

## 16-114 Procurement

We have completed our audit of procurement. 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. UTHealth routinely enters into agreements with various outside individuals and agencies during the course of the year. These agreements may include personal or professional services contracts, maintenance agreements, and contracts with various state institutions. In each case, the authority to obligate the institution rests either with an authorized Procurement Services staff member or with other senior level administrators designated by UTHealth's president. Contracts for the acquisition of services are approved by Procurement Services.

### OBJECTIVES

The objective of this audit was a review of the procurement process to ensure compliance with formal bid procedures including sole source justification.

### SCOPE PERIOD

September 2014 - October 2015

### METHODOLOGY

The following procedures were performed:

- Reviewed and evaluated policies and procedures for the purchase and payment of goods and services at UTHealth.
- Verified UTHealth has developed a webpage to be in compliance with HB 20 requirements related to public disclosure of all non-bid contracts and a "public justification" for using such a procurement method.
- Conducted with Procurement Services, an observation of the Financial Management System (FMS) workflow definitions and reviewed the system controls segregation of duties.
- Selected a sample of sole source purchase orders (PO) and verified all sections of the Sole Source Justification Form were properly completed.
- Verified formal procurement (25K and over) purchases are conducted according to UTHealth policies. Auditing and Advisory Services (A&AS) also obtained PO change history for each sample item and verified changes to the PO were properly documented and approved within the general scope of the original contract.

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- Reviewed a sample of Invitation to Bid (ITB) tabulation files and verified the date, time and physical location of bid opening are clearly stated on every ITB and that a contact point for inquiries from suppliers or potential suppliers is provided.
- Reviewed a sample of Request for Proposal (RFP) and obtained evidence to support an evaluation team was established and approved by the AVP of Procurement prior to posting the RFP and each evaluation team member has submitted a Non-disclosure Conflict of Interest Form prior to posting the RFP. A&AS also obtained evidence to support an evaluation scoring sheet was used by each evaluation member to score vendors based on the approved evaluation criteria.
- Analyzed POs under \$5K to determine whether purchases were split in order to circumvent established procurement policies.
- Obtained a sample of UT Physician's (UTP) expenditures to review approval, supporting documentation, purchasing method and recording methodology.

**AUDIT RESULTS**

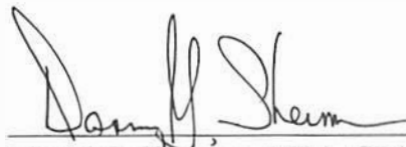
A&AS identified areas of improvement related to informal purchases at UTHealth and related to procurement policies at UTP:

- UTHealth - One purchase was split into four purchases to circumvent procurement policies/limits.
- UTP - Formal policies and procedures governing procurement have not been established.

**NUMBER OF PRIORITY & HIGH FINDINGS REPORTED TO UT SYSTEM**

None

We would like to thank the staff and management within UTHealth Procurement department and UTP who assisted us during our review.



Daniel G. Sherman, MBA, CPA, CIA  
Assistant Vice President

**MAPPING TO FY 2016 RISK ASSESSMENT**

<b>Risk (Rating)</b>	R.47 Leasing is used to circumvent procurement policies and limits. (High)
	R.48 An unqualified bidder is selected during the procurement process (Medium)
	R.48 Procurement is not effective, efficient, and/or does not comply with state purchasing laws. (Medium)
	R.50 Procurement does not have adequate policies and procedures. (Low)
	R.52 Purchases are not competitively bid. (High)
	R.54 Purchases are not properly approved. (Medium)
	R.55 Vendor contracts are not properly administered. (Medium)
	R.81 Vendors do not bill according to the contract. (High)

AUDITING & ADVISORY SERVICES ENGAGEMENT TEAM

<b>Assistant Vice President</b>	Daniel G. Sherman, MBA, CPA, CIA
<b>Audit Manager</b>	William N. Gruesen, Sr. Audit Manager
<b>Auditor Assigned</b>	Diarra Boye, Auditor
<b>End of Fieldwork Date</b>	03/30/2016
<b>Issue Date</b>	05/13/2016

## Copies to:

Audit Committee  
Michael Tramonte  
Richard Rawson

Andrew Casas  
Eileen Scallan  
Angela H Smith

<b>Issue #1</b>	<p>A&amp;AS used PeopleSoft FMS to query FY2015 purchase orders not attached to a contract from \$0 to \$25K. We reviewed various attributes including but not limited to the splitting of purchases in order to circumvent procurement limits. Included in our population were four POs totaling approximately \$17,800, which were entered on three consecutive days by the same department using the same fund code.</p> <p>Based on inquiry with the responsible department, we found the purchases were intentionally split by the department in order to circumvent established procurement limits. The department's responsible manager informed A&amp;AS the expense was deliberately distributed into four separate orders in order to avoid a bidding process. As a result, this violates UHealth HOOP 124 regarding purchases greater than \$5K that was in effect at the time of our testing. Informal Purchasing limit has been increased to \$15K as of November 1, 2015.</p>
<b>Recommendation #1</b>	We recommend UHealth Procurement Services develop a control to detect split transactions made in order to circumvent procurement policies and established limits.
<b>Rating</b>	Medium
<b>Management Response</b>	Procurement will develop queries to review monthly for purchases made that could be potentially split orders to circumvent the \$15,000 and above threshold for non-federal funds, and those exceeding \$5,000 on federal funds. Procurement will follow up with the departments via email on those purchases that are identified to verify and either notate that it was in compliance, or that department was counseled as to the compliance violation.
<b>Responsible Party</b>	Richard Rawson, AVP Procurement
<b>Implementation Date</b>	April 1, 2016



<b>Issue #2</b>	<p>A&amp;AS selected a sample of ten Non-PO vouchers and ten PO vouchers based on various factors such as high dollar purchase and/or multiple even dollar purchases. One of the test criteria was to review purchases for adherence to UTP procurement policies and procedures. Upon discussion with UTP management, we found that formal procurement policies have not been developed.</p> <p>One other test criteria was to identify UTP controls over purchases. We verified UTP uses PeopleSoft FMS procurement processes to provide consistency and validation of purchases. Below is a listing of some of those controls:</p> <ul style="list-style-type: none"> <li>- UTHSC and UTP share the same vendor database. Vendors are only added once it is verified that they are not debarred from doing business.</li> <li>- This vendor database is required to be utilized when creating either a requisition or a non-PO voucher, all payments are system generated.</li> <li>- UTP utilizes departmental workflow in PeopleSoft FMS for requisitions and non-PO vouchers, those \$2,000 or greater require an additional COO approval.</li> </ul> <p>During our review of documentation and UTP procurement practices, we noted opportunities to strengthen procurement and payment procedures. For example, Non-PO vouchers are used for payment of contractor's invoices for construction contract expenditures. UTP would benefit from opening a purchase order for each project/contract so payments can be tracked by project and provide assurance expenditures do not exceed contracted amount.</p>
<b>Recommendation #2</b>	We recommend UTP develop and implement a comprehensive set of policies and procedures covering procurement processes and following industry best practices.
<b>Rating</b>	Medium
<b>Management Response</b>	We agree. We will develop UT Physician procurement policies and procedures that address the specific needs and requirements of UTP. These policies and procedures will follow industry best practices.
<b>Responsible Party</b>	Andrew R. Casas, COO UTP
<b>Implementation Date</b>	August 2016