

16-105 Procurement Review

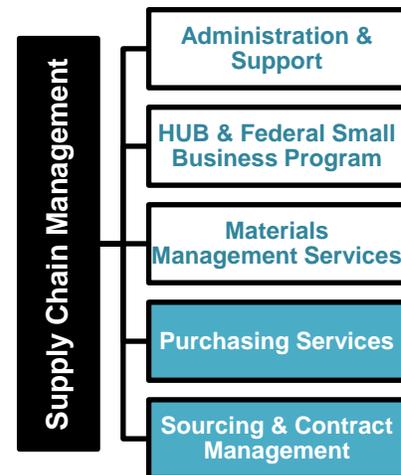
EXECUTIVE SUMMARY

Supply Chain Management supports sourcing, contracting, procurement, and payment for products and services across the University of Texas MD Anderson Cancer Center. It is comprised of five areas, including Sourcing and Contract Management and Purchasing Services. Together, these two areas drive the processes of selecting supplier partners, negotiating and managing supplier agreements, and procuring goods and services based on the agreements.

For the review period of September 2014 through June 2016, purchase orders where no contract was required along with competitively bid or negotiated contracts represented a combined spend of an estimated \$3 billion.

Our review covered selected procurement processes and controls, including, but not limited to:

- Compliance with Senate Bill 20¹
- Review and approval of contracts
- Justifications for exclusive acquisitions
- Compliance with emergency purchase policy
- Accuracy of contract information in institutional systems

**Audit Results:**

Generally, we found that controls are in place for the internal review and approval of contracts and purchases, and justifications for exclusive acquisitions appeared reasonable.

We identified opportunities for management to enhance controls and processes surrounding:

- Accuracy of contract information in ResourceOne
- Documentation of approvals for contracts and exclusive acquisition forms
- Compliance with the emergency purchase policy
- Monitoring of unauthorized purchases

In addition, we noted that the majority of state-mandated procurement policies and procedures are in place. While the required institutional contract management handbook is currently in draft form, it has not yet been finalized, which is necessary before the Chief Audit Executive's annual attestation of compliance in November 2016.

¹ In April 2015, Texas Senate Bill 20 was approved to enhance contracting processes throughout the state and improve accountability and transparency. The Bill was effective September 1, 2015.

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Further details of our work are outlined in the *Detailed Observations* section below. Other less significant opportunities for improvement were communicated to management separately. In addition, certain contracts were referred to The University of Texas System Internal Audit Office for further review.

Management's Summary Response:

Management agrees with the observations and recommendations and has developed action plans to be implemented on or before *October 15, 2016*.

Appendix A outlines the methodology for this project.

We appreciate the courtesy and cooperation extended by the personnel in Supply Chain Management, including Sourcing and Contract Management, Purchasing Services, and Administration and Support Services.



Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
August 26, 2016

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DETAILED OBSERVATIONS

Observation 1:**Ensure Accurate Contract Information in ResourceOne****RANKING: Medium**

We reviewed 57 contracts to determine whether key information was consistent between ResourceOne and the executed contract documents. We found discrepancies in effective dates or dollar amounts for 15 (26%) of these contracts. According to management, discrepancies occur because preliminary information entered at contract setup is not always updated once the contract is finalized. There is no independent review to ensure the updates occur and the information is accurate and complete.

Institutional policy requires that internal controls be designed to ensure maintenance and reporting of reliable information. Without key internal controls, such as the independent review and validation of contract information (e.g. dates and dollar values) in ResourceOne, there is an increased risk that management could make decisions based on inaccurate data. In addition, spending could exceed contract caps and services could continue to be provided on expired contracts.

Recommendation:

Management should implement a process to ensure that contract information in institutional systems is accurate and complete, based on the final executed contract.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Robert Adkins

Due Date: September 1, 2016

Management will implement an independent review process to ensure maintenance and reporting of reliable information into the PeopleSoft Financial system. A responsible party will enter the contract information into PeopleSoft. An independent responsible party must review & approve the contract in PeopleSoft. A weekly report will be created to denote the individuals entering and approving the contract data. If this report indicates that an independent review did not occur, management will intervene and direct an independent responsible party review. This process will ensure an independent review and approval, as well as provide an audit trail for proof of compliance.

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Observation 2:**Ensure All Exclusive Acquisitions Are Approved****RANKING: Low**

Institutional policy requires the approval of Exclusive Acquisition Justification (EAJ) forms by Sourcing and Contract Management. During our review, we identified one EAJ form for \$226,900 that was not approved as required. We did not find any issues with the content of the justification.

When EAJs are not properly approved, there is an increased risk that purchases may not be adequately justified or comply with institutional policies.

Recommendation:

Management should strengthen controls to ensure all EAJs are approved as required.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Vince Adams

Due Date: September 1, 2016

Although the approved EAJ in question could not be located in WebNow, there was a copy of the submitted EAJ in WebNow, and it was valid and approved in PeopleSoft. To assist in ensuring the signed copy is attached in WebNow the following actions will be implemented.

- 1. Purchasing Services will re-emphasize via an e-mail communication the PO attachment requirements with the buyers and the departmental procurement specialists.*
- 2. Sourcing and Contract Management will be required to attach the signed/approved EAJ documents to the PO in WebNow by copying the WebNow e-mail address when sending the documents back to the buyers and departmental procurement specialists.*
- 3. Purchasing Services management will create an approval checklist to promote an independent review by the PO approvers (Sr. Buyers, and Purchasing Services management) to ensure all the appropriate documents are attached before the approval process is completed.*

An **exclusive acquisition** is the procurement of goods and/or services from a specific vendor rather than a vendor selected via the competitive bid process. An *Exclusive Acquisition Justification Form* must be submitted by the customer department and approved by Sourcing and Contract Management prior to the approval/dispatch of the purchase order.

Source: Supply Chain Management Policy 5-13-13

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Observation 3:**Ensure Emergency Purchases Comply with Policy****RANKING: Low**

Two purchases for medical testing kits totaling \$981,824 were designated as emergency purchases. According to management, the purchases were not made afterhours; the emergency purchase orders were issued because the contract with the vendor had expired and was being renegotiated. These purchases did not meet the 'emergency' criteria established in current policy.

When purchases are not made in accordance with established policies, there is an increased risk that they will not be processed or approved in the proper manner, and inappropriate use of institutional funds could occur.

Recommendation:

Management should enhance controls to ensure that all emergency purchases comply with established guidelines. Management should revisit these guidelines if they believe enhancements are needed based on current practice.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Vince Adams

Due Date: October 15, 2016

The following actions will be taken to ensure that all emergency purchases comply with the established guidelines.

1. *Purchasing Services management will send an e-mail communication reiterating the emergency purchase procedure to the buyers and departmental procurement specialists emphasizing that it is to be only used for issues that fall outside of standard business hours.*
2. *Purchasing Services management will review the procedure in the next Purchasing Services Monthly Training meeting (August 2016) and the next Quarterly User Group Meeting (October 2016) which includes the departmental procurement specialists.*

An **emergency purchase** may be made when:

- *A need is identified outside of Purchasing Services' normal business hours (M-F; 8 a.m. – 5 p.m.); and*
- *Waiting to issue a purchase order until normal business hours would subject the Institution to a safety hazard, financial loss, or loss of operational capability.*

Source: Supply Chain Management –
Emergency Purchase Policy 10-28-2013

Observation 4:**Improve Documentation for Required Approval****RANKING: Low**

The University of Texas System rules and policies require approval by the Office of General Counsel (OGC) and Board of Regents (Board) for contracts exceeding \$5 million². Sourcing and Contract Management relies on Legal Services to communicate that required approvals, as well as authorized exemptions from Board approval, have been obtained based on correspondence with the OGC.

Sourcing and Contract Management maintains the notifications provided by Legal Services in centralized contract files. However, documentation of correspondence from the OGC is not always maintained by either Sourcing and Contract Management or Legal Services.

For example, for one contract we reviewed, the notification of OGC approval from Legal Services was maintained in the contract file; however, the original correspondence with OGC was not available through Sourcing and Contract Management or Legal Services.

When documentation of required approvals is not maintained, there is an increased risk of non-compliance with the relevant rules and policies.

Recommendation:

Sourcing and Contract Management should coordinate with Legal Services to ensure all appropriate approval documentation is maintained in the centralized contract files.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Robert Adkins

Due Date: September 1, 2016

The Sourcing and Contract Management Contract Documentation Checklist will be revised to incorporate the requirement to obtain OGC e-mail approval of contracts. The original correspondence from OGC approving the contract will be maintained in the contract file.

² UT System approved an increase in MD Anderson's threshold for OGC and Board of Regents approval from \$2.5 million to \$5 million as of November 2015.

Observation 5:**Finalize Institutional Contract Management Handbook****RANKING: Low**

The Texas Education Code §51.9337(d) requires each higher education institution to adopt various purchasing-related rules and policies, including a contract management handbook. The Chief Audit Executive for each institution will be required to certify compliance with the Education Code in November 2016.

Although the Institution has generally adopted the required rules and policies, the contract management handbook has not been finalized. Without a finalized handbook, there is an increased risk of inconsistent procurement practices and noncompliance with state law.

Recommendation:

Management should finalize the Institution's contract management handbook. This should be done before the Chief Audit Executive certifies compliance with the Education Code in November 2016.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Robert Adkins

Due Date: October 15, 2016

Supply Chain Management is revising and codifying its procurement practices in the Institution's Contract Management Handbook. Supply Chain Management will complete the Contract Management Handbook prior to the required certification deadline of November 2016.

Observation 6:**Create an Escalation Process for Unauthorized Purchases****RANKING: Low**

The institutional purchasing process and best business practices dictate that a properly authorized purchase order should be in place before an invoice is processed. According to management, a typical unauthorized purchase occurs when a department requests goods or services directly from a vendor and an invoice is remitted to the Institution before a valid purchase order is released. For the third quarter of fiscal year 2016, there were 533 unauthorized purchases across 213 departments.

In September 2015, Purchasing Services began efforts to eliminate unauthorized purchases. These efforts included issuing quarterly reports of these purchases to divisions and departments, requesting corrective action plans, and making educational presentations. While it appears that management's efforts have resulted in a decrease in unauthorized purchases, an escalation process could further enhance remediation.

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Recommendation:

Management should continue its efforts to eliminate unauthorized purchases. These efforts should include a formal escalation process to follow when corrective actions are not taken by the responsible departments.

Management's Action Plan:

Responsible Executive: Dan Fontaine

Owner: Vince Adams

Due Date: August 31, 2016

Currently, the department requisition operator, requester, and both of their supervisors are automatically notified on a weekly basis whenever a potential unauthorized purchase occurs which is triggered by the matching of the invoice to the PO line. The department has the ability to clear any of the potential unauthorized purchases on a weekly basis by notifying Purchasing Services of any transactions that are misclassified. At the end of each quarter, all of the valid unauthorized purchases are summarized in a report and escalated to the appropriate division administrator to provide their plans to eliminate future occurrences.

In addition, Supply Chain Management will implement a change to the PO document in August 2016 to reflect the dispatch date (date the PO is valid to use) instead of the PO date on the PO document. The PO date is typically the date the PO is created and often is several days prior to the actual dispatch date. This will eliminate the vendor from invoicing based on the earlier PO create date to advance the payment date and create the impression of an unauthorized purchase. We anticipate this will result in a reduction in the number of unauthorized purchases.

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Appendix A

Objective, Scope and Methodology:

The objective of this engagement was to review the Institution's procurement processes, including, but not limited to, compliance with Senate Bill 20. The review covered the period September 2014 through April 2016.

Our methodology included the following procedures:

- Interviewed key personnel and reviewed relevant documentation to understand contracting and purchasing processes and controls within the Institution
- Reviewed relevant State regulations, as well as institutional and UT System policies and procedures
- Performed comparisons and analyses to validate the completeness of the ResourceOne contract data
- Reviewed relevant information from ResourceOne, Sourcing and Contract Management, Purchasing Services, Legal Services, and Human Resources for a sample of 186 agreements
- Assessed compliance with policies and procedures, including, but not limited to, emergency purchases; exclusive acquisitions; competitive bidding; split purchases; review and approval; conflicts of interest; and vendor performance
- Reviewed documentation and analyzed ResourceOne data related to unauthorized purchases
- Based on guidance from UT System, determined compliance with Texas Education Code §51.9337(d) requirements as established by Senate Bill 20

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.”

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