UT Southwestern
Medical Center

**The University of Texas Southwestern Medical Center
Third Party Vendor Relationships Audit
Internal Audit Report 16:16**

November 29, 2016
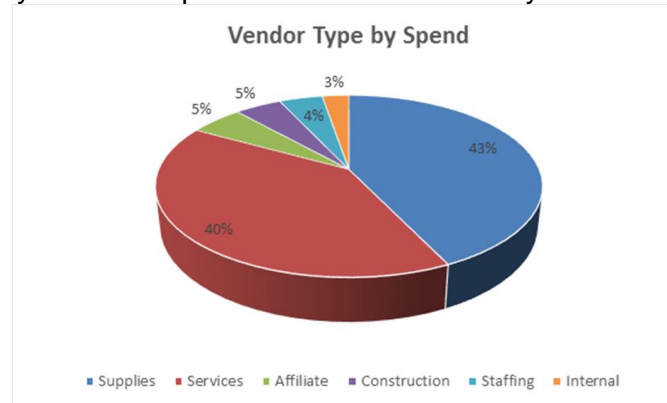
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Executive Summary

Background

The University of Texas Southwestern Medical Center (UT Southwestern) uses third party vendors to perform a variety of services for the Institution. A third-party relationship is any business arrangement between organizations, typically governed by a contract executed with both parties. Organizations may use a third party vendor to provide various services that may be cost beneficial to outsource or the third party may provide specialty services and/or expertise in a related area.

For services provided by a third party, it is critical the relationships with the vendors are carefully managed to ensure the following: vendor services benefit the institution; compliance with the contractual agreement; reputational, compliance or financial risks are mitigated; payments to vendors are accurate and for services provided. Once contracts are final and properly approved, the departments have responsibility for monitoring vendor compliance with contract terms, reviewing and approving vendor invoices. The following areas have various responsibilities related to the contracted vendor services:

- The Office of Contracts Management is responsible for assisting all UT Southwestern faculty and academic departments with the negotiation and processing of certain contracts in accordance with institutional policies and federal and state regulations.
- Individual departments are responsible for vendor selection; invoice review and approval; and monitoring spend and key terms of the contract, including certificates of insurance, background check verification and HIPAA training, and minimum use of information.
- The Purchasing Department, a division of Supply Chain, is responsible for acquiring goods, services, and equipment to support the Institution's research, education, and administration activities in coordination with the individual departments.
- The University Accounts Payable department is responsible for processing payments for merchandise and services where a valid liability exists and has been properly approved for an invoicing vendor.
- The Hospital Accounts Payable department processes invoices in PeopleSoft and routes to the departments for approval through PeopleSoft.

The following chart provides a summary of dollars spent with vendors in fiscal year 2016 by type as categorized by Internal Audit:

Vendor Type by Spend

- Supplies 43%
- Services 40%
- Affiliate 5%
- Construction 5%
- Staffing 4%
- Internal 3%

Executive Summary

Objectives and Scope

This was a risk based audit scheduled as a part of our Fiscal Year 2016 Audit Plan. The audit focused on the Institution's third party relationship monitoring processes, as well as a more detailed review of a sample of contracts with coverage across UT Southwestern. This will be a recurring audit to ensure comprehensive coverage of vendor third party contracts. The audit scope period was September 2015 through August 2016. Audit procedures included: interviews with the contract owners and their team members; review of policies and procedures and other documentation; analysis and testing of invoices and payments to third party vendors; review of the contracts terms and evaluation of conflict of interest and impact of onsite vendor staff.

The primary objectives of the audit were to assess the adequacy and effectiveness of process, oversight, and monitoring controls in place to ensure:
- Contract is fully executed and approved
- Compliance with key contract provisions
- Invoices and payments are properly approved, supported and agree to contract terms
- Conflict of interest requirements are evaluated

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

Conclusion

Currently, overall management of vendor contracts is decentralized. While the Contracts Management Department ensures initial evidence is provided by vendors in accordance with the contract requirements, it is the responsibility of the departments who enter into these agreements to have oversight and monitoring procedures in place to ensure there is on-going compliance with contractual obligations. Departments did not have all of the contractual documentation provided from the vendor on file, and vendor access was not always appropriate.

There is a need to define roles and responsibilities and provide training and checklists to departments in order to ensure the contract process is started in advance of the need for services or products, there is proper on-going monitoring of vendor compliance with key contract terms, timely renewals and appropriate system access for vendors. In addition, departments need to validate vendor invoices to ensure billing accuracy and adequate documentation support for invoiced services.

In early 2017, the Supply Chain team will implement a new contract management system which will include workflow to aid in the monitoring of contract renewals and key terms, including valid certificates of insurance and verification that background checks are completed upon contract execution. In conjunction with this implementation, a contract checklist will be created to provide to the Institution's contract owners to clearly define expectations and roles and responsibilities of the Contracts Management team and contract owners.

Executive Summary

The table below summarizes the observations and the respective disposition of these observations within the UT Southwestern internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (1)	Medium (2)	Low (1)	Total (4)

There were no priority issues identified in the audit. Key improvement opportunities risk-ranked as high and medium are summarized below.

- **Establish Oversight and Monitoring of Vendor Contracts -** Oversight and monitoring of key risk areas is not in place to ensure departments hold vendors accountable for fulfilling key contractual requirements such as completion of background checks, verification of certificate of insurance and HIPAA training and system access monitoring.

- **Ensure HIPAA Requirements Are Met for Minimum Access –** Contractor with access to PHI had not completed HIPAA training and system access was in excess of the minimum necessary standard.

- **Execute Contract for Professional Services –** Professional services are not documented in an appropriately executed and approved contract.

Management has implemented or is in the process of implementing corrective action plans. Management responses are presented in the Detailed Observations and Action Plans Matrix section of this report.

We would like to thank the Supply Chain, Contracts Management, MSRDP Finance Administration, and Auxiliary Enterprises teams for their assistance and cooperation during this review.

Sincerely,

Valla F. Wilson, Associate Vice President for Internal Audit, Chief Audit Executive

Audit Team:
Melinda Lokey, Director, Internal Audit
Angeliki Marko, Senior Auditor, Internal Audit
Lori Muncy, Senior Auditor, Internal Audit

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Cc: Kenneth Bourne, Director, Auxiliary Enterprises
Charlie Cobb, Assistant Vice President, Supply Chain
Shawn Cohenour, Director, Office of Contracts Management
Arnim Dontes, Executive Vice President for Business Affairs
Suresh Gunasekaran, Associate Vice President, Health System Management Services
Bruce Meyer, M.D., Executive Vice President, Health System Affairs
Michael Serber, Vice President, Financial Affairs
Stephanie Swanson, Interim Assistant Vice President, MSRDP Practice Plan Finance
Beth Ward, Associate Vice President & Chief Financial Officer, University Hospitals
John Warner, M.D., Vice President and Chief Executive Officer, University Hospitals

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: High ●	1. Develop governance procedures and guidelines to ensure	**Management Action Plans:**
1. Establish Oversight and Monitoring of Vendor Contracts	a. Departments are aware of their specific responsibilities to begin the contract process well in advance of the need for services or products and once executed, monitor key contract provisions.	1. Workflow and updated procedures are being developed to define responsibilities between the Contracts Management team and the contract owners, including requirement to begin the contract process well in advance of the need for services and products. A procurement and contracts handbook is now published to provide guidance. A checklist will be developed for the departments to utilize for contracts requirements.
Adequate oversight and monitoring processes and controls may not be in place to ensure the contract process is started in advance of the need for services or products and once executed, vendors comply with contractual provisions and institutional policies. In addition, departments may not have processes or controls in place to ensure bills for services and goods provided by vendors are accurate	b. Monitoring controls are put into place to ensure departments are monitoring key terms as expected.	
Currently, overall management of key contract terms within vendor contracts is decentralized and is the responsibility of the departments who enter into agreements with vendors. This increases the risk for the Institution if standard oversight and monitoring processes are not implemented.	2. Monitor certificate of insurance expiration dates to ensure updated certificates are obtained as needed.	a. The new contract system, Total Contracts Management, includes a trigger for notification of contract renewals so negotiations can begin well in advance of the contract's end date.
Specifically, the oversight and monitoring of the following key risk areas can be improved:	3. Reinforce the process to obtain background check verification statements from the vendors.	2. Total Contracts Management has a trigger for the certificate of insurance expiration date and will be used to send reminders to vendors to submit the updated insurance coverage.
Certificates of liability insurance are not consistently obtained upon renewal for all contracts.	4. Establish a process to verify background check for sole proprietors.	
• The MSRDP vendor Certificate of Insurance did not include coverage for "Damage to Rented Premises". The contract stipulates $300,000 coverage is required, but evidence of the coverage was not on file.	5. Implement a process to verify HIPAA training is completed by the vendor and verification of completion of training is provided.	a. Develop a responsibility checklist for the departments and then communicate and train the departments.
	6. Develop monitoring controls for appropriate physical and security access.	

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
• The hospital vendor provided a Certificate of Insurance dated after the request was made for confirmation. • Additionally, in a survey of active contracts across the institution, four additional contracts did not have a valid Certificate of Insurance on file or the Certificate was expired. **Background check verification statements** are not consistently obtained from vendors. Standard contract provisions require vendors to provide confirmation that a background check was performed. In one instance, a sole proprietor did not initiate a background check on themselves. **HIPAA training, physical and security access** is currently the responsibility of each contract owner. HIPAA training is not consistently completed or verified for all vendors with contractor staff on-site. • The valet services vendor provides HIPAA training to the staff that are working at UT Southwestern, however evidence of updated completion of training for some of the employees was not obtained from vendor and on file after 2015. If the vendors are not properly managed, this increases reputational, compliance and financial risks in the event vendor employees do not meet institutional requirements for conducting business with UT Southwestern or if an adverse event were to occur.		3. Communicate checklist and train the departments on obtaining background certifications for all new contractors as they come on-site. 4. Obtain a completed background verification for sole proprietor. 5. Include HIPAA requirements in checklist created for the departments and then communicate and train the departments to ensure HIPAA training is provided. 6. In conjunction with the HIPAA Privacy Office, include physical and security access in the department's checklist and include in the training to the department leaders. **Action Plan Owners:** 1. Assistant Vice President, Supply Chain 2. - 3. Director, Office of Contracts Management 4. Interim Assistant Vice President, MSRDP Practice Plan Finance 5.– 6, Director, Office of Contracts Management **Target Completion Dates:** February 28, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium ⬤ **2. Ensure HIPAA Requirements Are Met for Minimum Access** The MSRDP sole proprietor vendor had a signed Business Associate Agreement (BAA), but the vendor had not completed HIPAA training since the contract went into effect on September 1, 2015. In addition, the MSRDP contractor has Epic access with capabilities to make charge changes, adjustments, post payments, and additional functions that are not needed for the scope of work. Without proper HIPAA training or verification of completed training by the vendor, patient information could be misused. Monitoring of appropriate system access reduces the risk of inappropriate or unauthorized transactions and inaccurate data.	1. Remove unneeded EPIC Access 2. Update HCM profile for the sole proprietor	**Management Action Plans:** 1. Terminate all unnecessary system access. 2. Transfer the HCM profile from the University Hospitals to MSRDP. **Action Plan Owners:** 1. Interim Assistant Vice President, MSRDP Practice Plan Finance 2. Associate Vice President & Chief Financial Officer, University Hospitals and Interim Assistant Vice President, MSRDP Practice Plan Finance **Target Completion Dates:** 1. Completed 2. Completed

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 3. **Execute Contract for Professional Services** Professional services are not documented in an appropriately executed and approved contract for services provided to the hospital. One consultant provided services to both MSRDP and University Hospitals. The services provided to University Hospitals are not covered by a contract. During FY 2016, the vendor was paid $21,000 related to University Hospitals, which exceeds the requirement of $15,000 for informal bidding. Following the proper procurement process as required by UT Southwestern will ensure appropriate contracting steps are completed.	1. Determine if vendor services will be needed going forward. 2. If professional services will be required, execute a contract and ensure appropriate approval based on the approved UT Southwestern thresholds.	**Management Action Plans:** Vendor services will be evaluated and if services are deemed necessary, a service contract will be implemented. **Action Plan Owners:** Associate Vice President & Chief Financial Officer, University Hospitals **Target Completion Dates:** Completed

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low ● 4. **Improve Controls for Ensuring Vendor Billing Accuracy for Services** Controls can be enhanced to ensure vendors provide accurate billing for services. Valet hours are billed based on hours reported by the vendor and there are no procedures in place for the Medical Center to independently validate the hours reported. Without performing a review of the services charged and obtaining adequate support, inappropriate charges may go undetected.	Develop a process to independently validate services provided by vendors to ensure charges are accurate.	**Management Action Plans:** A new system will be put in place to validate hours worked on site. The new system is expected to be put in place beginning of 2017. **Action Plan Owners:** Director, Auxiliary Enterprises **Target Completion Dates:** February 28, 2017

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:

Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	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 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 presented on the preceding 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.