

UT Southwestern Medical Center

Procurement Audit

Internal Audit Report 17:12

September 6, 2017

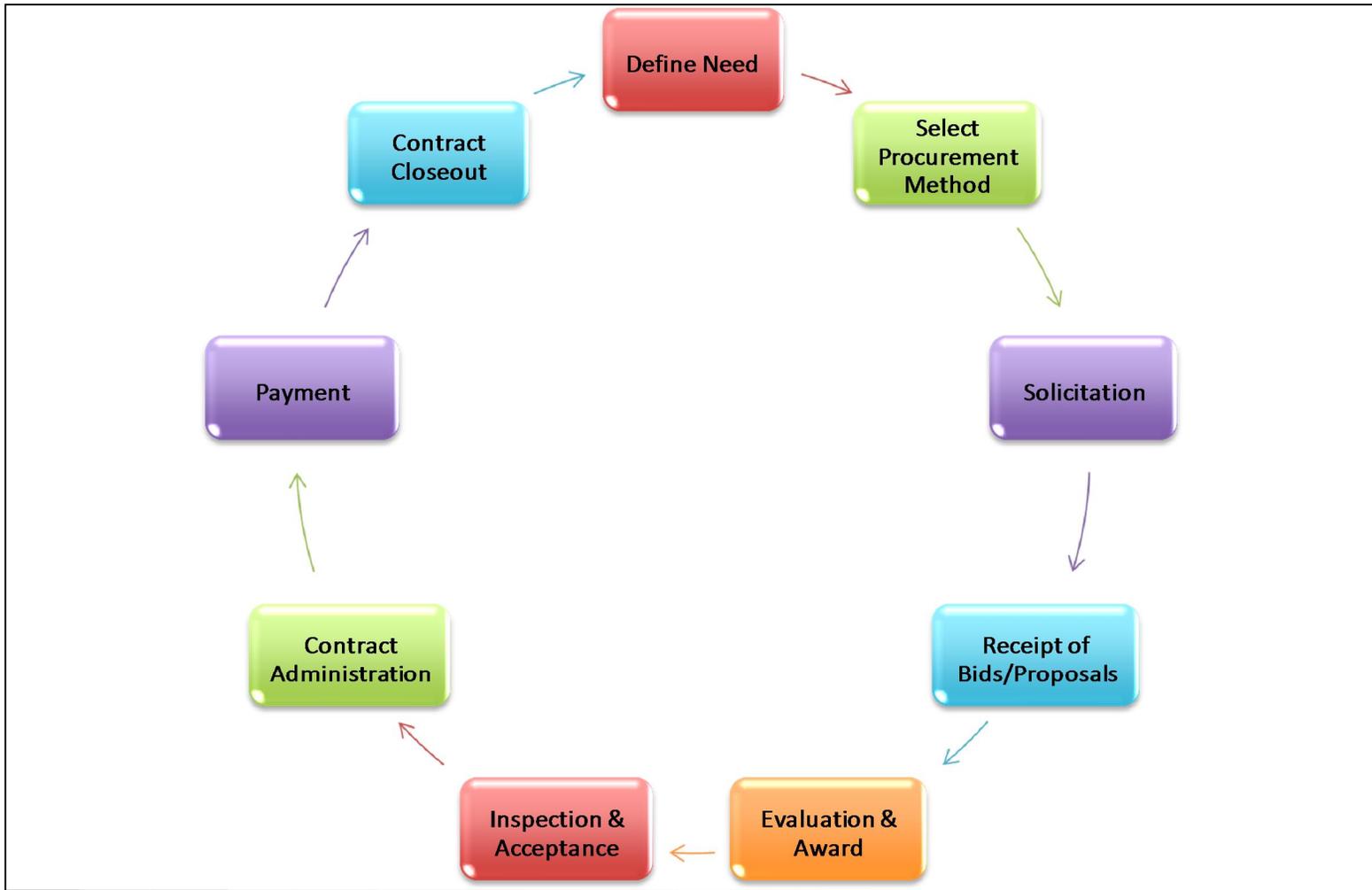
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Executive Summary

Background

The UT Southwestern Supply Chain Management (SCM) department provides contracting, sourcing and procurement services to the Medical Center. The process is described below. This review covered the process from “Define Need” through “Evaluation and Award”.



Executive Summary

In FY2016 SCM launched Vision 20/20, a five year plan to create an integrated Supply Chain Management infrastructure utilizing market leading technologies, performance metrics, optimized processes, and strategic partnerships with a goal to save \$20M by 2020.

To date, the SCM team has accomplished several strategic elements of the Vision 20/20 strategy, including infrastructure alignment and consolidation of disparate academic, research, facilities management and hospital procurement under one function. SCM reorganization now aligns buyers with specific departments, which improves the overall control environment, quality client services and procurement cycle time. Key metric and savings dashboards were also implemented in the current fiscal year.

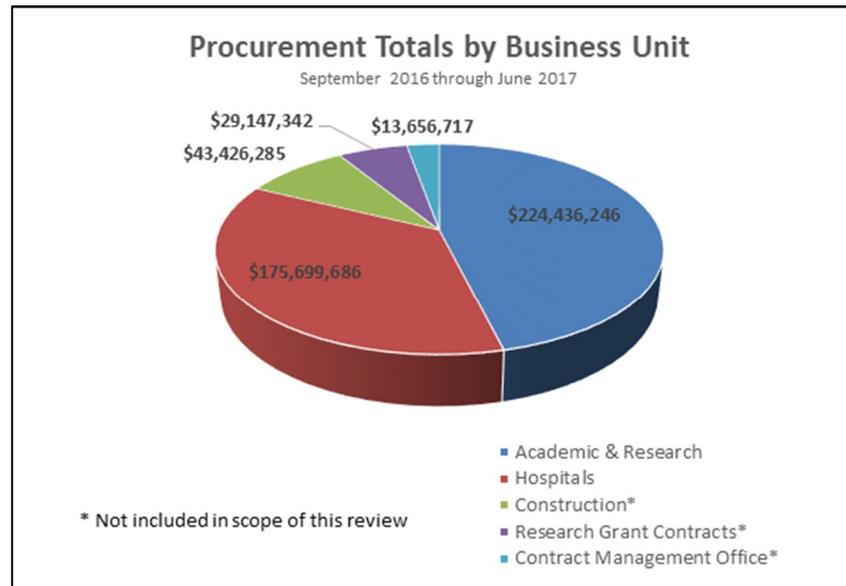
Implementation of a new eProcurement platform is in process, replacing other tools currently in use, and includes modules to integrate and improve requisition, sourcing, contracting, and procurement processes. The last module to be implemented is Requisition Manager, which will be implemented in FY2018. This module provides a requisition and ordering system for all forms of procurement, including contracts.

The Procurement function reports to the Assistant Vice President, Supply Chain Management, who joined the organization in 2016, and is organized into three primary divisions as follows:

- The Purchasing Division contains 25 employees and is responsible for coordinating with the requesting departments to acquire goods, services and equipment to support UT Southwestern's endeavors to educate, conduct high-impact research, and deliver patient care with a focus on quality, safety, and service.
- The Contracts Management Division contains 11 employees responsible for negotiating and executing contracts in conjunction with Institutional leaders.
- The Strategic Sourcing Division contains seven employees who work jointly with the Purchasing and Contracts Management divisions to create strategic relationships with suppliers, follow state mandated regulations and execute comprehensive contracts in obtaining goods and services.

Executive Summary

Current fiscal year to date through June 2017 purchase orders (POs) totaled approximately \$486 million, summarized by key business unit as follows:



Scope and Objectives

The Office of Internal Audit has completed its Procurement audit. This is a risk based audit and part of the fiscal year 2017 Audit Plan. The overall objective of this audit engagement is to assess procurement processes and controls across the institution, including evaluation to determine:

- Effective request for proposals, bidding and vendor selection procedures
- Effective and efficient procurement practices including purchase orders and internal purchases
- Completeness of departmental procedures, including appropriate approval levels and adequate segregation of duties
- Compliance with policies, laws and state requirements, including HUB state requirements

The audit scope period included September 2016 through June 2017. The audit covers procurement of products and services from planning to PO initiation and contract formation. Construction, technology and professional services procurement types that are subject to additional statutory requirements (Texas Government Code, Chapters 2054 and 2254) will be covered in future audits.

Executive Summary

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Conclusion

Opportunities exist for reemphasizing the role of procurement buyers in sourcing and obtaining suppliers' quotes through requisitions and work orders processed by the Facilities Management department. In addition, opportunities for improvement exist in administering procurement process refresher training and monitoring the method of purchase order processing to ensure compliance with State and Institutional purchasing guidelines.

Included in the table below is a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (2)	Low (2)	Total (4)
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The key improvement opportunities risk-ranked as medium are summarized below.

- **#1 Ensure Further Compliance with Standard Roles to Improve Separation of Requisition and Buyer Responsibilities for Repair and Maintenance Requests** – Facilities Management work order requests frequently include a designated vendor for the buyer to source. Buyers should be sourcing based on an approved listing of vendors.
- **#2 Improve Monitoring of Methods Utilized to Process Purchase Orders** – The Purchase Order (PO) method of procurement selected by the buyer in PeopleSoft during the initiation phase is not always correctly entered, increasing the risk of reporting errors.

Management has plans to address the issues identified in the report and in some cases have already implemented corrective actions. These responses, along with additional details for the key improvement opportunity listed above and other low risk observations are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

We would like to take the opportunity to thank the departments and individuals included in this audit for the courtesies extended to us and for their cooperation during our review.

Executive Summary

Sincerely,

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Audit Team:

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium 🟡</p> <p>1. Ensure Further Compliance with Standard Roles to Separate Requisition and Buyer Responsibilities for Repair and Maintenance Requests</p> <p>Requisitions related to Facilities Management (FM) work orders routinely include a vendor selection when sent to the buyer. This selection is not independently evaluated by the buyer, which does not promote procurement processing transparency. In addition, it creates the perception of conflict of interest and favoritism.</p> <p>Total PO activity for FM work orders was \$1.8M for September 2016 through June 2017.</p> <p>Specific examples of procurement policy non-compliance include:</p> <ul style="list-style-type: none"> An approved capital project of \$100k for planned campus wide roof repairs throughout the year included various vendor selections made by FM technicians. Vendor selections were accepted by the buyer who issued the POs, which was the standard operating practice prior to consolidation and alignment of the procurement function. 	<ol style="list-style-type: none"> Develop refresher training in coordination with the FM team to further separate the requisition and buyer responsibilities. Evaluate opportunities within FM for additional HUB vendor participation. Verify PeopleSoft system access levels do not allow any non-Procurement personnel with PS access to generate external purchase orders. Based on the evaluation, adjust system access as deemed necessary (note: SCM acted on this recommendation and completed prior to issuance of the audit report). Consider best practice to periodically review spend and sourcing strategies with SCM to ensure transparency, multiple vendor opportunity and compliance with total spend limits under procurement guidelines. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> FM leadership, in conjunction with SCM leadership, will provide refresher training to project managers and buyers to ensure separation occurs as intended. <p>Action Plan Owners:</p> <p>Assistant Vice President, Supply Chain Management</p> <p>Vice President, Facilities Management</p> <p>Director of General Services, Facilities Management</p> <p>Target Completion Date:</p> <p>November 30, 2017</p> <p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> FM leadership, in conjunction with SCM leadership, will work together to review spend and identify opportunities for additional HUB spend. <p>Action Plan Owner:</p> <p>Assistant Vice President, Supply Chain Management</p> <p>Vice President, Facilities Management</p> <p>Director of General Services, Facilities Management</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> · A pedestrian crosswalk project budgeted for \$70k had a change order to raise the approved total to \$135k. A subcontractor submitted a bid for \$15k and the subsequent scope change to double the initial quantity of signs was not subject to informal bid. The total project exceeded \$100k and did not include a HUB opportunity assessment as required. · A capital project to install security cameras and card readers did not include an informal quote for electrical work as required by the procurement guidelines. <p>Insufficient independent review of vendor selection could increase the risk of non-compliance with rules and regulations, including conflict of interest.</p>		<p>Target Completion Date: November 30, 2017</p> <p><u>Management Action Plans:</u></p> <p>3. SCM leadership completed this review during the audit.</p> <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: Complete</p> <p><u>Management Action Plans:</u></p> <p>4. SCM leadership will review spend and identify vendors that can be utilized for small projects falling below the informal bid threshold.</p> <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: November 30, 2017</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium 🟡</p> <p>2. Improve Monitoring Methods for Reporting Purchase Order Activity</p> <p>The Purchase Order (PO) method of procurement selected by the buyer in PeopleSoft during the initiation phase is not always correctly entered, increasing the risk of non-compliance with Medical Center guidelines (see Appendix C).</p> <p>The default method of procurement is “No Competitive Procurement Required” for all POs and requires manual updating by the buyer to the appropriate procurement method, or manual updating was incorrect.</p> <p>Incorrect assignment of the PO method of procurement resulted in the following category exceptions:</p> <ul style="list-style-type: none"> · PO’s selected for detailed testing included an incorrect PO Type Description but the appropriate method of procurement was utilized. · POs with one vendor contained conflicting processing types. In each of these instances, the “State Contract” PO type should have been selected. 	<ol style="list-style-type: none"> 1. Provide refresher training for buyers to improve the evaluation and selection of PO type processing. 2. Enhance QA steps to identify and correct the incorrect selection of PO type within PeopleSoft on a routine basis. 3. Evaluate the feasibility of implementing system controls to improve the evaluation and selection of PO Type processing. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Refresher training will be provided to the buyers with a focus on evaluating each PO and selecting the appropriate PO type to ensure proper processing. <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: November 30, 2017</p> <p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 2. The current QA process is performed monthly and focuses on ensuring updates are made to the Excel spreadsheet before the report is published on the internet. Going forward, we will implement follow up procedures to make sure that any changes in the PO type as a result of the QA are made in the PO system so that the PeopleSoft records match the Transparency report posted on the internet. <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Insufficient system processing controls or insufficient manual review controls could result in non-compliance with the state regulation and Institutional policies regarding procurement practices.</p>		<p>Target Completion Dates: November 30, 2017</p> <p>Management Action Plans:</p> <p>3. Implementation of the Requisition Manager module will provide the system controls needed to improve the evaluation and selection of PO type.</p> <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: September 1, 2018</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Low n</p> <p>3. Improve Use of Category Management Codes</p> <p>Procurement category codes are not consistently used and do not always match their description within PeopleSoft. Incorrect application of these category codes result in reporting inaccuracies that could impact vendor requests for bidding as well as internal reporting. Category codes are used for identifying commodities and services during the procurement process.</p> <p>There are currently several hundred categories in the data table including internally developed codes. Opportunities exist to reduce the number of internal service categories in use; specifically media technology, information resources, news and publications as well as infrequently used categories or those with minor spend (i.e., less than \$1,000).</p> <p>Inaccurate category codes could lead to inefficient or delayed sourcing and inaccurate reporting.</p>	<ol style="list-style-type: none"> 1. Provide refresher training to buyers to review and update the category code assignment as needed in purchase orders. 2. Implement a single source of category codes to aid in accurate internal and external reporting. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Refresher training will be conducted with buyers to review category code assignments and update as needed. <p>Action Plan Owner: Assistant Vice President, Supply Chain Management Department</p> <p>Target Completion Date: November 30, 2017</p> <p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 2. As a part of Project Reboot, a single source of category codes will be utilized using the United Nations Standard Products and Services Code (UNSPSC) listing. <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: September 1, 2018</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Low n</p> <p>4. Update Signature Authority Matrix</p> <p>The signature authority matrix of institutional management members authorized to execute purchase agreements is not current, which increases the risk of contracts and commitments executed without the appropriate approvals. The current matrix contains names of authorized personnel who have since terminated. In addition, several open positions are open with a “to be determined” designation.</p> <p>Outdated signature authority information increases the risk of procurement orders or contracts not appropriately approved.</p>	<p>Supply Chain Management is updating the signature approval matrix. The plan includes surveying other institutions and evaluating the need for a complete revamp of the signature approval matrix. The goal is to employ a consistent approach for both POs and Contracts.</p> <ol style="list-style-type: none"> 1. Update the signature authority matrix to reflect current titles for authorized personnel. 2. Develop a schedule to review the matrix and obtain updates periodically throughout the year. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. We will update the signature authority matrix based on a best practice analysis compared to other institutions and obtain approval. <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: October 31, 2017</p> <p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 2. Periodic review and updating will be implemented. <p>Action Plan Owner: Assistant Vice President, Supply Chain Management</p> <p>Target Completion Date: Annual review and refresh if needed, based on calendar year.</p>

Appendix A – Risk Classifications and Definitions

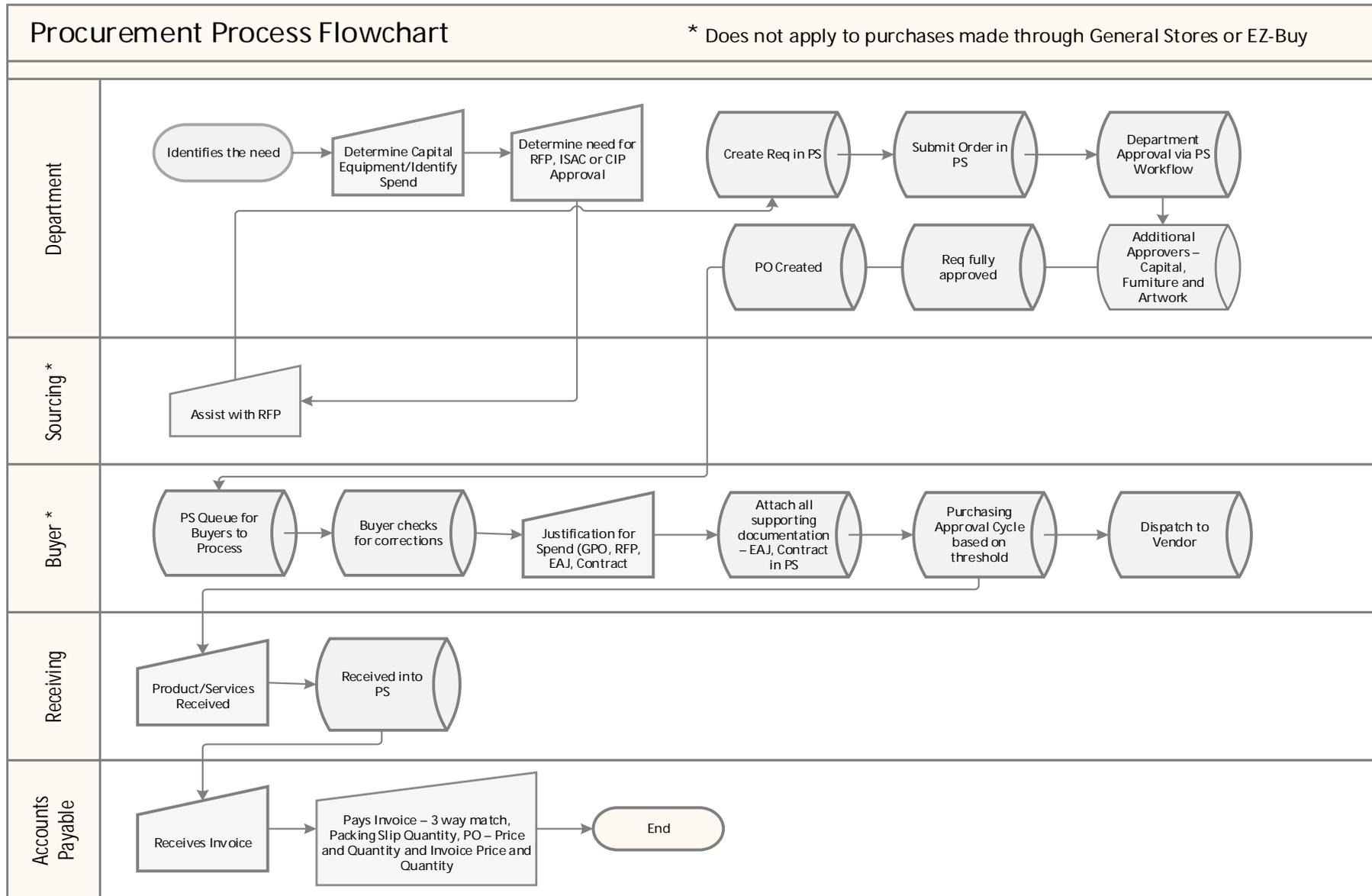
As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<p>Risk Definition- The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.</p>	Degree of Risk and Priority of Action	
	Priority	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	High	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	Medium	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.
	Low	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions.

It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

Appendix B – Procurement Process Map



Appendix C – UTSW Procurement Method and Justification Matrix

This matrix details the guidelines provided in the UTSW Procurement Manual for buyers to utilize when procuring goods and services for the Institution.

Procurement Method & Justification (# bids required)						
Contact Value or PO Amount	Informal Bid (Quote)	Formal Bid/Proposal (RFP)	GPO (Alliance/ Premier)	State Contract (DIR/TXMAS /Other)	GPO (E&I, TCPN, Other)	Exclusive Acquisition Justification (EAJ)
<\$15,000	One (1) Bid	Not Required	One (1)	One (1)	One (1)	Not Required
\$15,000 - \$50,000	Three (3) Bids	Not Required	One (1)	Three (3) ¹	Three (3) ¹	One (1)
\$50,000 - \$1M	NA	Three (3) Proposals	One (1)	Three (3) ¹	Three (3) ¹	One (1)
>\$1M	NA	Three (3) Proposals	Alliance-One (1) Premier-Three (3) ^{1&2}	Three (3) ^{1&2}	Three (3) ^{1&2}	One (1)