MEMORANDUM

TO: Michael R. Shriner
Vice President, Business Operations and Facilities

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA
Vice President, Audit Services

DATE: October 13, 2016

SUBJECT: Procurement and Contracting Processes
Engagement Number 2016-027

Attached is the final audit report regarding the Procurement and Contracting Processes. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: System Priority (SP), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachment(s)

C: Cheryl A. Sadro
Frank Reighard
Eric R. Williams
The University of Texas Medical Branch
Audit Services

Audit Report

Procurement and Contracting Processes
Engagement Number 2016-027

October 2016

The University of Texas Medical Branch
Audit Services
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Galveston, Texas  77555-0150
Procurement and Contracting Processes
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Background
In 2015, the Texas Legislature passed Senate Bill 20 amending sections of the Texas Government Code and the Texas Education Code pertaining to contracting processes for state agencies and institutions of higher education. The goal of these amendments was to achieve greater accountability and transparency.

Following the passage of Senate Bill 20, the University of Texas (UT) System Board of Regents amended its Rule 20901, Procurement of Goods and Services; Contract Management Handbook, which states, “Each institution and UT System Administration shall develop and maintain a Contract Management Handbook that provides consistent contracting policies and procedures, including a risk analysis procedure.” Additionally, the UT System Administration created a Contract Management Handbook template for use by UT institutions in the development of their own handbook. The template notes “contract management” includes the coordination and administration of four core processes: planning; procurement of goods or services; contract formation; and, contract administration. The template also acknowledges that successful contract management involves the coordination of a variety of institutional distinct roles and disciplines from executive leadership and legal to subject matter experts, purchasers, and contract administration.

The University of Texas Medical Branch’s (UTMB Health’s) Supply Chain Management division within the Business Office & Facilities published its “Purchasing Contract Management Handbook – UTMB Appendix” in May 2016.

Audit Objectives
The primary objective of this audit was to evaluate Supply Chain Management’s compliance with state procurement and contracting guidelines as outlined within the “Purchasing Contract Management Handbook – UTMB Appendix”.

Scope of Work and Methodology
The scope of work included fiscal year (FY) 2016 procurement and contracting related operations and transactions. Our audit methodology included interviews with key personnel, review and assessment of pertinent documentation, data analysis, and limited testing.

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

Audit Results
Compliance Implementation Plan
Institutional compliance with the regulatory amendments resulting from Senate Bill 20 required modification of numerous operational activities related to procurement and contracting. In order to identify and track these modifications, Supply Chain management developed a “Compliance Implementation Plan” identifying specific operational strategies, estimated and final completion dates, and responsible parties. Audit Services validated the supporting documentation for the plan initiatives marked as “complete”.

October 2016
Procurement and Contracting Processes
Engagement Number: 2016-027

Contract Management Handbook – UTMB Appendix
Audit Services performed a comparative review of the UT System Contract Management Handbook Template and UTMB's Contract Management Handbook Appendix. We noted UTMB Health adopted the UT System template and UTMB Health's detailed Appendix incorporates suggested elements from the template in a straightforward, logical manner.

Data Analysis and Limited Testing
Contracts
Audit Services analysis of contract data for the first two quarters of FY 2016 identified 89 active contracts totaling more than $167 million. The majority of the contracts, 61 or 69% were valued at $1 million or less. Thirty contracts or 34% were procured using the “exclusive acquisition justification” (EAJ) method, while 29 or 33% were procured via the “request for proposal/request for qualifications” (RFP/RFQ) method. The total dollar value for contracts procured via EAJ was approximately $12.6 million, whereas contracts obtained via RFP/RFQ totaled approximately $131.6 million.

Audit Services noted no exceptions during the testing of a random sample of 17 contracts for compliance with established procurement policies and procedures.

Purchase Orders
During the 1st and 2nd quarters of FY2016, UTMB Health created 39,648 purchase orders (POs) totaling approximately $444 million. Audit Services analysis of related data indicated 93% of the total POs are valued at $10,000 or less. Additionally, individual departments generated the largest percentage of POs (78%); however, the total dollar value for this group is $30 million in comparison to POs generated by Acquisitions with a total value of $321 million.

Audit Services noted no exceptions during the testing of a random sample of 37 purchase orders for compliance with established procurement policies and procedures.

EAJ Procurement Process
Purchasing’s Operating Procedure 2.10, Best Value Procurement, states “when the purchase of a product or service exceeds $5,000, and where an equivalent product or service specified is not available or limited to one manufacture, product or service provider, a Justification must be provided.” Auditors reviewed 20 Exclusive Acquisition Justifications (EAJs) totaling $2.7 million and noted that EAJ descriptions on the Purchase Order Checklist/Approval Routing Form did not consistently document what appeared to be a sufficient justification for the exclusive procurement.

Recommendation: 2016-027-01-PH:
The Vice President, Business Operations and Facilities, or his designee should ensure EAJ supporting documentation meets established guidelines.

Management Response:
Purchasing will immediately implement a new process that requires validation and approval of the EAJ descriptions on the Purchase Order Checklist/Approval Routing Form.
Procurement and Contracting Processes  
Engagement Number: 2016-027

Form. For procurements $5K-$25K, Team Leads will review, validate, and approve both the EAJ form and the Purchase Order Checklist/Approval Routing Form. For procurements greater than $25K, a Purchasing Manager and the Director of Purchasing will review, validate, and approve both the EAJ form and the Purchase Order Checklist/Approval Routing Form. This will be a new process that adds controls through additional reviews to monitor compliance.

Implementation Date: 11/1/16

Other Observations
The UT System Contract Management Handbook, Section 6.7.3 Enhanced Monitoring, requires institutions to develop and comply with a “risk analysis” procedure that includes an “assessment of risk of fraud, abuse, or waste in the procurement and contracting process”. UTMB Health’s Supply Chain department utilizes risk assessments for its contract selection and monitoring processes; however, the assessments do not specifically address “fraud, abuse, or waste”.

Since matters dealing with fraud, abuse, or waste are typically under the purview of an institution’s compliance department, Audit Services sought clarification from UT System’s Office of General Counsel (OGC) about the intent of this requirement. Correspondence received from OGC indicated this is a new element to be added to existing Supply Chain risk assessments.

Recommendation 2016-027-02 -RM:
The Vice President, Business Operations and Facilities, or his designee should work with the Office of Institutional Compliance to incorporate considerations of potential fraud, abuse, or waste in the Supply Chain risk assessment process.

Management Response:
Purchasing will work with the Office of Compliance to develop additional criteria and decision tree to address “fraud, abuse, or waste” in the contracting process. This will include a process to comply with new UT System requirements related to policy UTS180 which addresses conflict of interest around procurements greater than $15K.

Implementation Date:
By 1/1/17 Purchasing will develop with the Office of Compliance a “decision tree” that addresses risk related to “fraud, abuse, or waste” and also develop a process to address requirements in UTS180.

Conclusion
Overall, UTMB Health appears to be in compliance with current state procurement and contracting guidelines. Opportunities for improvement were noted in enhanced supporting documentation guidelines and data input to facilitate useful reporting.
Procurement and Contracting Processes
Engagement Number: 2016-027

We greatly appreciate the assistance provided by Supply Chain Management staff and hope that the information presented in our report is beneficial.

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