

MEMORANDUM

TO: Katrina M. Lambrecht, JD
Vice President, Institutional Strategic Initiatives

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA
Associate Vice President, Audit Services



DATE: August 12, 2015

SUBJECT: Angleton-Danbury Campus Purchasing Process Audit
Engagement Number 2015-011

Attached is the final report regarding the Angleton-Danbury Campus Purchasing audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: Significant (S), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachments

c: Donna K. Sollenberger
Deborah A. McGrew
William D. Garwood



The University of Texas Medical Branch
Audit Services

Audit Report

Angleton Danbury Campus Purchasing Process

Engagement Number 2015-011

August 2015

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150

Angleton Danbury Campus Purchasing Process Audit Engagement Number: 2015-011

Background

On August 16, 2014, the University of Texas Medical Branch (UTMB Health) entered into a long-term operational agreement with the Angleton Danbury Medical Center. The goal of the agreement is to strengthen both organizations' ability for success in an accountable care environment while providing patients access to the best care close to their homes. The medical center, now known as the UTMB Health Angleton Danbury Campus (ADC), has served Brazoria County for more than forty years.

Becoming part of the UTMB Health System included implementing the PeopleSoft financial system and adapting ADC's established business processes to align with UTMB Health's policies, procedures and processes. This included decentralizing ADC's centralized procurement function and ensuring compliance with established institutional purchasing policies and procedures. Although significant, key elements of the transition have been accomplished, continued cultural change remains a concern within ADC leadership including with the Vice President, Institutional Strategic Initiatives, and the ADC Associate Administrator for Finance.

Audit Objectives

The primary objective of this audit is to assess ADC's current status of adoption of UTMB policies and procedures related to purchasing and employee reimbursement.

Scope of Work and Methodology

The scope of the audit included the purchasing processes and transactions from August 16, 2014 through April 30, 2015. Our audit included interviews with key ADC personnel, review of related documentation, and transaction testing.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

Audit Results

Policies and Procedures

Audit Services utilized applicable UTMB policies relating to the purchasing function as well as employee travel/general expense reimbursements to generate interview questions and identify attributes to review for during transactional testing.

Audit Services interviewed key ADC personnel to gain an understanding of current procedures and perspectives of the purchasing function. Questions asked of the interviewees related to the following topics:

- The approval of new vendors/changes to vendor information
- Process of purchasing from within PeopleSoft to include: dollar thresholds of purchases, approval limits, competitive bidding, use of vendors
- Monitoring to ensure an employee of UTMB has not obligated institutional funds or entered into agreements for the purchase of supplies, materials, equipment or services

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without getting authorization from the President/chief administrative officer with exceptions as outlined in policies

- The issuance, utilization, and monitoring of expenses
- Issuance/use of procurement cards
- Creation, approval and submission of employee expense reports

Interviewees were able to articulate the fundamentals of the purchase requisition-to-purchase order process within PeopleSoft; however, they were unsure how to process more complex purchases. Interviewees indicated the Purchasing Helpdesk provides assistance when contacted. A common theme among all employees interviewed was that the purchasing training provided could have been more in-depth and hands-on. Additionally, there were knowledge retention issues due to the training occurring weeks prior to implementation of PeopleSoft.

Recommendation 2015-011-01-R:

The Vice President, Institutional Strategic Initiatives, should ensure Angleton Danbury Campus purchasing staff receive a refresher training course on UTMB purchasing policies and procedures with a focus on more complex transactions.

Management's Response:

Four (4) additional eProcurement classes were provided on 7/23/15 and 7/28/15. All managers and appropriate staff members were invited to attend. Additionally, Purchasing provided a member of their staff to be on campus all day Thursday, August 6th, to answer specific questions of staff members. The response to both education opportunities was favorable and staff commented that they had a much better understanding of the various types and reasons for using the various requisition types. Compliance is expected to improve significantly as a result.

Implementation Date: Ongoing

Employee Expense Reports

Audit Services tested a sample of 15 ADC employee reimbursements/expense reports for appropriate approval, sufficient supporting documentation, mathematical accuracy, and appropriate submission guidelines. Minimal exceptions were noted in the areas of expense coding, lack of appropriate supporting documentation, and a duplicate payment which was subsequently addressed by ADC leadership.

Additionally, Audit Services noted eight expense reports approved by an individual that while an authorized approver in PeopleSoft, would not be deemed an appropriate approver based on job designation, thus not aligning with UTMB best practices of expense report approvals by an employee's supervisor. ADC management cited a lack of understanding of the differences between the PeopleSoft authorized approver designation and supervisory authority for approvals. Management noted this practice was discontinued in May 2015. Audit Services reviewed current expense reports and validated that this change occurred.

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Recommendation 2015-011-02-R:

The ADC Associate Administrator for Finance should ensure employee expense reimbursement requests are correctly coded, mathematically accurate, contain all applicable documentation and do not represent a second or duplicate request.

Management's Response:

Management will verify that all expense reports are being routed appropriately for approval. Modifications to the routing control will be made as necessary. Regarding proper coding and documentation, we will send out an electronic communication to all ADC Managers as well as make this an agenda item for the August ADC Department Managers meeting on 8/28/15.

Implementation Date: Any needed corrections to the routing control as well as communications should be completed by 8/28/15.

Purchase Orders (POs) and Non-Purchase Order Vouchers (NPO Vouchers)

Institutional policies and procedures stipulate certain goods and services require the creation of a purchase requisition which, on approval, subsequently generates a purchase order for acquiring the requested item. Audit Services testing of a sample of 40 purchase orders noted errors related to creation of requisitions after the invoice had been received; discrepancies between supporting documentation and the amount of the requisition; miscalculation of a quote resulting in an incorrect requisition amount; insufficient supporting documentation; a requisition created against an expired contract; and incorrect account coding. These errors appear to be the result of a combination of insufficient training; lack of attention to detail; and, insufficient review and oversight.

Certain goods and services can be acquired through the creation and approval of a non-PO voucher. Audit Services testing of a sample of 10 Non-PO vouchers indicated no exceptions.

Recommendation 2015-011-03-R:

The ADC Associate Administrator for Finance should ensure purchase requisitions are properly prepared and submitted in accordance with established purchasing policies and procedures.

Management's Response:

Four (4) additional eProcurement classes were provided on 7/23/15 and 7/28/15. All managers and appropriate staff members were invited to attend. Additionally, Purchasing provided a member of their staff to be on campus all day Thursday, August 6th, to answer specific questions of staff members. The response to both education opportunities was favorable and staff commented that they had a much better understanding of the various types and reasons for using the various requisition types. Compliance is expected to improve significantly as a result.

Implementation Date: Ongoing

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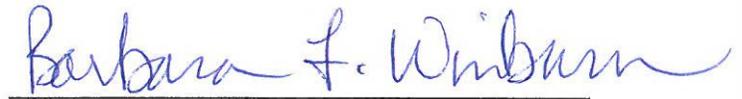
Conclusion

Audit Services review of Angleton Danbury Campus' purchasing process indicated that while employees appeared generally aware of and are following UTMB Health policies and procedures, opportunities exist to improve creation and submission of purchases requisitions and non-purchase orders and employee expense reimbursements.

We greatly appreciate the assistance provided by the respective Angleton Danbury Campus and Supply Chain staff, and hope that the information presented in our report is beneficial.



Kimberly K. Hagara, CPA, CIA, CISA,
CRMA
Associate Vice President, Audit Services



Barbara L. Winburn, RHIA, CIA, CRMA
Senior Audit Services Manager