



July 11, 2019

Jerry Fuller
Director of Contracts and Procurement
The University of Texas System Administration
210 West 7th Street
Austin, Texas 78701

Dear Mr. Fuller:

We have completed our audit of contract monitoring processes at The University of Texas System Administration. The detailed report is attached for your review.

We conducted our engagement in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We will follow up on recommendations made in this report to determine their implementation status. Any requests for extension to the implementation dates require approval from the System Administration Internal Audit Committee. This process will help enhance accountability and ensure that audit recommendations are implemented in a timely manner.

We appreciate the assistance provided by the Office of Contracts and Procurement, as well as management and other personnel of the offices included in this audit.

Sincerely,

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

cc: Scott Kelley, Ed.D., Executive Vice Chancellor for Business Affairs
Veronica Hinojosa-Segura, Associate Vice Chancellor and Controller

**The University of Texas System Administration
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FY 2019**



July 2019

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AUDIT REPORT

July 2019

EXECUTIVE SUMMARY

As defined in The University of Texas (UT) System Administration *Contract Management Handbook*, contract management includes the coordination and administration of four core processes, including planning, procurement of goods or services, contract formation, and contract administration. Contract administration includes seven general processes, among them is contract monitoring. As defined in UT System Administration's contracting procedures, contract monitoring is a function that helps (1) confirm that the contractor is performing all of its duties and obligations in accordance with the terms of the contract, and (2) identify and address any developing problems or issues. The objective of this audit was to determine whether contract monitoring processes and controls are adequate and functioning as intended. The audit scope included contracts executed from September 1, 2016 through August 31, 2018. Our procedures included gaining an understanding of contract monitoring processes and controls with the Office of Contracts and Procurement (CNP), and for a sample of contracts, conducting informational interviews and walkthroughs with contract management personnel, reviewing risk assessments and monitoring plans, and testing a sample of vendor payments.

From the procedures we performed, we validated that CNP has developed a risk assessment process to categorize high-, moderate-, and low-risk contracts, has developed a monitoring plan template that is being used by UT System Administration (System Administration) offices to monitor contracts, conducts contract risk assessments and reviews proposed monitoring plans as part of the contract formation process, works with System Administration Offices to monitor high-risk contracts, and provides contract management training. In general, those interviewed expressed appreciation for the support provided to them by CNP. However, we also identified opportunities to strengthen contract monitoring. While we did not identify any priority findings, we found that CNP's monitoring of the high-risk contracts (and that of the System Administration offices) is a manual, time-consuming process that is not facilitated with contract management software. Contract monitoring is also not performed in a consistent, systematic manner to track or report spending by individual contracts and other key contract information. Consequently, contract monitoring and other contract management activities is not optimized. Implementation of a software solution could increase efficiency, promote greater consistency of contract management activities, and enhance existing processes. There is also not an effective way to track or report contract spending history without the use of tracking spreadsheets maintained outside of PeopleSoft. In addition, we observed various levels of understanding of contract monitoring processes which contributed to non-compliance with certain external reporting requirements. Currently, contract managers are not required to attend training.

CONCLUSION

CNP monitors high risk contracts and provides services and tools to System Administration contract managers to facilitate contract monitoring in a decentralized environment. However, opportunities exist to enhance existing processes, improve efficiency, and reduce the risk of non-compliance with contract requirements. To address these, we recommend that management acquire a contract management software solution to facilitate contract monitoring as well as other key contract management processes; explore the opportunity to update PeopleSoft to facilitate the tracking of spending by contract; and update the delivery of training for those involved with contract management.

Handwritten signature of J. Michael Peppers in black ink.

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

Handwritten signature of Eric J. Polonski in black ink.

Eric J. Polonski, CPA, CIA
Director of Audits



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BACKGROUND

The University of Texas (UT) System Administration Office of Contracts and Procurement's (CNP) mission is to effectively support the procurement and contracting processes for goods and services that sustain, foster, and support the educational, research, and healthcare missions of the UT System. As of June 2019, CNP has a small, four-member team and is led by a director¹ who reports to the Executive Vice Chancellor for Business Affairs (EVCBA).

Senate Bill 20 from the 84th Texas Legislature added or amended numerous provisions in various Texas statutes related to state agency contracting. The bill went into effect on September 1, 2015. CNP, under the direction of the EVCBA, was charged with implementing the new requirements. This included development of contracting policies and procedures and a comprehensive *Contract Management Handbook*, all of which address contract monitoring. CNP implemented the contract monitoring procedures and process during the summer of 2017, which were generally applied to contracts being formed after May 2017. Given the focus on procurement and risks related to contracting in general, this audit was included in the Fiscal Year (FY) 2019 audit plan.

From September 1, 2016 through August 31, 2018, 925 contracts were executed:

- 301 had a total value of \$250,000 or greater.
- 478 had a total value between zero and \$250,000.
- 146 had a listed amount of zero, either because they were Systemwide master services agreements (MSAs) to be used and paid by the individual UT System institutions, or because they were memoranda of understanding (MOU) with another UT System institution or government agency.

AUDIT OBJECTIVE, SCOPE, & METHODOLOGY

The audit objective was to determine whether contract monitoring processes and controls are adequate and functioning at UT System Administration (System Administration). The audit scope included external contracts active during September 1, 2016 to August 31, 2018 (FY 2017-2018). Contracts for outside legal counsel (managed by the Office of General Counsel) and facilities and construction-related services (managed by the Office of Facilities Planning and Construction and Facilities Management) were excluded from this audit as CNP does not have contract monitoring responsibility for these contracts. In addition, contracts managed through the Supply Chain Alliance, which were reviewed in a recent audit performed by the State Auditor's Office, were excluded. Agreements in the form of MOUs and those with individual independent contractors were also excluded.

CNP relies on the Controller's Office to maintain a contract database to track certain details of System Administration contracts. After analyzing the contract population provided by CNP, and focusing on contracts with a total value of \$250,000 or more, the six contracts (managed by six System Administration offices) listed in Table 1 below were judgmentally selected for testing in this audit.

Table 1 - Selected System Administration Contracts

Contract Number	Responsible Office	Description
2017-662*	Risk Management	Hazardous waste disposal
2017-669	University Lands	Machine learning for unstructured data
2017-728	Innovation & Strategic Investment ⁺	Talent matching service

¹ CNP employees include the director, an assistant director, contract administrator, and buyer, as well as a contract analyst who was transferred from Facilities Planning and Construction and primarily handles construction contracts.



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Contract Number	Responsible Office	Description
2018-145*	External Relations	Development consulting
2018-278*	Human Resources ⁺	Executive search services
2018-288*	Information Security	Incident response services
* Indicates a Systemwide contract available for use by the UT System institutions. + These reflect the office names during the audit and used throughout this report; both functions became the Office of Talent and Innovation effective May 13, 2019.		

In addition to conducting interviews with CNP to gain an understanding of contract monitoring processes and controls, we performed the following procedures:

- Obtained and reviewed contracts and related documentation;
- Conducted informational interviews and walkthroughs with contract management personnel;
- Reviewed risk assessments, monitoring plans, and documentation of contract monitoring efforts; and
- Tested a sample of vendor payments.

We conducted the audit in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Criteria from System Administration and CNP guidance, along with terms of the specific contracts, were utilized as applicable.

AUDIT RESULTS

In coordination with the System Administration contract managers, CNP monitors high-risk contracts. CNP also provides training, guidance, and tools for contract management, but monitoring of most contracts is largely a decentralized responsibility of contract managers across various System Administration offices. Monitoring methods vary depending on the contract and contract manager, and CNP defines several levels of monitoring, depending on the risk and nature of the contract. However, opportunities exist to enhance contract monitoring, improve efficiency, and reduce the risk of non-compliance with contract requirements. As described in the detail that follows, we identified no priority, one high, three medium, and two low-level findings²:

Contract Management Software Solution

CNP is small team that works with System Administration offices on all phases of contract management, including monitoring of high-risk contracts. Currently, contract monitoring is a manual process that is not facilitated by contract management software. Contract managers track contract spending in their own ways, many by using Excel spreadsheets maintained outside of PeopleSoft. University Lands (UL) developed software that can, among other things, track spending by individual contract. This software and the associated process provided an effective way for UL to track contract spend, but it is not available to other System Administration offices, which may not have similar internal information technology resources. Overall, there is not a common, systematic way for individual offices or CNP to track spending by contract or other key contract information. Contract managers may also perform other monitoring activities, such as meeting with the vendors or reviewing reports, but completion of those items is not necessarily documented.

² The UT System Internal Audit finding Classification System includes Priority, High, Medium, or Low-level findings. A Priority Finding is defined as "an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole." Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated.



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CNP relies on the Controller's Office to maintain a Microsoft Access database to track certain information related to System Administration contracts. However, CNP does not control this database, and while it was designed as a repository for contract information to facilitate external reporting requirements, it was not designed to facilitate contract monitoring or contract management. Although our procedures did not entail a review of contract addenda or contract renewals, we were informed of instances where contract addenda or renewals were not completed timely after key contract provisions were met. A contract management solution could reduce the risk that work is performed or being performed before required agreements include necessary approvals and are executed.

Contract management software can also include contract authoring capabilities using template language. This could improve efficiency of contract formation and help ensure completeness of the contract. Our sample included one contract with reference to two exhibits that were not included with the contract. The exhibits were not in Content Navigator or retained by the department. It appears these references were included as part of a standard template and not part of agreed-upon contract terms. A contract authoring capability might reduce the risk of an invalid contract reference.

Acquisition of a contract management software solution could also facilitate other contract requirements beyond the receipt of agreed-upon goods and services. One specific requirement that should be monitored is a vendor's submission of a monthly Historically Underutilized Business (HUB) progress assessment report (PAR). While the vendors for the six contracts selected for testing did not engage HUBs, the contract managers interviewed were not aware that the monthly PAR reports must be submitted, even for zero-dollar efforts associated with contracts with a value greater than \$100,000. CNP has informed System Administration offices of their HUB reporting requirements and has also shared this during training.

Lastly, if implemented well, a contract management solution could improve efficiency by reducing time to complete performance monitoring and other contract management activities while allowing CNP to dedicate more time to customer service and assisting offices with more complex agreements. Several interviewed expressed appreciation for the support provided by CNP, would like additional contract monitoring guidance from CNP, and from their perspective, indicated that CNP staff might be too small. Implementation of a contract management solution could also reduce the administrative time for departmental contract managers, provide for a more consistent methodology for contract management, and simplify document retention of key monitoring and other contracting activities.

The observation described above is considered a **high-level** finding in accordance with UT System's Internal Audit finding classification system.

Recommendation: CNP should work with executive management to procure a contract management software solution, which could improve the efficiency of the entire contracting process for both CNP and contract managers. Software could significantly enhance CNP's ability to monitor high-risk contracts, including expiration and renewal dates, and more quickly identify potential challenges. Software could also facilitate the monitoring of contract spending and other specific contract attributes, such as meetings with vendors, receiving vendor reports, and HUB compliance, without the use of spreadsheets so that offices can readily obtain or report information as part of their contract monitoring responsibilities. A contract management solution, if implemented well, could improve the overall efficiency in procuring and managing contracts for System Administration.

Management's Response: *CNP agrees. CNP and the Controller's Office are currently evaluating a product from AMTdirect which will address both GASB 87 lease reporting*



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requirements and has functionality to serve as a contract management database and data repository.

Anticipated Implementation Date: *Evaluation and recommendation to senior management by August 31, 2019.*

Tracking Contract Spend

Each System Administration contract and contract addendum has an assigned UTS Number and Business Affairs ID. However, there is currently no way to effectively track contract spending history without the use of spreadsheets or other tools that are external to PeopleSoft. Utilizing a field in PeopleSoft to record the contract reference number could assist CNP, System Administration offices, and other UT Share institutions in tracking spending by contract. In coordination with a contract management software solution, this could facilitate contract monitoring, reducing the need to maintain manual spreadsheets outside of PeopleSoft, and alert both contract managers and CNP of spend milestones that might trigger the need to amend or renew a contract, and if necessary, seek approval from The UT System Board of Regents.

The observation described above is considered a **medium-level** finding in accordance with UT System's Internal Audit finding classification system.

Recommendation: CNP should work with the Office of the Controller to determine whether an existing field in PeopleSoft could be used to facilitate tracking and summarizing of spending by individual contract. Alternately, CNP could determine whether Shared Information Services could incorporate a contract tracking field into the appropriate PeopleSoft pages. If such a field can be implemented, communicate appropriate usage of this field to UT Share users at System Administration and the other UT Share institutions to ensure the contract reference information is included with each contract payment.

Management's Response: *CNP agrees that this would provide a partial solution for System Administration contracts. Master agreements that are executed at the campus level via project addenda or work order would be excluded since, with the exception of UT Share sites, all instances of PeopleSoft (and in the case of UT Austin, Workday) are not integrated.*

Anticipated Implementation Date: *Evaluation of technical viability of additional field in PeopleSoft by October 31, 2019.*

Contract Manager Training & Templates

CNP periodically provides training on various contracting topics. Contract managers interviewed indicated that they were generally satisfied with the training content, but they offered feedback in two specific areas: 1) CNP's current training was not specific enough for those who are actually performing the administrative tasks, since the training is provided to both department leaders and assigned contract managers within the same sessions; and 2) the contract managers would like additional guidance on whether any specific contract elements, in addition to contract spend, should be monitored (e.g., documenting a log of vendor meetings, reports received, etc.).

Currently, CNP training is not mandatory for all personnel involved with contract monitoring; therefore, some may not be aware of their responsibilities. According to Section 1.1 of the *Contract Management Handbook*, "It is the responsibility of the chief business officer of each Institution to assign



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responsibilities, assure appropriate training and oversight, and monitor the processes so that each procurement achieves best value for the Institution.”

The observation described above is considered a **medium-level** finding in accordance with UT System’s Internal Audit finding classification system.

Recommendation: Based on feedback received from contract managers, CNP should consider developing and offering training in separate sessions for office leaders and contract managers to communicate the appropriate level of detail to each group, including providing additional guidance on any specific attributes that should be monitored by contract managers.

Management’s Response: *CNP agrees. Contract manager training for 2019 will be developed based on this recommendation.*

Anticipated Implementation Date: *Training material to be developed by August 31, 2019 and training to be completed by October 31, 2019.*

Contract Risk Assessment Rankings

To determine which contracts are required to be monitored, CNP and the contract managers complete a risk assessment for contracts with a total value of \$250,000 or greater, or if any other potential high-risk factors are known to exist. Table 2 below displays the factors used to assess the risk level of a contract:

Table 2 - Risk Assessment Factors and Risk Levels³

Criteria	Risk Level		
	Low	Moderate	High
Amount of agreement	<\$250,000	\$250,000 to \$3,000,000	>\$3,000,000
Term of agreement	<3 years	3 to 5 years	>5 years
Prepayment/progress payment	No	Yes	
Personal, health, student data	No	Yes	
Data or security issues	No	Yes	
Accessibility issues	Not applicable or None	Waiver	
Intellectual property issues	Not applicable		Yes
Safety or security issues	No	Yes	
HUB subcontracting plan	No	Yes	
Specificity of Statement of Work deliverables	Not applicable	Specific	Not Specific or Agile Development

After the contract risk assessment has been completed, CNP works with the contract manager to determine the type of monitoring required for that contract—enhanced monitoring or routine monitoring. Enhanced monitoring is applied to high risk contracts. In such instances, CNP will work with the contract manager to develop the contract monitoring plan and will be involved, to a greater degree, in contract monitoring activities. If necessary, CNP will report any significant contract issues to the Office of Business Affairs. Routine monitoring is applicable to moderate risk contracts. For these, the contract managers are to develop a written monitoring plan that addresses moderate risks that have been identified for the contract.

³ From CNP’s Contracting Procedures at <https://www.utsystem.edu/offices/contracts-and-procurement/38-contract-monitoring>.



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CNP developed the contract risk assessment process above in consideration of input from a working group, with the various risk factors assessed and how they would impact contract administration. However, the ranking scale for some risk factors, such as “Data Security Issues” or “Personal, health, safety data,” does not allow for a selection of a high risk, and the definition of each factor is not clearly stated. CNP also indicated that it revised the risk level for contracts with an undetermined “Amount of Agreement” from high to medium, but subsequently agreed that contracts with an undetermined contract total should probably be ranked as a high risk. If at least one factor is assessed as high risk, then *enhanced* monitoring by the office contract manager is required; otherwise, *routine* monitoring is required.

The observation described above is considered a **medium-level** finding in accordance with UT System’s Internal Audit finding classification system.

Recommendation: CNP should consider adjusting the risk assessment so that some factors, such as Data Security Issues (which may have HIPAA, FERPA⁴, or other statutory implications) and contracts with undermined total amounts, can be ranked as high risk to raise the level of monitoring activities required for that contract, and add written definitions of each risk factor for clarification.

Management’s Response: *CNP agrees. CNP will review all risk categories and risk levels to insure that they are appropriate moving forward. CNP will work with the Information Security Office and Privacy Officer to determine more appropriate approaches to identifying risk levels and development of risk mitigation strategies to be included in Contract Monitoring Plans.*

Anticipated Implementation Date: *September 30, 2019.*

Certificates of Insurance

All six of the contracts selected for review required the vendor to submit certificates of insurance prior to performing work under the contract. For five contracts, certificates of insurance were to be provided to a designated Risk and Insurance Analyst in the Office of Risk Management (ORM). However, the ORM contact was not aware that he was listed in the contracts to receive the insurance documentation, nor would he be aware of when a vendor began performing work on a specific contract. The contract template leaves a blank space for the insurance contact, and the offices may have been listing him as the contact because of ORM’s management of several insurance agreements.

The observation described above is considered a **low-level** finding in accordance with UT System’s Internal Audit finding classification system.

Recommendation: CNP should ensure that an appropriate contact is listed to receive certificates of insurance in future contracts. Offices should be reminded of their responsibility to collect certificates of insurance prior to the commencement of work (e.g., by including this in the monitoring plan), and if appropriate, develop a workflow to ensure that the certificates are stored in Content Navigator (System Administration’s document repository).

Management’s Response: *CNP agrees. CNP will include this requirement in contract manager training and include as a requirement on contract monitoring plans. A process will need to be developed that is inclusive of all contracts with insurance requirements given that not all contracts require written monitoring plans. Inclusion of the insurance certificate may be best*

⁴ Health Insurance Portability and Accountability Act and Family Educational Rights and Privacy Act, respectively.



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initiated as part of a new contract management system. The system under consideration has workflow and reminder capability, as well as folders for storing documents associated with a contract.

Anticipated Implementation Date: *Inclusion in contract manager training and contract monitoring plans by **August 31, 2019**. Inclusion in data repository to be determined based on implementation of contract management system.*

Systemwide & Search Firm Contracts

The Office of Human Resources (OHR) and CNP are jointly monitoring executive search firm contracts even though they are not directly involved with the searches. Consequently, their monitoring is effectively limited to administratively tracking spending and receiving documentation from the vendors. The Offices of External Relations and Risk Management indicated a greater degree of communication with the institutions, but they similarly manage several MSAs utilized by the UT System institutions, which also pay for the individual projects procured under the MSAs.

The observation described above is considered a **low-level** finding in accordance with UT System's Internal Audit finding classification system.

Recommendation: CNP should develop a mechanism for the responsible offices to obtain and provide feedback for Systemwide contracts that are used by the institutions and include this step as either part the monitoring plans or contract close out, as applicable. Such information could provide valuable performance information and assist in developing new contracts or renewing or amending existing ones.

Management's Response: *CNP agrees. The Contract Close-Out checklist that is being developed will add a section for Contract Managers to assess supplier performance including feedback from UT institutions that utilized the agreement.*

Anticipated Implementation Date: *September 30, 2019*