce Gnade, Vice President for Research
Dr. Darrelene Rachavong, Vice President for Student Affairs
Mr. Curt Eley, Vice Provost for Enrollment Management
Dr. James Marquart, Vice Provost
Dr. Sue Taylor, Acting Chief Information Security Officer
Mr. Timothy Shaw, University Attorney
Ms. Lisa Choate, Partner, Ultimate Health Resources

The University of Texas System:
Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
Alan Marks, Attorney
Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

State of Texas Agencies:
Legislative Budget Board
Governor’s Office
State Auditor’s Office
Sunset Advisory Commission

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION UNIVERSITY
Executive Summary

Procurement Management, Report No. 1403

Audit Objective and Scope: The objectives of this audit were to provide assurance to UT Dallas management that an adequate system of internal controls is in place and to provide reasonable assurance of sound management. The scope of this audit was fiscal year 2013 and focused on administration of the department. Auxiliary Services and Logistics and Distribution Services did not fall within the scope of this audit due to changes in the organization structure for these areas.

Audit Results:
The audit resulted in no recommendations considered significant to university operations. However, we offer the following recommendations to enhance compliance and internal controls over Procurement Management.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Estimated Implementation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Update and Review Policies and Procedures</td>
<td>March 1, 2014</td>
</tr>
<tr>
<td>(2) Enhance Controls Regarding Clearing Accounts</td>
<td>September 30, 2013</td>
</tr>
</tbody>
</table>

Conclusion: Overall, the Office of Procurement Management appears to have an adequate system of internal controls in place. Implementation of the recommendations outlined in this report will further enhance internal controls and compliance with UT Dallas policies, procedures, and best practices.

Responsible Vice President: Mr. Terry Pankratz, Vice President for Budget and Finance

Responsible Party: Mr. Peter Bond, Assistant Vice President for Procurement Management

Staff Assigned to Audit:
Seo Choi, Staff Auditor, In-Charge
Naomi Emmett, Staff Auditor
Brandon Garcia and Sanchita Piplani, Student Auditors from the Internal Auditing Education Partnership Program
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Background

The Office of Procurement Management is, “Committed to obtaining in a timely, lawful and cost-efficient manner the goods and services needed to benefit the University’s mission: to provide educational and research programs of the highest quality.”

The Office of Procurement Management is responsible for managing the procure-to-pay cycle. Functions of Procurement include:

- Purchasing
- Contracting
- Historically Underutilized Business (HUB) program
- Accounts Payable
- Travel Management
- Purchasing Card Administration

The department is managed by the Assistant Vice President who reports to the Vice President of Budget and Finance. The office is comprised of nineteen employees and has an operating budget of $1,829,698.

Audit Objective

The objective of this audit was to provide assurance to UT Dallas management that an adequate system of internal controls is in place in the Office of Procurement Management and to provide reasonable assurance of sound management. Departmental audits are part of the yearly audit plan, approved by the President and Audit Committee, and also occur when there is a change in departmental leadership.

Scope and Methodology

The scope of this audit was fiscal year 2013 and focused on the administration of the department. Auxiliary Services and Logistics and Distribution Services did not fall within the scope of the audit due to changes in the organization structure for these areas, and our fieldwork concluded on June 14, 2013. To satisfy our objectives, we performed the following:

- Gained an understanding of operations through departmental interviews, anonymous survey of staff, departmental risk discussions, and review of requested information, policies and procedures, and other documents relevant to internal controls within the department.

1 http://www.utdallas.edu/procurement/about/
Conducted a risk assessment of departmental operations and focused testing on key risk areas within the department, including:
  o Account Reconciliations
  o Purchasing Cards
  o Expenses

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

**Audit Results and Management’s Responses**

Overall, the Office of Procurement Management appears to have an adequate system of internal controls in place.

A significant recommendation is defined as one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. We have **no significant recommendations** resulting from this audit; however, the following recommendations will help enhance existing internal controls and compliance with applicable UT Dallas policies, procedures, and best practices.

**Audit Recommendations**

(1) **Update and Review Policies and Procedures**

University policies and procedures over Procurement Management, as well as internal departmental policies and procedures, have not been updated in a timely manner. The last update made to administrative policies and procedures was made in 1992.

Without periodic reviews and updates of policies and procedures, user departments are not aware of policies and procedures, noncompliance with outside regulations could occur, and operations are not efficient.

**Recommendation:** Administrative and internal policies and procedures should be updated, and procedures should be developed to ensure these policies are reviewed at least annually for updates.

**Management’s Response:** Procurement Management will update both the administrative and internal procedures.
Estimated Date of Implementation: March 1, 2014

Person Responsible for Implementation: Pete Bond, Assistant Vice President for Procurement Management

(2) **Enhance Controls Regarding Clearing Accounts**

Under the direction of the former acting Vice President of Budget and Finance, clearing accounts were set up for Procurement Management employees to administer. Specific cost centers were created to serve as a “holding” area for ambiguous transactions or cost centers charged in error until further review could be performed. Most of the transactions involved contract and grant charges. These cost centers were reconciled and approved by Procurement Management employees.

Recommendation: Budget and Finance management should review the use of clearing accounts to determine their proper use and administration. The use of clearing accounts should be minimized, written procedures developed, and appropriate and sufficient documentation should be obtained and reviewed prior to reconciling and approving these cost centers.

Management’s Response: Written procedures will be developed and the appropriate employees will continue to reconcile and approve these cost centers.

Estimated Date of Implementation: September 30, 2013

Person Responsible for Implementation: Pete Bond, Assistant Vice President for Procurement Management

Conclusion

Based on the audit work performed, we conclude that the Office of Procurement Management has an adequate system of internal controls in place. Implementation of the recommendations outlined in this report will help further enhance internal controls and compliance with UT Dallas policies, procedures, and best practices.

We appreciate the courtesy and cooperation received from the management and staff of Procurement Management during this audit.