

18-114 Purchasing

We have completed our audit of Purchasing. This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

Procurement Services is responsible for supporting activities related to the acquisition of goods and services. UT Health and UT Physicians routinely enter into agreements with various outside individuals and agencies during the course of the year. These agreements may include personal or professional service contracts, maintenance agreements, and contracts with various state institutions. In each case, the authority to obligate each respective institution rests either with an authorized Procurement Services staff member or with other senior level administrators designated by UT Health's president or UT Physicians' Chief Operating Officer.

OBJECTIVE

The objective of this audit was to determine whether controls over purchasing processes including purchase coding and use of blanket purchase orders are adequate and working as intended.

SCOPE PERIOD

The scope period was September 1, 2018 to January 7, 2019.

METHODOLOGY

The following procedures were performed:

- Reviewed and evaluated policies and procedures for the purchase and payment of goods and services at UT Health and UT Physicians using blanket purchase orders.
- Obtained a sample of buyer "Conflict of Interest" statements from the Office of Institutional Compliance and verified each buyer's certification status through the Texas Comptroller's website.
- Conducted an observation of the Financial Management System (FMS) workflow definitions and reviewed the system controls for segregation of duties.
- Selected a sample of Exclusive Acquisition (Sole Source) purchase orders and verified all sections of the Exclusive Acquisition Justification Form were properly completed.
- Selected a sample of blanket purchases orders and verified all purchases were made according to UT Health policies.
- Obtained a sample of UT Physicians blanket purchases to review for approval, supporting documentation, purchasing method and recording methodology.

AUDIT RESULTS

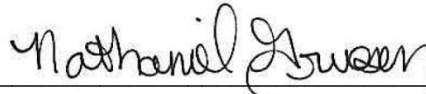
A&AS identified areas of improvement related to blanket purchase order policies and procedures at UTHealth and UT Physicians.

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NUMBER OF PRIORITY FINDINGS REPORTED TO UT SYSTEM

None

We would like to thank the staff and management within the UT Health Procurement department and UT Physicians who assisted us during our review.



Nathaniel Gruesen, MBA, CIA, CFE, CISA

MAPPING TO FY 2018 RISK ASSESSMENT

Risk (Rating)	Use of blanket purchase orders makes it difficult to properly identify costs for budgeting and other analysis (High)
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DATA ANALYTICS UTILIZED

Data Analytic #1	None
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AUDITING & ADVISORY SERVICES ENGAGEMENT TEAM

Audit Manager	Nat Gruesen, MBA, CIA, CFE, CISA
Senior Auditor	Diarra Boye, CIA, CFE
Staff Auditor	Vy Ngo
End of Fieldwork Date	March 20, 2019
Issue Date	May 8, 2019

Copies to:

- Audit Committee
- Kevin Dillon
- Michael Tramonte
- Andrew Casas
- Cynthia Huehlefeld
- Eric Williams

<p>Issue #1: UT Physicians</p>	<p>A&AS reviewed UT Physicians Formal Bid Procedures:</p> <ul style="list-style-type: none"> • “UT Physicians is committed to ensuring that the organization’s requirements for goods, services, construction and facilities are met through an open and fair bid process that provides the highest degree of competition and value to the organization”. • “The Procurement department may issue an ITB for purchases of goods or services exceeding \$50,000”. <p>The first statement indicates that a bid process is used while the second statement indicates that a bid process may be used (but not required), which may cause some confusion.</p> <p>A&AS also reviewed UT Physicians policies and signature authority matrix for guidance. However, since Lease Purchase and Authority to Execute Contracts are not covered by UT Physicians policies, we used UTHealth HOOP to perform our review:</p> <ul style="list-style-type: none"> • HOOP 82, Lease Purchases, Leases with Purchase Option, and Installment Purchases of Equipment states “Procurement Services must have the contract reviewed by the Office of Legal Affairs, and Institutional Compliance prior to its execution”. • HOOP 124, Authority to Execute Contracts and Make Purchases states “University commitments must be made in accordance with the policies and procedures found in the university’s Procurement Procedures”. <p>In addition, we selected a sample of 20 UT Physicians blanket purchase orders greater than \$50,000 and noted the following:</p> <ul style="list-style-type: none"> • 2 out of 20 (10%) purchase orders identified as lease contracts did not show evidence of review by the Office of Legal Affairs. • 1 out of 20 (5%) purchase orders identified as a consultant service contract greater than \$50,000 did not have a formal bid. • 4 out of 20 (20%) purchase orders did not include a bid or some other method to ensure best value was obtained.
<p>Recommendation #1</p>	<p>We recommend UT Physicians develop and implement formal comprehensive purchasing policies and procedures including but not limited to:</p> <ol style="list-style-type: none"> a) Best Value Definition: purchase orders, blanket purchase orders, and contracts (to include lease purchases and consulting services) b) Purchase order routing and approvals process c) Contract development, routing, and execution process d) Formal Bid Process
<p>Rating</p>	<p>Medium</p>
<p>Management Response</p>	<p>Business Operations is in agreement that comprehensive procurement procedures should be developed. This will assure that UT Physicians is obtaining “best value” on relevant procurements, establish internal controls, and help assure compliance to applicable regulations and law by implementing the following procedures :</p> <ol style="list-style-type: none"> a) Best Value Definition: purchase orders, blanket purchase orders, and contracts (to include lease purchases and consulting services): UT

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	<p>Physicians will define best value and create new “draft” procedures, obtain approval and implement new purchase order/contract procedures for All FY20 blanket purchase orders.</p> <p>b) Purchase Order Routing and Approvals Process: UT Physicians will obtain approval of new procedures and implement changes in PeopleSoft to ensure purchase order processing reflect new procedures.</p> <p>c) Contract Development, Routing, and Execution Process: UT Physicians will finalize and implement new contracting procedures to include implementation of the Jaggaer Total Contract Management System (TCM).</p> <p>d) Formal Bid Procedures: UT Physicians will update, obtain approval and finalize the formal bid procedures.</p>
Responsible Party	Cynthia Huehlefeld, Executive Director, Business Operations
Implementation Date	<p>a) September 1, 2019</p> <p>b) July 15, 2019</p> <p>c) December 19, 2019</p> <p>d) July 15, 2019</p>

<p>Issue #2: UTHealth</p>	<p>HOOP 124, Authority to Execute Contracts and Make Purchases states “University commitments must be made in accordance with the policies and procedures found in the university’s Procurement Procedures”.</p> <p><u>The UTHealth Purchasing Procedures Handbook</u></p> <ul style="list-style-type: none"> ○ “All sole source (Exclusive Acquisitions) approvals must be complete before issuance date.” <p>A&AS selected a sample of 20 Exclusive Acquisition purchase orders and noted:</p> <ul style="list-style-type: none"> • 2 out of 20 (10%) Exclusive Acquisition purchase orders were issued before approvals. • 1 out of 20 (5%) Procurement PO/Contract Checklist was not reviewed and signed by the Assistant Vice President of Procurement for an Exclusive Acquisition purchase order greater than \$250,000. <ul style="list-style-type: none"> ○ “UTHealth is dedicated to providing a fair opportunity for all suppliers to bid or submit proposals and be awarded contracts for goods and services. Most contract award determinations are based upon “best value” to UTHealth.” <p>A&AS selected a sample of 5 blanket purchase orders between \$15,000 and \$50,000 and noted:</p> <ul style="list-style-type: none"> • 4 out of 5 (80%) blanket purchase orders did not indicate whether the best value was obtained since there were no quotes and/or contracts attached. <ul style="list-style-type: none"> ○ “For purchases greater than \$50,000, a formal procurement method is required.” <p>A&AS selected a sample of 5 blanket purchase orders greater than \$50,000 and noted:</p> <ul style="list-style-type: none"> • 2 out of 5 (40%) blanket purchase orders (greater than \$50,000) were processed before obtaining a formal bid. • 3 out of 5 (60%) blanket purchase orders (greater than \$50,000) had no quotes and/or contract attached.
<p>Recommendation #2</p>	<p>We recommend UTHealth develop and implement comprehensive policies and procedures covering blanket purchase orders.</p>
<p>Rating</p>	<p>Medium</p>
<p>Management Response</p>	<p>Purchasing Services is in agreement that comprehensive procedures should be developed to cover blanket purchase orders. Purchasing Services will finalize new blanket order procedures and ensure all FY20 dispatched blanket purchase order follow these new procedures.</p>
<p>Responsible Party</p>	<p>Eric R. Williams, Assistant Vice President, Procurement Services</p>
<p>Implementation Date</p>	<p>September 1, 2019</p>