

16-108 Facilities' Service Vendor Audit

EXECUTIVE SUMMARY

The M.D. Anderson Cancer Center (MD Anderson) Facilities Management (FM) and Supply Chain Management (SCM) departments work closely together to solicit and manage Facilities based Service-related Vendors. For Fiscal Year 2015, FM managed 564 vendors with spend of \$17.2 million. The objective of this audit was to assess the processes and controls utilized by FM to manage and monitor the cost and performance of their Service-related Vendors.

Audit Results:

Overall, the management and monitoring of processes and controls utilized by FM and SCM for the selected Service-related Vendors at MD Anderson appear to be designed effectively based on testing performed as part of this audit engagement. However, there are several opportunities to enhance the operation of the processes and controls not only within FM but also within their interaction and collaboration with SCM. The following high and medium ranking observations highlight the processes and internal control recommendations that were noted during the audit:

- Existence of Formal Contract Agreements
- Monitoring of Contract Spend
- Consistent Invoice Approval
- Validation of Service Vendor Measurements
- Discretion with Respect to PO Fund Application
- Detailed Review of Invoiced Rates

Management Summary Response:

Management agrees with the observations and recommendations and has developed action plans to be implemented on or before August 31, 2017.

Appendix A outlines the methodology for this project.

The courtesy and cooperation extended by the personnel in FM and SCM are sincerely appreciated.



Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
August 31, 2016

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Observation 1:**Existence of Formal Contract Agreements****RANKING: High**

For two (2) of the seven (7) service vendors reviewed, we observed periods in which a formal contract agreement was not in place for periods ranging from two months to over a year. Without the existence of a signed formal contract agreement and an appropriate Purchase Order (PO) released, MD Anderson may be exposed to additional risks while vendors work without current terms and conditions.

Recommendation:

Facilities Management (FM) and Supply Chain Management (SCM) should develop and co-sign a Service Level Agreement (SLA) to establish reasonable timeframes, responsibilities and milestones for initiating the contract renewal process in order to ensure that a formal contract agreement is signed by both MD Anderson and the vendor and a PO has been released prior to work being performed. Status dashboard of current SLAs can be reviewed during FM Quarterly Business Meetings or more frequently, if required. Any potential delays can be addressed during FM Weekly Staff Meetings.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owners: Robert Adkins, Jim Waters

Observers: Paul St. Amant, Spencer Moore, Bill Bailey

Due Date: 08/31/2017

MD Anderson's financial and contract management systems currently provide notifications of pending contract expirations to SCM and the end users (e.g. personnel within Facilities Management) beginning at 365 days prior to the contract expiration date. The review of contracts with pending expiration dates within 365 days will be established as a standing agenda item for all SCM-FM quarterly business meetings. The quarterly meetings will become a tracking and escalation tool to ensure extensions or new agreement are timely executed.

Observation 2:**Monitoring of Contract Spend****RANKING: Medium**

The spend for one contract from June 2009 through June 2013 totaled approximately \$8.8 million. The total contract cap during that time period was \$5 million, resulting in overspending of \$3.8 million relative to the cap. Per discussions with Sourcing & Contract Management personnel, the \$3.8 million spent prior to the implementation of the ResourceOne system was never entered into the new system, and as a result, did not trigger the extension of the contractual spending cap. Periodic reviews are performed by FM and SCM in order to track contract spend and to forecast the amendments needed to increase the cap.

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While these processes and controls were in place, the prior spend on this one contract did not get carried over during the implementation of Resource One and resulted in the cap being exceeded without a contract amendment. By not monitoring overall contract spend, MD Anderson may be exposed to work and subsequent costs being incurred without an amendment in place.

Recommendation:

FM should implement a process to review invoices and monitor spend on released POs in order to ensure that the total contract spend for a period is within the cap specified in the agreement. If discrepancies are noted, FM should coordinate with SCM to investigate any differences. Additionally, SCM needs to ensure the accuracy of the data for the agreements within ResourceOne.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owners: Rob Adkins, Jim Waters, Eva Saenz

Observers: Paul St. Amant, Spencer Moore, Bill Bailey

Due Date: 01/31/2017

The PeopleSoft (formerly known as ResourceOne) financial system is the primary automated administrative control for monitoring contract spend. PeopleSoft monitors and controls P.O. release values relative to the contract cap when the contract number is included on the respective purchase requisition prepared by end users, like Facilities Management. The contract noted to have exceeded its contract cap was the result of a financial system transition (Lawson to PeopleSoft) variance. SCM has confirmed that all active contracts have been converted from Lawson to PeopleSoft and all contract cap amounts are correct.

FM will continue to follow its current process of reviewing invoices and monitoring spend on respective departmental released POs so as to ensure that the spend for a specified contractual period is within the cap specified by MD Anderson's financial and contract management systems. At time of review if any discrepancies are found, the respective FM department representative will coordinate with SCM to investigate and resolve issues. Facilities Finance will continue to conduct periodic audits and will report findings to FM's Sr Staff (VP, AVPs, and EDs).

Observation 3:

Consistent Invoice Approval

RANKING: Medium

The approval process for invoices on one vendor was performed inconsistently compared to the other service vendors reviewed by MD Anderson. Invoices received for this vendor are automatically routed to the applicable Administrator for approval via the system workflow. Once received, the Administrator will then route the invoice manually via email to the applicable FM Operations and Maintenance (O&M) personnel for review and approval of services provided. Once the invoices related to this vendor are approved by FM O&M personnel, the Administrator will be notified accordingly via email to pay the invoice.

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This differs from the approval process for the other service vendors reviewed as the system will automatically route the invoice approval via the system workflow directly to the appropriate approver. While the Administrator is helping facilitate the invoice approval process, MD Anderson may be exposed to invoices not getting approved by FM O&M personnel (i.e., the Administrator directly approves the invoices without documented FM O&M personnel approval), which could result in inappropriate payments to vendors for services not rendered.

Recommendation:

FM should adjust the approval workflow in ResourceOne to ensure consistent and documented invoice approval across all vendors.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Von Tarverdi

Observer: David Bammerlin

Due Date: 01/31/2017

REF will adjust the approval workflow in PeopleSoft to ensure a consistent and documented invoice approval across all vendors. REF will add the necessary reviewers in PeopleSoft to accomplish processing to be confined to a single flow. REF will implement this program immediately and REF's goal is to have a consistent process by set deadline. Facilities Finance will continue to conduct periodic audits and will report findings to FM's Sr. Staff (VP, AVPs, and EDs).

Observation 4:

Validation of Service Vendor Measurements

RANKING: Medium

Many costs on the invoices for waste management vendors are contractually calculated on a per pound basis. The reports and spreadsheets documenting the retrievals and deliveries are provided directly by the vendors, and MD Anderson does not currently perform calibration testing (i.e., scale accuracy) or weight pickup confirmations to ensure the accuracy of these weights. Calibration reports and/or physical observation of weighing should be performed. By not validating service vendor measurements, MD Anderson may be exposed to inaccurate scales, which could result in paying more than necessary costs under the current contract.

Recommendation:

The Environmental Health & Safety (EH&S) group should start requesting scale calibration reports from the waste management vendors on a consistent basis (i.e., with every invoice or at least monthly) in order to provide assurance regarding the weight reports provided to MD Anderson. Additionally, vendor performance and accountability can be further monitored by physically observing the weighing of waste and calibration of scales. A member of both parties (i.e., EH&S and the service vendor) should sign off on the physical observation in order to increase the controls and accountability of the services being performed and the costs that are being incurred by MD Anderson.

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Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Lynette Leadon

Observer: Matt Berkheiser

Due Date: 01/31/2017

The responses are separate by respective waste vendor:

- **Stericycle:** Department of Transportation (DOT) regulations requires that all medical waste picked up by Stericycle have a Regulated Medical Waste Manifest signed by both the Stericycle representative, and a DOT trained MDA employee before the Medical Waste can leave any MDA property. All MDA staff that are required to handle medical waste in their job descriptions have been DOT trained through our required internal training on the Education Center Website (Medical Waste Management for Building Services and Operations). Anytime there is an issue with Stericycle's service, MDA staff are directed to contact EHS by calling 713-792-2888, or emailing askEHS@mdanderson.org. EH&S is assuring regulatory compliance with visits to Stericycle's incineration facility in Springhill, Louisiana (Recent visit in April 2016). This is the location where the majority of MDA's medical waste is disposed. MDA has requested and received a letter verifying that Stericycle's scales have been calibrated. We will continue to ensure we receive these calibration certificates on an annual basis.
- **Waste Management (WM):** EH&S will verify that WM is completing the municipal solid waste requests, EHS will begin conduct random field verification and document our field verification. MDA has requested and received a letter verifying that WM's scales have been calibrated. We EHS will continue to receive these calibration certificates on an annual basis.

Observation 5:**Discretion with Respect to PO Fund Application****RANKING: Medium**

A waste management vendor's invoice for services in FY15 was incorrectly applied to a PO created for FY14 services. Based on review of the invoice, the services provided in September 2015 for the amount of \$42,690 were incorrectly applied to the prior year PO. By not recording the PO in the correct period, MD Anderson may be under/over reporting costs in the wrong fiscal year.

Recommendation:

FM O&M personnel should ensure that invoices covering multiple fiscal years are applied to the correct PO.

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Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Lynette Leadon

Observer: Matt Berkheiser

Due Date: 01/31/2017

EH&S personnel will monitor invoices closely. Budget tracking will continue to occur monthly at EH&S Leadership meetings and at monthly meetings between the EH&S directors and the EH&S Executive Director. Beginning FY17, all EH&S contracts will maintain the same PO number for the duration of the contract. PO numbers will no longer change annually. The implementation of this practice should prevent PO errors; however, EH&S staff members will continue to review all invoices carefully.

Observation 6:**Detailed Review of Invoiced Rates****RANKING: Medium**

Multiple instances were observed in which the service rate per the contract did not agree to the invoice. These errors resulted in immaterial under and over billings towards MD Anderson, which did not exceed \$1,700 in total. For some invoices, the rates used against the contracts were unable to be verified because the invoice support provided did not contain sufficient detail. Additionally, other invoices contained costs for equipment that were not included in the contractual agreement. Invoices should be reviewed for proper rates. Without a detailed review of the invoiced rates, MD Anderson may be overbilled on rates from the service vendor.

Recommendation:

FM O&M personnel and/or designated invoice approvers should obtain reasonable assurance that rates per the invoices agree to the contract. Evidence of review and approval sign offs should be used throughout the review process to further enhance the controls around invoice approval. MD Anderson FM O&M personnel should additionally ensure that detailed square footage reports by level of clean and contract space are provided to the vendor and are maintained internally for documentation and accuracy review purposes.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Bill Bailey

Due Date: 01/31/2017

FM will remind all FM employees who approve invoices that their authority to approve invoices includes the responsibility of ensuring that billing rates on invoices from vendors must agree with the established contractual billing rates. Evidence of review and approval sign offs will be used to document the review process. FM departments with responsibility over housekeeping services will ensure that detailed square footage reports by level of clean and contract space are provided to the vendor and are maintained internally for documentation and accuracy review purposes. Facilities Finance will conduct periodic audits to test compliance and will report findings to FM's Sr. Staff (VP, AVP, and EDs).

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Observation 7:**Service Vendor Invoice Approval****RANKING: Low**

Two (2) of the 47 invoices selected for testing were designated as “No Approval Required” in the system. These were invoices that had been re-issued in lieu of an account credit and were processed through a direct entry payment. Invoices processed through a direct entry should be routed through the normal approval process before being paid. Without proper approvals, MD Anderson may pay invoices without the proper review by FM O&M personnel.

Per discussion with Accounts Payable (AP) personnel, if the re-issued invoice amount is the same as the applicable credit, the new invoice is processed as a direct voucher to directly net against the credit. Any difference in amount between the re-issued invoice and credit is processed against the PO and is routed for appropriate approval. Additionally, this risk is mitigated by a monthly GL reconciliation performed by the department. It was still noted that the applicable FM O&M personnel were not verifying these invoices for accuracy and reasonableness.

Recommendation:

AP should consider instituting a uniform approval process for all service vendor invoices regardless of vendor account status. AP should coordinate with Information Technology (IT) to determine if Resource One can be configured to allow a uniform approval process. Additionally, the applicable FM O&M personnel should be reviewing each invoice, regardless of account balance impact, for accuracy and reasonableness.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Karla Browne

Due Date: 08/31/2017

The implementation of a uniform approval process for service vendor invoices must be explored by Supply Chain, EBS, and AP in conjunction with resources from Oracle. In the event that the application of service invoices to completed and/or closed POs is not configurable, then a task force comprising of the aforementioned departments would be put in place, in an attempt to seek an alternate solution.

Responsible Executive: Dan Fontaine

Owner: Bill Bailey

Due Date: 01/31/2017

With regard to the last sentence in Recommendation 7 about reviewing each invoice, FM will remind all FM employees who approve invoices that their authority to approve invoices includes the responsibility of ensuring that billing rates on invoices from vendors agree with the established contractual billing rates. Evidence of review and approval sign offs will be used to document the review process. FM departments with responsibility over housekeeping services will ensure that detailed square footage reports by level of clean and contract space

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are provided to the vendor and are maintained internally for documentation and accuracy review purposes. Facilities Finance will conduct periodic audits to test compliance and will report findings to FM's Sr. Staff (VP, AVP, and EDs).

Observation 8:

Timeliness of PO Completion

RANKING: Low

In multiple instances, POs that applied to invoices were not approved and released until after the services were performed. A PO should be required before any service vendor work is started.

Without timely completion of POs, MD Anderson may be exposed to risks that service vendor work may be completed and invoiced before a PO with required scope along with key terms and conditions is in place.

Recommendation:

MD Anderson FM O&M personnel should ensure that no service vendor work is performed prior to a PO being approved and released. SCM should provide guidance to FM on the dates used for a PO (create date vs. release date). A notification from SCM should be sent to the Requisition Operator when the approved PO has been released to the service vendor (i.e., release date). Additionally, backup approvers should be designated to ensure timely requisition approval prior to services being performed.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owners: Robert Adkins, Vince Adams, Jim Waters, Eva Saenz

Observers: Paul St. Amant, Spencer Moore, Bill Bailey

Due Date: 8/31/2017

SCM's response is that the PeopleSoft financial system currently issues an automated notification to the department (Facilities Management) requisition operator upon release of the PO. By contrast, FM believes that there is a systemic process issue that remains unresolved.

SCM has indicated a willingness to review the PeopleSoft Financial System in collaboration with MDA's IT department, and to provide guidance to FM subsequent to its review of the PeopleSoft

Observation 9:

Adequate Work Order Processes

RANKING: Low

Financial System.

Per discussion with EH&S Management, a phone call, email or face-to-face meeting is the primary communication with personnel from one of the waste management service vendors to initiate work orders for dock-out medical waste services. A formalized work order process should be utilized with all vendors who provide waste management services to MD Anderson. Without

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an adequate work order process for all service vendors, MD Anderson may be exposed to poor management and tracking of planned service vendor work.

Recommendation:

A formalized work order process should be implemented similar to that of other waste management service vendors in order to ensure the adequate tracking and efficient management of planned work.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Lynette Leadon

Observer: Matt Berkheiser

Due Date: 01/31/2017

EHS has developed a work order process for all Stericycle service requests. EHS will pilot and implement an established, consistent formal process. The data from the pilot will be reviewed quarterly until process is successful.

Observation 10:

Interaction of MD Anderson Team Personnel and Vendor Personnel RANKING: Low

The frequency of meetings held between FM O&M personnel and service vendor personnel is inconsistent between multiple vendors. For example, one service vendor contract specifies that meetings with the vendor are to be held quarterly; however, only two meeting occurrences were able to be confirmed in FY15. Meetings should be held on a consistent and/or contractual basis. By not interacting timely with vendor personnel, MD Anderson may not be aware of vendor performance issues or vendor concerns.

Recommendation:

MD Anderson FM O&M personnel should hold performance and update meetings on a consistent basis (i.e., quarterly) and in accordance with those frequencies defined within the contract. These meetings should also be documented consistently to include meeting attendees, the topics discussed, and vendor performance assessments.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Lynette Leadon

Observer: Matt Berkheiser

Due Date: 08/31/2017

EHS staff will adhere to all contract defined meetings and frequencies. The meetings will be consistently documented to include the above referenced information.

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Observation 11:**Interaction of MD Anderson Departments****RANKING: Low**

Ownership and responsibilities pertaining to managing one of the service vendor agreements could be improved through increased communication between EH&S and Operations Management. Additionally, for one service vendor reviewed, a non-contracted charge of approximately \$12,500 was added to invoices beginning in April 2015. These costs were not included in the original agreement, and no amendments had been created to account for these added costs through communication with SCM. By not interacting internally on vendor contract ownership and responsibilities, MD Anderson may not be properly managing and monitoring service vendor costs and performance.

Recommendation:

Collaborating departments who are monitoring vendor performance and approving vendor invoices should actively coordinate with each other to ensure contract ownership has been established for that vendor and the vendor's performance is being sufficiently monitored. Additionally, FM O&M personnel should notify SCM on a timely basis and obtain appropriate documentation authorizing any costs outside the current contract terms.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Steve Suter

Observer: Tim Peglow

Due Date: 01/31/2017

PCPF has reviewed this observation and some of their related documentation. PCPF acknowledges that they had a contract for which they had some expenses as they expanded service into the Pavilion that were not included in the construction project and required PCPF to modify the annual contract. PCPF will assure collaboration with other departments in these efforts, especially working closely with SCM when they are involved, as well as EHS. PCPF personnel will notify SCM on a timely basis and obtain appropriate documentation authorizing any costs outside the current contract terms. PCPF will monitor vendor performance and ensure appropriate review and approval of vendor invoices. PCPF will ensure the vendor's performance has been sufficiently monitored. Facilities Finance will continue to conduct internal and informal audits on a quarterly basis and will report on any findings.

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Observation 12:**Completeness of System Data Entry****RANKING: Low**

While performing the review of contract spend for the two (2) vendors selected for spend data analysis, it was determined that POs did not always include the contract number for the respective contract, which indicates that the requisition operator did not enter the contract number on the purchase requisition. Per discussion with SCM, contract numbers should be entered on the purchase requisition when requisition / PO value exceeds \$15,000. Under Resource One, a PO \$15,000 or greater should reference an agreement number that would notate either an informal bid, an Exclusive Acquisition Justification (EAJ), or an agreement based on a formal bid with exceptions for some Legal agreements and Grants and Contracts agreements. This guidance is applicable to contracts executed after August 2012. Prior to that time, MD Anderson utilized the Lawson ERP system, which did not have the capability to accrue PO released values against a contract. Without completeness of system data entry, MD Anderson may find it difficult to examine spend data by contractual agreement.

Recommendation:

Purchase Orders (POs) should include the respective contract number when POs exceed \$15,000 in order to improve the completeness and efficiency of spend data monitoring and reporting.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owners: Jim Waters, Eva Saenz, Robert Adkins

Due Date: 08/31/2017

FM will work with SCM to clarify the capabilities and responsibilities in this area. While SCM concurs with the recommendation for FM to input the respective contract number on the purchase requisition, it is worth noting that all contract numbers are not readily known or accessible to all requisition operators or all end users, and therefore cannot be added directly into PeopleSoft for inclusion on the PO in all circumstances. In those instances, requisition operators are trained to include the contract number – when it is known – in the comments section of the requisition. It is incumbent on the buyer to ensure the contract number is included on the PO prior to its dispatch. This enables the PeopleSoft system to operate as designed and to correctly accrue, monitor, and control the P.O purchase release value in accordance with the cap for each contract.

FM will continue its current business practice of including contract numbers on purchase requisitions to the extent that it can. Facilities Finance will continue to conduct internal and informal audits on a quarterly basis and will report on any findings and work with each department respectively to ensure purchase requisitions include respective contract numbers when the requisition amount exceeds \$15,000.

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Appendix A

Objective, Scope and Methodology:

The objective of this engagement was to identify opportunities to enhance processes and internal controls utilized to manage and monitor the cost and performance of Service-related Vendors.

Our procedures included the following:

- Obtained and analyzed Facilities' vendor spend data from FY09 to FY15;
- Identified top 6 service related vendors by spend over a 1 year audit period (FY15);
- Included in the selection each of the housekeeping vendors for FY15;
- For at least 2 service related vendors, analyzed contractually allowed spend per agreements and changes to such vs. actual vendor spend for contract period (within FY09 to FY15 spend data);
- Obtained and reviewed agreements and changes (i.e., amendments, change orders) in place for identified service vendors;
- Highlighted key contract requirements related to costs, schedule, performance, etc.;
- Developed contract checklist/abstract based on key requirements, along with a contract section reference, as a tool to review invoices;
- Selected a representative sample of invoices (approximately 47 invoices covering at least 25% of the spend) for the identified service vendors to review and test for contract compliance;
- Followed up with MD Anderson and/or service vendor regarding partial and/or missing invoice support as well as items needing clarification;
- Provided periodic updates of results to MD Anderson management regarding findings and discrepancies, including the potential need for further testing, if required; and
- Reported findings and observations, including any process and internal control improvements based on root cause analysis of findings and discrepancies.

Our internal audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Government Auditing Standards*.

Number of Priority Findings to be monitored by UT System: None

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."