

The University of Texas at Tyler

Contract Administration Audit



November 2016

THE UNIVERSITY OF TEXAS AT TYLER
OFFICE OF AUDIT AND CONSULTING SERVICES
3900 UNIVERSITY BOULEVARD
TYLER, TEXAS 75799

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BACKGROUND

This audit was conducted to determine if The University of Texas at Tyler (UT Tyler) has effective contract processes and procedures in place and if the related contract policies are communicated to employees. Contract processing is governed by several policies including the following:

- The University of Texas System (UT System) Statewide Policy 145: Processing of Contracts summarizes the Board of Regents' Rules and Regulations and other procedures and practices applicable to the processing of contracts and agreements. UTS 145, Section 3 states: *"Each institution's president has established internal review and approval procedures for all contracts at his or her institution. Contracts should be processed in accordance with this policy only after all internal review and approval procedures have been completed."*
- The University of Texas System Board of Regents Rule 10501: Delegation to Act on Behalf of the Board sets forth rules regarding approval of contracts.
- The University of Texas at Tyler (UT Tyler) Handbook of Operating Procedures, Section 4.2.7, Review and Process of Contracts states: *"The University Counsel is responsible for the review and processing of all Contracts, excepting sponsored research contracts (which are reviewed by the UT Tyler Office of Sponsored Research)."*

This audit was included in the Fiscal Year 2016 (FY 2016) Annual Audit Plan and approved by the Institutional Audit Committee.

AUDIT OBJECTIVE

The objectives of the audit were to evaluate the following:

- Effectiveness of risk management, control, and governance processes related to procurement contracts,
- Employee communication and training regarding the authority to sign contracts,
- Policies and procedures for reviewing and approving contracts, and
- Delegated authority to sign contracts.

SCOPE AND METHODOLOGY

The scope of this audit was limited to procurement contracts during FY 2016. The Office of Legal Affairs at UT Tyler is responsible for forwarding contracts to UT System for review and approval when required by UTS 145. This audit did not include procedures to verify if the Office of Legal Affairs was completing this responsibility.

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To accomplish the objectives noted above, the following procedures were conducted:

- Obtained and reviewed policies and procedures from UT System and UT Tyler.
- Interviewed various UT Tyler responsible parties to understand contract processing.
- Obtained the Delegation of Authority document for UT Tyler and verified that it complied with allowed delegations.
- Reviewed UT Tyler documents available for employees including:
 - ✓ Handbook of Operating Procedures, Section 4.2.7 Review and Process of Contracts,
 - ✓ Management Responsibilities Handbook,
 - ✓ Standards of Conduct Guide,
 - ✓ Financial Services Guidelines and Forms,
 - ✓ Purchasing Policy and Procedure Manual,
 - ✓ Compliance Training Modules for employees, and
 - ✓ New Employee Orientation Materials.
- Obtained the Contract Review Status Spreadsheet from the Office of Legal Affairs and selected a judgmental sample of ten contracts to review related documents and signatures including:
 - ✓ Contract Approval Routing Form for completeness,
 - ✓ Contract Memorandum for completeness, and
 - ✓ Contract signature for delegated authority.
- Obtained a listing of transactions for FY 2016 and selected a judgmental sample of five high dollar transactions and five repetitive vendors to test if the contract had been routed to the Office of Legal Affairs as required.

The audit was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing*.

AUDIT RESULTS

According to The University of Texas System Audit Office, “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. *Non-Priority Findings* are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable *Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated.*” This audit resulted in five Medium-level findings.

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#1 Policies and Procedures:

The UT Tyler Management Responsibilities Handbook states, "*Each department and budget unit is expected to have a departmental policies and procedures manual. A department policies and procedures manual should address policies and procedures that are unique to the department and procedures to implement institutional policies and procedures.*" A lack of policies and procedures increases the risk that mitigating controls are not adequately implemented.

#1a) Office of Legal Affairs (Medium): Currently, the Office of Legal Affairs maintains a "Contract Review Status Spreadsheet" (CRSS) of contracts submitted for review. The CRSS notes the status of the review process and includes comments specific to the contract. The Office of Legal Affairs requires a Contract Approval Routing Form to be completed prior to their review of the contract. The Office of Legal Affairs issues a Contract Memorandum for most contracts acknowledging "Approved as to Legal Form" which is signed by the University Counsel. Currently there are no departmental policies and procedures to document these requirements or processes.

Recommendation: The Office of Legal Affairs should create departmental policies and procedures to document their responsibilities.

Office of Legal Affairs Response and Implementation Date: *Several circumstances can lead to a contract memorandum not being present in a file (e.g., a special process for a large construction agreement, a contract that has not yet received or will not receive legal approval). Under the University of Texas at Tyler Contract Processing Procedures and University practice, the originating department is delegated the responsibility for acquiring and documenting all of the appropriate approvals and managing properly processed and executed agreements. Until recently, it was not the practice of the Office of Legal Affairs to keep all contract memoranda. The Office of Legal Affairs will keep a copy of contract memoranda in the future. The Office of Legal Affairs intends to draft a departmental policies and procedures manual that addresses the policies and procedures that are unique to the Office of Legal Affairs by January 31, 2017.*

#1b) Office of Financial Services (Medium): The Office of Financial Services has responsibilities related to the procurement of goods and services requiring a contract, including processes for completing "Request for Proposals" and "Request for Qualifications". The office also acknowledges the Purchasing Section of the Contract Approval Routing Form. Currently there are no departmental policies and procedures to document these requirements or processes.

Recommendation: The Office of Financial Services should create departmental policies and procedures to document their responsibilities.

Office of Financial Services Response and Implementation Date: *Policies and procedures will be developed by February 28, 2017.*

#1c) Contract Management Handbook (Medium): The University of Texas System developed a Contract Management Handbook template. Each institution was instructed to use the template to develop and adopt its own version, tailored as necessary to account for local structure and processes, consistent with applicable law. The Institutional Contract Management Handbook is to be submitted to the UT System Office of General Counsel for review. The UT Tyler Contract Management Handbook has not been finalized or submitted for review.

Recommendation: The UT Tyler Contract Management Handbook should be finalized and submitted for review as required.

The Office of Legal Affairs and the Office of Financial Services Response and Implementation Date: *The Office of Legal Affairs and the Office of Business Affairs will coordinate to finalize the UT Tyler Contract Management Handbook and submit it by February 28, 2017.*

#2 University Guidelines (Medium):

UT Tyler has several documents that reference contract responsibilities. A review of the documents noted inconsistencies as follows:

- The UT Tyler Handbook of Operating Procedures (HOP) Section 4.2.7 Review and Process of Contracts states, “*The University Counsel is responsible for the review and processing of all Contracts, excepting sponsored research contracts (which are reviewed by the UT Tyler Office of Sponsored Research).*”
- The Management Responsibilities Handbook (page 9) states, “*The University Counsel’s Office is responsible for the review and processing of all financial and non-financial contracts.*”
- The Standards of Conduct (page 18) states, “*All contracts and agreements must be reviewed and approved by UT Tyler’s Office of Business Affairs, excepting grant and research contracts which are processed by the Office of Sponsored Research.*”

Recommendation: The Management Responsibilities Handbook and Standards of Conduct Guide should be updated to be consistent with the HOP and include requirements to submit contract amendments and extensions to the Office of Legal Affairs.

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Vice President for Business Affairs Response and Implementation Date: Concur. The Standards of Conduct Guide reference to the Office of Business Affairs is being changed to the Office of Legal Affairs. Also, the Management Responsibilities Handbook and Standards of Conduct Guide will be amended to add the requirements that contract amendments and extensions also be routed of the Office of Legal Affairs for review. These changes will be implemented by January 31, 2017.

#3 Contract Routing and Signatures (Medium):

All employees receive training related to contract routing and signature requirements during New Employee Orientation. Benefits-eligible employees also receive training every two years when they complete the Compliance Training Modules. We reviewed 10 contract transactions from the general ledger to determine if they followed the requirements. An additional contract was also forwarded to our attention during the audit. Two of the eleven contracts were not properly routed through the Legal Department for review and were not signed by authorized individuals. A Purchase Order and resulting payment was processed by the Office of Financial Services on one of these contracts. This was caused by employees not following the requirements and could result in contracts that are not in compliance with State of Texas, UT System and/or UT Tyler policies.

Recommendation: Contract routing and signature requirements should be included in the Budget Authority Training. Financial Services employees should be reminded of the requirement to obtain a completed Contract Routing Form prior to issuing a Purchase Order.

Vice President for Business Affairs Response and Implementation Date: Concur. Information about the campus contract routing and signature requirements will be included in two separate presentations during the Budget Authority Training scheduled for December 9 and 14, 2016. Also, Financial Services employees have been reminded of the requirement to obtain a completed Contract Routing form prior to issuing a Purchase Order.

CONCLUSION

UT Tyler is generally in compliance with UT System 145 regarding contract processing and approval. Improvements can be made by documenting policies and procedures for departments with contract responsibilities. Updates should also be made in UT Tyler guidelines and training. We appreciate the assistance of the Office of Legal Affairs and Office of Business Affairs during this project.