



**Office of Internal Audit**

800 W. Campbell Rd. SPN 32, Richardson, TX 75080  
Phone 972-883-4876 Fax 972-883-6846

January 23, 2017

Dr. Richard Benson, President,  
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Outside Contractors as part of our fiscal year 2016 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of our audit was to ensure adequate controls exist over the contract administration process, and that UT Dallas is in compliance with applicable contract-related policies and procedures.

Overall, we found that controls exist within the contract administration process. Implementation of the recommendations in the report will help ensure compliance and enhance the administration of contracts at UT Dallas.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens  
Institutional Chief Audit Executive

*UT Dallas Responsible Parties:*

Mr. Pete Bond, Assistant Vice President, Office of Contracting and Administrative Services  
Ms. Deborah Reynolds, Executive Director, Procurement Management

*Members of the UT Dallas Institutional Audit Committee:*

External Members:  
Mr. Bill Keffler  
Mr. Ed Montgomery  
Ms. Julie Knecht  
Dr. Hobson Wildenthal, Executive Vice President  
Dr. Inga Musselman, Interim Provost  
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Dr. Gene Fitch, Vice President for Student Affairs  
Mr. Timothy Shaw, University Attorney

*The University of Texas System:*

System Audit Office

*State of Texas Agencies:*

Legislative Budget Board  
Governor's Office  
State Auditor's Office  
Sunset Advisory Commission

## Executive Summary

### Audit Objective and Scope

To ensure adequate controls exist over the contract administration process and that UT Dallas is in compliance with applicable contract-related policies and procedures.

### Conclusion

Overall, we found that controls exist within the contract administration process. Implementation of the recommendations in the report will help ensure compliance and enhance the administration of contracts at UT Dallas.

### Summary of Audit Recommendations by Risk Level

Recommendation	Risk Level	Estimated Implementation Date
(1) Centralize Maintenance of Existing Agreements	Medium	May 31, 2017
(2) Enhance Monitoring Procedures for Active Agreements	Medium	May 31, 2017
(3) Establish Process to Identify High-Risk Contracts	Medium	May 31, 2017
(4) Develop Complaint and Termination Procedures	Medium	August 31, 2017
<b>Responsible Vice President:</b> <ul style="list-style-type: none"> <li>Mr. Terry Pankratz, Vice President for Budget and Finance</li> </ul>	<b>Responsible Parties:</b> <ul style="list-style-type: none"> <li>Mr. Pete Bond, Assistant Vice President, Office of Contracting and Administrative Services</li> <li>Ms. Deborah Reynolds, Executive Director of Procurement Management</li> </ul>	
<b>Staff Assigned to Audit:</b> Dominique DiAndrea, CIA, Project Leader Hiba Ijaz, CPA, CIA, Staff Auditor		

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## Background

Contracting at UT Dallas falls under the purview of the Office of the Vice President for Budget and Finance<sup>1</sup>. The Office of Contract Administration (OCA), the department primarily responsible for contract administration, was created in FY16 to centralize contract management. State of Texas contract rules are outlined in Senate Bill (SB) 20, and a Contract Transparency report of all active contracts, and purchase orders issued by month are posted on the [OCA](#) and [Procurement Management](#) websites to comply with SB 20.

The following information was provided by the Office of Contract Administration and Procurement Management for contracts in place during the first quarter of FY17<sup>2</sup>.

Type Contract	Responsible Department	# of Contracts	\$ Value
Contracts for goods and services (Purchase Orders) <sup>3</sup>	Procurement Management	1,648	\$5.4 million
Contracts for non-goods and services, non-institutional construction contracts, revenue generating contracts	Contract Administration	470	N/A

To centralize contract maintenance, iContracts, a web-based system, was implemented by OCA to maintain, track, and update contracts under their purview. Contracts for the purchase of goods and services are stored in eProcurement by Procurement Management; however, several of these larger contracts are tracked on both systems. The Procurement Office and OCA share the contract information and have access to all contracts.

OCA and Procurement Management are responsible for following numerous policies, procedures, and regulations governing contract administration.	
<a href="#">Senate Bill 20</a>	regulations regarding contract processing of for state agency contracts
<a href="#">UT System</a>	<ul style="list-style-type: none"> <li>requirements for internal review and approval</li> <li>detailed contract processing procedures</li> </ul>
<a href="#">UT System</a> Office of General Counsel	<ul style="list-style-type: none"> <li>specific contract review procedures to determine when additional review is required by the Office of General Counsel or the Board of Regents</li> <li>exceptions to Board approval requirements, e.g., group purchases, library acquisitions, and routine supplies purchases</li> </ul>
<a href="#">UT Dallas</a> Office of Contract Administration	guidelines for contract administration
UT Dallas Procurement Management	departmental procedures and flowcharts that determine when a purchase order/contract is required and state review and approval requirements based on the contract type and purchase cost

<sup>1</sup> Contracts for research grants, sponsored activities, and intellectual property related to research are administered through the Office of Research and fall outside the scope of this review.

<sup>2</sup> These amounts are estimated due to a lack of full implementation of the iContracts system. See recommendation (1).

<sup>3</sup> Only goods and services contracts greater than \$50,000 are tracked, and not all purchase orders require a contract.

## Audit Objective

To ensure adequate controls exist over the contract administration process and that UT Dallas is in compliance with applicable contract-related policies and procedures.

## Scope and Methodology

The scope of this audit was FY16 and our fieldwork concluded on January 9, 2017. To satisfy our objectives, we performed the following:

- Gained an understanding of contract administration policies, procedures and regulations.
- Interviewed responsible parties for contract administration.
- Tested various controls surround contract administration, including:
  - system user access
  - compliance with policies, rules, and regulations
  - contract review and approval
  - contract monitoring procedures
  - contract closeout procedures
  - reporting
  - records retention
  - implementation of policy and procedures
  - staffing
  - conflicts of interest and confidentiality/privacy
  - compliant and termination procedures

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

## Conclusion

Overall, we found that controls exist within the contract administration process. Implementation of the recommendations in the report will help ensure compliance and enhance the administration of contracts at UT Dallas. Specific findings and recommendations are detailed below in the Audit Results and Management's Responses section of the report.

We appreciate the courtesy and cooperation received from the management and staff in the Offices of Contract Administration and Procurement Management as part of this audit.

## Audit Results and Management’s Responses

### Strengths and Controls Noted during the Audit

Management and staff possess the necessary skills and training to ensure they are aware of the laws, rules, and regulations governing contract administration.  
 Contract administration staff keep executive management updated through reports and periodic meeting on various contracting issues.  
 Employees receive conflict of interest training.

### Observations, Recommendations, and Management’s Responses

*Priority Findings – UT System:* A UT System priority finding is defined by the UT System Audit Office 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.” We have **no UT System Priority Findings** resulting from this audit.

Risk Level	Observation	Risk/Effect	Recommendation	Management’s Action Plan
Medium	<p>1. <b>Centralize Maintenance of Existing Agreements</b> <i>(prior audit recommendation)</i></p> <p>Maintaining active agreements in a central location and establishing reporting requirements to track vendor performance enhances the visibility of existing contracts, ensures all related documents such as amendments and pricing schedules are appropriately tracked and accessible, and helps provide assurance that vendors who have consistently underperformed are appropriately considered prior to awarding a contract.</p> <p>iContracts was purchased as the result of a former audit recommendation to help centralize the maintenance of contracts; yet, it is not yet fully utilized. OCA enters all information for contracts under their purview; however, contracts for the purchase of goods and services are still mostly tracked in eProcurement.</p>	<p>There is an enhanced likelihood that vendors who have not met the requirements of the contract will go undetected and that active agreements or related documents to the master agreement will not be located in a timely manner.</p>	<p>Management should fully utilize iContracts as its central repository for all active and amended agreements to ensure existing agreements are properly maintained and monitored, including for record retention.</p>	<p><b>Management’s Response and Action Plan:</b> <i>Due to the volume of small dollar, non-recurring contracts, it is not feasible to centralize the cataloguing of all contracts processed by the two departments.</i></p> <p><i>Procurement Services and the Office of Contract Administration have worked together during the past two years to establish criteria to identify which office will manage files related to various types of contracts. In general, multi-year, university-wide contracts that have negotiable terms and conditions are negotiated, managed and tracked by the office of contract</i></p>

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	<p>Finally, although records retention requirements are being met, opportunities for improvement exist in developing a monitoring plan to ensure that UT Dallas is not retaining records longer than required. Senate Bill 20 Section 441.1855 outlines contract records retention requirements that would be satisfied with a centrally maintained and monitored system of contracts.</p> <p>Section 16 (Sec. 2157.0685) of Senate Bill 20 states that contracts that require a statement of work should be posted on UTD's website along with the statement of work. In addition, Section 18 (Sec. 2261.257) of Senate Bill 20 states that the University should use a system to identify and record each contract entered.</p>			<p><i>administration. Small dollar, non-recurring departmental contracts that do not have negotiable terms and conditions are managed by Procurement Services through the Purchase order process.</i></p> <p><i>These criteria are not documented. The office of contract administration and procurement services will develop written guidelines to document the shared responsibility for administering contracts.</i></p> <p><b>Estimated Date of Implementation:</b></p> <p><i>May 31, 2017</i></p> <p><b>Person Responsible for Implementation:</b></p> <p><i>Debbie Reynolds and Pete Bond</i></p>
<p><b>Medium</b></p>	<p>2. <b><u>Enhance Monitoring Procedures for Active Agreements</u></b> <i>(prior audit recommendation)</i></p> <p>A previous audit identified that active agreements with outside contractors were managed and maintained by the departments. For revenue and non-revenue generating contracts, the departments were, and still are, responsible for ensuring the invoiced amounts are accurate, the services performed agree to the schedules of work, and the contractor or vendor has complied with the terms and conditions of the agreement. It was also</p>	<p>There is an enhanced risk that billing errors and expired agreements will not be detected in a timely manner.</p>	<p>Management should establish a process to provide ongoing monitoring of existing agreements with outside vendors.</p>	<p><b>Management's Response and Action Plan:</b></p> <p><i>Due to the volume of small dollar, non-recurring contracts, it is not feasible to centralize the monitoring of all contracts processed by the two departments.</i></p> <p><i>The office of contract administration is responsible for ensuring vendor compliance with</i></p>

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	<p>identified, and remains the case, that there was no process to identify and track when contracts were about to expire or when they were up for a renewal.</p> <p>Further, through testing it was noted that:</p> <ul style="list-style-type: none"> <li>a) Contract termination dates are not entered into iContracts.</li> <li>b) iContracts does not identify which contractors use sub-contractors.</li> <li>c) Revenue derived from revenue-generating contracts could not be easily identified in PeopleSoft as contract revenue does not have a dedicated account code. Monitoring of contract revenue, therefore, is also performed at the department level.</li> </ul> <p>Continuous monitoring of existing contracts helps ensure invoicing accuracy, early payment discounts are realized, and minimize the risk of expired agreements going undetected in a timely manner. In addition, Section 18 (Sec. 2261.256) of SB 20 requires procedures for monitoring contracts to assess several risks.</p>			<p><i>contact terms for university-wide contracts as discussed above.</i></p> <p><i>Procurement Services is responsible for ensuring the appropriate documentation and approvals related to the acquisition of services and disbursement of funds.</i></p> <p><i>Responsibility for managing departmental contracts is delegated to the departments.</i></p> <p><i>The office of contract administration and procurement services will create information to be distributed to departmental contract administrators clarifying their responsibility to closely monitoring all contracts administered by the department.</i></p> <p><i>For contracts managed by the office of contact administration:</i></p> <ul style="list-style-type: none"> <li><b>a)</b> <i>Contract termination dates will be entered</i></li> <li><b>b)</b> <i>To the extent sub-contractor information is available, it will be tracked</i></li> <li><b>c)</b> <i>We will confer with the accounting office to determine if a more appropriate account code should be utilized to record contract revenue.</i></li> </ul>

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
				<p><b>Estimated Date of Implementation:</b></p> <p><i>May 31, 2017</i></p> <p><b>Person Responsible for Implementation:</b></p> <p><i>Debbie Reynolds and Pete Bond</i></p>
<p><b>Medium</b></p>	<p>3. <b><u>Establish Process to Identify High-Risk Contracts</u></b> <i>(prior audit recommendation)</i></p> <p>As noted in the prior audit, there are no established protocols to determine which contracts should be considered of high risk to UTD. All contracts were treated equally, and no additional internal reviews were completed over agreements that bind UTD for multiple years or may have a large or complex scope included in the terms and conditions. High risk criterion established by an organization enhances monitoring activities, helps ensure vendor compliance, and reduces the risk of inaccurate or erroneous payments.</p> <p>In addition, through testing it was noted that dollar amounts, which would assist in identifying higher risk contracts, are not entered as a separate field within iContracts.</p>	<p>All contracts are treated as having equal risks to UT Dallas, regardless of the total estimated spend, duration of the agreement, or scope of the goods or services provided by the vendor.</p>	<p>Management should consider establishing criterion that would help determine which agreements should be considered high risk.</p>	<p><b>Management's Response and Action Plan:</b></p> <p><i>As noted above, informal criteria have been established to identify high risk contracts and these contracts are monitored by the office of contract administration.</i></p> <p><i>The office of contract administration and procurement services will develop written guidelines to document the criteria for high-risk contracts.</i></p> <p><b>Estimated Date of Implementation:</b></p> <p><i>May 31, 2017</i></p> <p><b>Person Responsible for Implementation:</b></p> <p><i>Debbie Reynolds and Pete Bond</i></p>

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
<b>Medium</b>	<p>4. <b><u>Develop Complaint and Termination Procedures</u></b></p> <p>While applicable contracts were found to contain clauses related to complaints and terminations, specific procedures to track them have not been implemented by OCA or Procurement.</p> <p>A documented process allows for the historical tracking of issues, which enables an organization to make smarter contracting decisions. SB 20, Section 16 (Sec. 2261.253), requires performance to be monitored.</p>	<p>UT Dallas may continue to contract with vendors that have repeated performance issues.</p>	<p>OCA and Procurement should develop procedures to track vendor issues, including poor performance.</p>	<p><b>Management's Response and Action Plan:</b></p> <p><i>A process for tracking complaints and terminations will be developed and documented.</i></p> <p><b>Estimated Date of Implementation:</b></p> <p><i>August 31, 2017</i></p> <p><b>Person Responsible for Implementation:</b></p> <p><i>Debbie Reynolds and Pete Bond</i></p>

## Appendix 1: Priority Findings and Risk Matrix

### Definition of Risks

Risk Level	Definition
<b>Priority</b>	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“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.”</i>
<b>High</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.

## Appendix 2: Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. *R1412, Contracts*, dated April 18, 2014.

Recommendation	Implemented?
(1) Centralize Maintenance of Existing Agreements	No, see recommendation 1 above
(2) Enhance Monitoring Procedures for Active Agreements	No, see recommendation 2 above
(3) Establish Process to Identify High Risk Contracts	No, see recommendation 3 above
(4) Standardize Contract Reviews	Yes