Contract Performance Audit

Audit Report # 13-27
July 22, 2014

Office of Auditing and Consulting Services

"Committed to Service, Independence and Quality"
July 22, 2014

Dr. Diana Natalicio
President, University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited-scope audit of purchase orders valued between $10,000 and $100,000 and all contracts over $100,000 for the period of September 1, 2012 through April 30, 2014. Results of the audit and recommendations are included in the attached report.

We appreciate the cooperation and assistance provided by the management and staff of the office of the Vice President for Business Affairs, the Purchasing and General Services Department, Facilities Services and Student Business Services for their assistance and cooperation provided throughout the audit.

Sincerely,

[Signature]

William A. Peters, CPA, CIA
Director
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Auditors Assigned to the Audit:

   Lori Wertz, Engagement Manager
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   Lorenzo Canales, Auditor
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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of contracts valued over $10,000 for the period of September 1, 2012 through April 30, 2014. Specifically, the objectives of the review were to:

- validate the controls for entering into contracts, and
- review current processes and procedures for monitoring key contract terms, and ensure that any agreed upon royalties are appropriately collected, recorded and monitored.

During the audit we noted that an outstanding guaranteed minimum royalty payment for the beverage contract was not received according to the terms of the contract and the reconciliation process failed to later reflect amounts due to the University.

We conclude that the University should implement monitoring procedures to ensure that contract terms are fulfilled and the reconciliation process should include methodology to identify amounts due and uncollected.
BACKGROUND

The Purchasing and General Services Department (Purchasing) administers the contract processes for the procurement of goods and services over $25,000. Although Purchasing is responsible for the initial negotiation of these contracts, the stakeholder performing the day-to-day monitoring may be in another University department. Given this de-centralization of the contract monitoring function, the associated risk is deemed high.

Often, contracts require a guaranteed minimum rent or royalty payment. When there is a guaranteed minimum payment clause, contracts must be closely monitored to ensure that contract terms are enforced and to determine whether payments are appropriately calculated, collected and recorded.

AUDIT OBJECTIVES

The objectives of this audit were to:

A. validate the controls for entering into contracts, and

B. review current procedures for monitoring key contract terms and ensure agreed upon royalties are appropriately collected, recorded and monitored.

SCOPE AND METHODOLOGY

The audit was limited to reviewing purchase orders between $10,000 and $100,000 and contracts over $100,000 for the period of September 1, 2012 through April 30, 2014.

Audit procedures performed included the use of Computer Aided Audit Techniques, a review of contracts and other institutional documents, and interviews with key personnel.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
AUDIT RESULTS

A. Validation of Controls
Five contracts with values over $100,000 were chosen for review to ensure they were properly authorized, approved and monitored for extensions. Based on the test work performed, no exceptions were noted.

B. Monitoring of Contract Terms

B.1 Contracts with a Guaranteed Minimum Royalty Payment
Three of the five contracts reviewed require minimum royalty payments and the University receives payments based on a percentage of sales.

Guaranteed Minimum Royalty Payment for Beverage Contract
As defined in the beverage contract, UTEP is due total guaranteed vending commissions of $160,000 per fiscal year. On September 23, 2013, a receivable of $81,248.74 was created for the balance due to the University for the fiscal year 2012-2013 contract. As part of the year-end-closing process, the receivable was reversed on September 30, 2013. Subsequently, the receivable was not re-established, and there was no aggressive attempt to collect the money owed to the University. As a result, the funds were not received until June 2014.

The chart below shows the portion of the commission which was not collected.

![Beverage Commissions FY 12/13 Chart]

The beverage account reconciliation for the month of November 2013 was chosen for review. We noted that the reconciliation did not reflect the commissions owed for either the minimum amount due from September 2013 ($81,250) or the month of October 2013 ($10,107), not received until December. Failure to reflect receivables in the reconciliation process or identify missing monthly commissions creates a potential opportunity for amounts to be overlooked and lost.

**Recommendation:** Receivables should be appropriately documented in University records and overdue receivables aggressively pursued for collection. In addition, the reconciliation process should be strengthened and include a review for outstanding amounts due.
Management’s Response: We concur. Invoices for guaranteed minimum royalties due will be sent to each contractor and the related receivable will be re-established in order to track and aggressively collect amounts not paid by contractors. We will work with Financial Services to strengthen the reconciliation with PeopleSoft that includes a review for outstanding accounts receivable due.

Responsible Party:
Lilly Gallegos-Martinez

Implementation Date:
September 1, 2014

B.2 Service Contract
The University has entered into a custodial contract for services to be performed at various locations on campus. Facilities Services is responsible for monitoring these areas to ensure that they are maintained in an optimal state of cleanliness. In order to accomplish this, Facilities Services conducts inspections and holds weekly meetings with the contractor to discuss the results of these inspections. Based on the test work performed, it appears that the custodial services are appropriately monitored.

B.3 Collection Contract
The University has contracts with multiple collection agencies. The contract with the highest collection rate was chosen for review. Based on the test work performed, it appears that the amounts collected are received, appropriately invoiced and properly credited to student accounts.

CONCLUSION

During the audit, weaknesses were identified which we believe can be strengthened by implementing the recommendations detailed in this report.

We wish to thank the management and staff of the office of the Vice President for Business Affairs, the Purchasing and General Services Department, Facilities Services and Student Business Services for their assistance and cooperation provided throughout the audit.