



THE UNIVERSITY of TEXAS SYSTEM  
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

**Audit Office**

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January 27, 2017

Jerry Fuller  
Director, Contracts and Procurement  
The University of Texas System Administration  
601 Colorado Street,  
Austin, Texas 78701

Dear Mr. Fuller:

The System Audit Office has completed an audit of The University of Texas ("UT") System Administration Contracting and Procurement Process. The detailed report is attached.

We conducted our engagement in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Because significant actions to improve contracting and procedures processes were already identified and underway at the time of the audit, there are no recommendations in this report. No management action plans are required and no audit follow-up is planned. However, should you wish to consult with us as progress is made towards your planned improvements, please do not hesitate to contact me.

Sincerely,

J. Michael Peppers, CIA, CPA, QIAL, CRMA  
Chief Audit Executive

cc: Scott C. Kelley, Ed.D., Executive Vice Chancellor for Business Affairs

**The University of Texas System Administration  
Contracting and Procurement Process  
Audit Report  
FY 2016**



**January 2017**

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE  
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**The University of Texas System Audit Office  
UT System Administration Contracting and Procurement Process Audit  
Fiscal Year 2016**

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**AUDIT REPORT**

January 2017

***EXECUTIVE SUMMARY***

The Office of Contracts and Procurement (“OCP”) was created in May 2016 to process University of Texas (“UT”) System Administration purchases in a more efficient and consistent manner, and to provide oversight to ensure compliance with State procurement regulations. The Director of this new office performed an assessment (“Assessment”) of the existing contracting and procurement process, and reported his findings and planned improvements to the Executive Vice Chancellor for Business Affairs in August 2016. The report listed several areas of the procurement process that could be enhanced or changed to ensure greater efficiency and improved oversight capability. Areas identified for improvement included tracking actual versus contracted costs, developing purchasing procedures specific to UT System Administration, establishing formal training for both departmental purchasers and contract managers, and identifying metrics to monitor and measure the performance of purchasing and contracting processes.

Because of the proactive approach taken by the new OCP to analyze current processes, and anticipated changes that will occur over the next several months as a result, limited testing was performed as part of this audit. Instead, the audit focused on review and validation of Assessment results. Based on discussion with applicable staff, review of existing policies and procedures, consideration of Assessment results, and limited testing, we concur with Assessment findings and planned actions. This audit resulted in no findings which were not already identified and addressed in the Assessment report.

***BACKGROUND***

Texas Education Code (“TEC”) section 51.9335 authorizes higher education institutions to procure goods and services “by the method that provides the best value to the institution.” TEC §51.9337 further defines the conditions upon which this authority is granted, including policy requirements that a board of regents must establish. The UT System Board of Regents (“Board”) has enacted several Regents’ *Rules and Regulations* related to procurement, most notably Regents’ *Rule 10501: Delegation to Act on Behalf of the Board*, which defines contracts requiring Board approval and delegates approval (signature) authority for all other UT System Administration or Systemwide contracts to the Executive Vice Chancellor for Business Affairs. Several Systemwide and UT System Administration policies and related procedures are in place to further define how contracts and procurements will be initiated, approved, and processed.

Significant changes in the UT System Administration procurement process occurred during the period selected for audit. First, Senate Bill 20 (84th Legislative Session) made several modifications to State law related to purchasing and contracting. Many new requirements were to be in place, or under development, by September 1, 2015. This resulted in several changes, among them the creation of the new OCP to better ensure compliance and to process purchases in a more efficient and coordinated manner.

The Director of this new office began by conducting a self-assessment, completed in August 2016 (included as Appendix A). In it, several areas of the contracting and procurement process were identified that could be enhanced or modified to ensure greater efficiency and oversight for compliance with various regulations. We have noted the Assessment results and planned actions where applicable throughout this report.

Procurement was identified as a high risk based on legislative and organizational changes, and Board and Executive Management interest, for inclusion in the Fiscal Year (“FY”) 2016 annual audit plan.



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### **AUDIT OBJECTIVE & SCOPE**

The objective of this audit was to assess whether UT System Administration has in place:

- Policies and control procedures to guide the procurement and contracting process and ensure compliance with applicable State law;
- Methods to enforce these policies and procedures; and
- Documentation to support that identified policies and procedures are working as intended.

The scope of the audit included UT System Administration procurement and contracting activity occurring September 1, 2015, through June 30, 2016.

In addition, effective September 1, 2015, TEC §51.9337 requires that, “The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor.” Completion of this required assessment was also an objective of this audit.

### **AUDIT METHODOLOGY**

Our audit procedures included identification of applicable Regents’ *Rules and Regulations* and State law, review of current policies and procedures for compliance with TEC §51.9337, discussion with OCP staff, and limited testing of a sample of contracts and purchase orders processed during the scope period.

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

### **ENGAGEMENT RESULTS**

Because of OCP’s proactive approach in analyzing existing procurement policies and procedures, our audit focused on review of the Assessment findings and limited testing of contracts and purchase orders during the scope period to determine whether any additional policy compliance or procedural issues should be addressed. The results of the Assessment are included as Appendix A.

As shown in Table 1 below, during the period audited, UT System Administration executed 688 contracts with total potential contract fees of approximately \$5.23 billion. This value included prior period contracts which were amended or extended during the scope period. Approximately two-thirds of the contracts were multi-year contracts, with 35% having terms of five years or more. From this population, we judgmentally selected a sample of 25 contracts for testing, which represented 8.5% of total contract dollars.

Contracts Selected for Testing				
Contract Value	Sample		Total Population	
	#	Total Value	#	Total Value
< \$15,000	4	\$ 49,024	241	\$ 880,850
\$15,000 - \$50,000	5	\$ 159,122	75	\$ 2,443,857
\$50,000 - \$1,000,000	7	\$ 4,789,629	191	\$ 62,176,462
> \$1,000,000	9	\$ 438,935,317	181	\$ 5,164,107,593
	25	\$ 443,933,092	688	\$ 5,229,608,762
Sample represents 8.5% of total population value				

**Table 1**

Also during this ten-month period, UT System Administration processed 318 purchase orders totaling just under \$6.7 million. As shown in Table 2, most of the purchase orders processed throughout the scope



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period fell below \$15,000. Because a significant majority of purchase orders (78%) fell below \$15,000, a stratified sampling technique was used to ensure larger purchase orders were included in the sample. Tested purchase orders represented 22% of total purchase order dollars.

Purchase Orders Selected for Testing				
Purchase Order Amount	Sample		Total Population	
	#	Amount	#	Amount
< \$15,000	12	\$ 125,847	248	\$ 1,134,293
\$15,000 - \$50,000	3	\$ 149,404	39	\$ 1,003,773
\$50,000 - \$1,000,000	5	\$ 1,203,611	31	\$ 4,522,800
> \$1,000,000	0	\$ -	0	\$ -
	20	\$ 1,478,862	318	\$ 6,660,866
Sample represents 22% of total population value				

**Table 2**

Contracts and purchase orders were tested to determine whether:

- Vendor selection complied with State “best value” purchasing requirements;
- Appropriate approvals and signatures were obtained; and
- Other required documentation was prepared and retained as applicable (for example, Exclusive Acquisition Justification if competitive procurement was required but not performed, or the State Agency Uniform Nepotism Disclosure Form for contracts exceeding \$1 million).

### Vendor Selection

TEC §51.9335 authorizes higher education institutions to procure goods and services “by the method that provides the best value to the institution.” It further defines the criteria to be considered in determining Best Value, including:

- a) The reputation of the vendor;
- b) The quality of the vendor’s goods or services;
- c) The vendor's past relationship with the organization (if applicable);
- d) The extent to which the goods or services meet the organization’s needs;
- e) The impact on the ability of the organization to comply with the rules and regulations relating to Historically Underutilized Businesses (“HUBs”);
- f) The impact on the ability of the organization to comply with rules relating to the procurement of goods and services from persons with disabilities; and
- g) Long-term costs to the organization of acquiring the vendor's goods or services.

UT System Administration has established threshold amounts to define whether a competitive process is required for vendor selection. For procurements \$15,000 or greater, vendor selection must occur through a competitive process unless there is a specifically allowed and approved justification for not doing so.<sup>1</sup> Contracts from \$15,000 to \$50,000 require a minimum of three verbal or informal quotes, and contracts over \$50,000 require a minimum of three written bids or proposals obtained through a formal request-for-

<sup>1</sup> Acceptable reasons for “exclusive acquisition” from a single vendor without considering others include, but are not limited to, a vendor being the only known supplier meeting the unique needs of the purchaser, continuity of a project or compatibility with existing equipment, specific requirements of a contractor or grantor, and purchases necessary in emergency situations.





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proposal (“RFP”) process. Appendix B outlines vendor selection requirements based on procurement amount.

To determine whether Best Value criteria were used in vendor selection, we reviewed documentation in support of each selected procurement. Of the sample of 20 purchase orders tested, eight were above the \$15,000 threshold that would have required a competitive selection process. All eight were awarded under Group Purchasing Organization (“GPO”) contracts, which did not require a competitive process. For the contracts tested, 20 of the 25 were above the competitive selection threshold. We were unable to locate documentation to determine whether the appropriate bidding process was followed for one of the 20 contracts that would have required either informal or formal bids. A more robust contract management system, in which vendor selection documentation could be required and recorded centrally for each executed contract, would ensure consistency and completeness of vendor selection documentation. The Assessment acknowledged the limitations of the current system, and included acquisition of a new contract management system as a priority goal (Appendix A). In addition, the Assessment report noted that clearly defined procedures and training would be helpful to ensure procurements are compliant, and indicated that a dedicated staff with specialized expertise is now available to assist. We agree that these actions, once fully implemented, will improve the completeness of documentation in support of vendor selection.

#### Approval Requirements

UT System procurement guidelines define approval requirements generally based on dollar amount, as outlined in Appendix B. Required approvals were obtained for all tested contracts and purchase orders.

#### Documentation

Procurement contracts are currently recorded in a database by the Office of the Executive Vice Chancellor for Business Affairs. This database is used as the basis for transparency reporting required by Texas Government Code (“TGC”) §2261.253, and was used to select contracts for audit testing. We also confirmed that, for sampled purchase orders awarded under UT System Administration contracts, all corresponding contracts were recorded in the transparency report.<sup>2</sup>

Contract documentation is not held in this database; the database serves only as a record of contracts executed. We noted some data entry errors and inconsistencies in how key contract information was recorded in the database. For example, total contract value was not consistently recorded as a dollar amount and some totals were approximations rather than a maximum amount, and some dates were clearly in error such as a contract end date of February 31<sup>st</sup> or an end date preceding the start date.

A record of each contract with supporting documents is kept in UT System Administration’s document imaging system, IBM Content Navigator. This record should include the executed contract and all pertinent supporting documentation. All contracts tested included a scanned copy of the original signed contract. However, we identified a few instances in our sample for which certain required documents were not included in the central record:

- The *State Agency Uniform Nepotism Disclosure Form* was not included for two of 11 tested contracts which required the completion of the form.
- Factors used in determining best value for bidder selection were not referenced in the documentation for one of 20 contracts which required that a competitive process be used (as previously noted).

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<sup>2</sup> U.T. System Contract Transparency Report, Fiscal Year 2016:  
<https://apps.utsystem.edu/ContractSummary/Homepage2016.aspx>



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We contacted each originating department for the identified contracts and verified that documentation does exist but was not stored in the document imaging system. Therefore, we believe these exceptions to be a matter of the completeness and consistency of documentation rather than any policy or process violation. A more robust contract management system, in which documentation requirements and completion could be recorded and monitored centrally, along with clearly defined procedures and training specific to UT System Administration contracting and procurement, would improve the consistency and completeness of vendor selection documentation. These are also addressed these as priority goals in the Assessment action plan (Appendix A).

Compliance with TEC §51.9337

TEC §51.9337, included as Appendix C, requires that, "The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor." Completion of this required assessment for FY 2016 was included as an objective of this audit.

Based on review of current policy and rules, UT System Administration has generally adopted all of the rules and policies required by TEC §51.9337. Review and revision of UT System Administration policy is an ongoing process. These rules and policies will continue to be assessed annually to ensure continued compliance with TEC §51.9337.

***MANAGEMENT RESPONSE***

Management agrees with audit observations and suggested opportunities for improvement. The response from the Office of Contracts and Procurement is included as Appendix D.

J. Michael Peppers, CPA, CIA, QIAL, CRMA  
Chief Audit Executive

Dyan Hudson, CIA, CISA, CFE, CRMA  
Director, Specialty Audit Services



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Appendix A  
100 Day Assessment – Office of Contracts and Procurement



**The University of Texas System**  
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**UT System Business Affairs  
Office of Contracts and Procurement**

504 Lavaca St., Austin, Texas 78701

512-852-3258

[www.utssystem.edu](http://www.utssystem.edu)

TO: Scott Kelley, Executive Vice Chancellor, Business Affairs

FROM: Jerry Fuller, Director, Contracts and Procurement

DATE: August 1, 2016

RE: 100 Day Assessment – Office of Contract and Procurement

I am offering my initial assessment of current state and initial priorities of the Office of Contracts and Procurement which began operation in May, 2016. I am submitting this a few weeks ahead of schedule due to the fact that Internal Audit will soon be conducting the mandatory review of Senate Bill 20 compliance. I intend to provide this document to Internal Audit so that they might provide me with additional information from their perspective that might help shape my initial strategy.

Prior to implementation of PeopleSoft, most of UT System purchase order requirements were processed through UT Austin's \*DEFINE system. UT System staff also had access to UT Austin's eCommerce platform, UT Market. Formal solicitation processes were generally managed by the end user departments with assistance from the Office of General Counsel (OGC). OGC also supported the contracting process and performed mandatory reviews of contracts exceeding \$100K. After the implementation of PeopleSoft, Accounting and Purchasing Services (APS) began to manage the purchase order process formerly handled by UT Austin, but their overall support of other procurement activities continued to be limited.

**Current State**

**1. Technology**

- a. Approval workflow has not been enabled in PeopleSoft requiring purchasing staff's involvement in the processing of all purchase orders including those up to \$15,000 which are normally handled by the end user departments at the other UT institutions. This focuses purchasing staff resources on low value activities rather than supporting departments with more complicated procurement processes.
- b. UT System is planning to participate in the UT Share implementation of SciQuest's eCommerce offering which will provide improved efficiency, but will need to be coupled with requisition workflow to obtain maximum benefit. A





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primary long-term benefit will be elimination of use of the Procurement Card for office supply purchases and the associated reconciliation process.

- c. UT System does not have an adequate contract management system. There is a contract repository, but it provides very limited functionality. Based on the fact that UT System will continue to process a large volume of contracts in support of both System departments and the fourteen campuses, it is important to implement a robust system that can manage all aspects of contracting and contract management. There are a variety of significant risks, the most significant of which is our current inability to accurately track actual costs versus contracted costs.

**2. Staffing**

- a. The two buyers basically place orders on behalf of the departments. They have a general understanding of purchasing guidelines, but their depth of understanding is insufficient to provide consistent, useful guidance to department staff. They have had a very limited role in supporting the Request for Proposal process and have a very limited understanding of overall processing requirements. As a result, they need training and experience in order to support departmental staff in conducting these complex processes.
- b. The addition of the new Assistant Director for Contract Management will immediately address support of RFP processes by adding an individual with significant skill and experience in managing teams through the process.
- c. While OGC is currently being very helpful in processing contracts, an additional position devoted to contract processing would be more efficient and allow OGC legal staff to focus on more significant issues. With some of the technology assists mentioned above there is a likelihood that one of the buyer positions could be eliminated.

**3. Procedures and Training**

- a. Adequate, comprehensive written procedures for procurement processes currently do not exist. UT System purchasing staff tend to point end users to UT Austin procedures. From an audit perspective it is essential to have our own published procedures. This deficiency can be addressed relatively quickly.
- b. No formal training is currently provided to departmental administrators involved in purchasing activities. Again, this is a deficiency that can be addressed relatively quickly through both formal training classes and tutorials that can be posted online.
- c. No formal training is currently provided for departmental "contract managers" as required by the Contract Management Handbook. This is a more complex undertaking and may be best rolled out with a new contract management "system".

**4. Reporting**

- a. Mandatory reporting as required by Senate Bill 20 appears to be compliant:
  - i. Purchase order and contract transparency reporting processes are adequate
  - ii. Legislative Budget Board reporting processes are adequate
  - iii. RFP transparency reporting appears to have some deficiencies which need to be addressed



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- b. No metrics currently exist to monitor performance of purchasing and contract processes. This will be an area of primary focus during the first year to address issues such as:
- i. Cost savings reporting
  - ii. UT System Supply Chain Alliance contract utilization
  - iii. Processing cycle time monitoring for purchase orders, RFPs and contracts

**Priorities**

Goal	Importance	Target Date
Publish purchasing & contracting procedures	High	9/30/16
Implement SciQuest eCommerce platform (include PS workflow upgrade)	Medium	TBD (UT Share Project)
Finalize recommendation for Contract Management System	High	9/30/16
Develop implementation plan for Contract Management Handbook implementation	High	11/30/16
Publish formal solicitation guidelines and associated templates	High	9/30/16
Develop training materials for purchasing processes	Medium	10/31/16
Develop training materials for contract managers	Medium	TBD (With implementation of Contract Management System)
Transition contract review from OGC to CNP	Medium	12/31/16
Review and validate mandatory SB20 reporting compliance	High	9/15/16
Develop and deploy CNP website	High	10/15/16
Identify Key Performance Indicators (KPIs) and develop methodology for tracking and reporting	Low	3/31/17





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Appendix B  
Procurement Guidelines

***UT System Procurement Guidelines – Effective September 1, 2016 (Bid, Quote & Proposal Requirements for Goods & Services)***

Contract Value or PO Amount	Informal Bid	Formal Bid/Proposal (ITB/RFP)	Certified State Contract DIR/TXMAS/TPASS	Certified GPO (Alliance/Premier)	Certified GPO Other (See Page 2)	Exclusive Acquisition Justification (EAJ)	BOR Approval Requirement	Reporting Requirement
<\$15,000	NA	NA	One (1)	One (1)	One (1)	NA	NA	Transparency Report
\$15,000 - \$50,000	Three (3)	NA	Three (3) <sup>1</sup>	One (1)	Three (3) <sup>1</sup>	One (1)	NA	Transparency Report
\$50,000 - \$1M	NA	ITB/RFP	Three (3) <sup>1</sup>	One (1)	Three (3) <sup>1</sup>	One (1)	NA	Transparency Report LBB Report (State Funds)
>\$1M	NA	ITB/RFP BOR Approval Required <sup>2</sup>	Three (3) <sup>1</sup> OBA Approval Required <sup>2</sup> BOR Approval Required <sup>2</sup>	Alliance - One (1)  Premier – One (1) up to threshold below <sup>2</sup>  Premier – Three (3) above the threshold below <sup>2</sup>  OBA Approval Required <sup>2</sup> BOR Approval Required <sup>2</sup>	Three (3) <sup>1</sup>  OBA Approval Required <sup>2</sup> BOR Approval Required <sup>2</sup>	One (1)  BOR Approval Required <sup>2</sup>	Yes <sup>2</sup>	Transparency Report LBB Report (IT or State Funds) BOR Quarterly Report

<sup>1</sup> **Quote/Proposal Notes (Specific to State Contract & GPO Purchases other than Alliance)**

- If only two suppliers in a category, document & proceed without further justification
- If only one supplier in a category:
  - EAJ not required for Premier, E&I, State Contracts
  - All other GPO contracts:
    - Confirm & document that valid procurement was completed, or
    - Complete EAJ
- Commodities (\$15K-\$50K) – Schools/Departments may obtain quotations (valid for 20 days)
- Commodities (>\$50K) – Purchasing obtains quotations (Schools/Departments provide specifications)
- Services (>\$15K) – Purchasing obtains proposals (Schools/Departments provide SOW)

<sup>2</sup> **Board of Regent Approval Notes**

- Submit to the UT System Office of Business Affairs (OBA)
  - State Contract, Other GPO: >\$1M
  - Alliance & Premier: Per thresholds below (Alliance submits for their contracts)
- Board of Regents Approval (Consent Agenda)
  - ITB/RFP/EAJ: >\$1M with exceptions as identified in Regents Rule 10501
  - GPO/State Contracts: Per threshold below with exceptions as identified in Regents Rule 10501
- Group Purchase thresholds:
  - Tier I - \$1.0M (UTPB, UTRGV, UTT, UTHSCT)
  - Tier II - \$2.0M (UTA, UTD, UTEP, UTSA)
  - Tier III - \$3.0M (UTAUS, UTHSCH, UTHSCSA, UTMB, UTSWMC, UTMDA, UT System)



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Appendix C  
Texas Education Code  
Title 3: Higher Education, Subtitle A: Higher Education in General  
Chapter 51: Provisions Generally Applicable to Higher Education  
Section 51.9337: Purchasing Authority Conditional; Required Standards

(a) An institution of higher education may not exercise the acquisition authority granted by Section 51.9335 or 73.115 unless the institution complies with this section. An institution that is determined under Subsection (j) to not be in compliance with this section is subject to the laws governing acquisition of goods and services by state agencies, including Subtitle D, Title 10, Government Code, and Chapter 2254, Government Code.

(b) The board of regents of an institution of higher education by rule shall establish for each institution under the management and control of the board:

- (1) a code of ethics for the institution's officers and employees, including provisions governing officers and employees authorized to execute contracts for the institution or to exercise discretion in awarding contracts, subject to Subsection (c);
- (2) policies for the internal investigation of suspected defalcation, misappropriation, and other fiscal irregularities and an institutional or systemwide compliance program designed to promote ethical behavior and ensure compliance with all applicable policies, laws, and rules governing higher education, including research and health care to the extent applicable;
- (3) a contract management handbook that provides consistent contracting policies and practices and contract review procedures, including a risk analysis procedure, subject to Subsection (d);
- (4) contracting delegation guidelines, subject to Subsections (e) and (f);
- (5) training for officers and employees authorized to execute contracts for the institution or to exercise discretion in awarding contracts, including training in ethics, selection of appropriate procurement methods, and information resources purchasing technologies; and
- (6) internal audit protocols, subject to Subsection (g).

(c) The code of ethics governing an institution of higher education must include:

- (1) general standards of conduct and a statement that each officer or employee is expected to obey all federal, state, and local laws and is subject to disciplinary action for a violation of those laws;
- (2) policies governing conflicts of interest, conflicts of commitment, and outside activities, ensuring that the primary responsibility of officers and employees is to accomplish the duties and responsibilities assigned to that position;
- (3) a conflict of interest policy that prohibits employees from having a direct or indirect financial or other interest, engaging in a business transaction or professional activity, or incurring any obligation that is in substantial conflict with the proper discharge of the employee's duties related to the public interest;
- (4) a conflict of commitment policy that prohibits an employee's activities outside the institution from interfering with the employee's duties and responsibilities to the institution;
- (5) a policy governing an officer's or employee's outside activities, including compensated employment and board service, that clearly delineates the nature and amount of permissible outside activities and that includes processes for disclosing the outside activities and for obtaining and documenting institutional approval to perform the activities;
- (6) a policy that prohibits an officer or employee from acting as an agent for another person in the negotiation of the terms of an agreement relating to the provision of money, services, or property to the institution;
- (7) a policy governing the use of institutional resources; and
- (8) a policy providing for the regular training of officers and employees on the policies described by this subsection.





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(d) An institution of higher education shall establish contract review procedures and a contract review checklist that must be reviewed and approved by the institution's legal counsel before implementation. The review procedures and checklist must include:

- (1) a description of each step of the procedure that an institution must use to evaluate and process contracts;
- (2) a checklist that describes each process that must be completed before contract execution; and
- (3) a value threshold that initiates the required review by the institution's legal counsel unless the contract is a standard contract previously approved by the counsel.

(e) An institution of higher education's policies governing contracting authority must clearly specify the types and values of contracts that must be approved by the board of regents and the types and values of contracts for which contracting authority is delegated by the board to the chief executive officer and by the chief executive officer to other officers and employees of the institution. An officer or employee may not execute a document for the board unless the officer or employee has authority to act for the board and the authority is exercised in compliance with applicable conditions and restrictions.

(f) An institution of higher education may not enter into a contract with a value of more than \$1 million, including any amendment, extension, or renewal of the contract that increases the value of the original contract to more than \$1 million, unless the institution's board of regents approves the contract, expressly delegates authority to exceed that amount, or expressly adopts an exception for that contract. The board must approve any amendment, extension, or renewal of a contract with a value that exceeds 25 percent of the value of the original contract approved by the board unless the authority to exceed the approved amount is expressly delegated by the board or an exception is expressly adopted by the board for that contract.

(g) The board of regents of an institution of higher education shall adopt standards for internal audits conducted by the institution to provide a systematic, disciplined approach to evaluate and improve the effectiveness of the institution's risk management, control, and governance processes related to contracts and to require risk-based testing of contract administration. The internal auditor must have full and unrestricted access to all institutional property, personnel, and records. An internal auditor must report directly to the board of regents in accordance with Chapter 2102, Government Code.

(h) The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor. In auditing the purchase of goods and services by the institution, the state auditor shall determine whether an institution has adopted the required rules and policies.

(i) If the state auditor determines that an institution of higher education has failed to adopt the required rules and policies, the auditor shall report that failure to the legislature and to the institution's board of regents and shall, in consultation with the institution, adopt a remediation plan to bring the institution into compliance. If the institution fails to comply within the time established by the state auditor, the auditor shall find the institution to be in noncompliance and report that finding to the legislature and comptroller.

(j) In accordance with a schedule adopted by the state auditor in consultation with the comptroller, the authority of an institution of higher education to acquire goods and services as provided by Section 51.9335 or 73.115 is suspended if the institution fails to comply with the remediation plan under Subsection (i) within the time established by the state auditor. As a result of the suspension, the laws, including Subtitle D, Title 10, Government Code, and Chapter 2254, Government Code, governing acquisition of goods and services by state agencies from which the institution is otherwise exempt, shall apply to the institution's acquisition of goods and services.

Added by Acts 2015, 84th Leg., R.S., Ch. 326 (S.B. 20), Sec. 23, eff. September 1, 2015.





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Appendix D  
Management Response



**The University of Texas System**  
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**UT System Business Affairs**  
**Office of Contracts and Procurement**  
504 Lavaca St., Austin, Texas 78701  
512-852-3258  
[www.utssystem.edu](http://www.utssystem.edu)

TO: Dyan Hudson, Director, Specialty Audit Services  
FROM: Jerry Fuller, Director, Contracts and Procurement  
DATE: January 26, 2017  
RE: Contracting and Procurement Process Audit Report – FY 2016

I have reviewed the draft report and fully concur with the assessment of current processes and opportunities for improvement. This report is very helpful in confirming my current state assessment of these business processes and the action plans that have been developed and are in the process of being implemented.

The primary improvement opportunity lies with the selection and implementation of a robust contract management system that will consolidate contracting information that is currently contained within multiple, disparate systems and ultimately allowing UT System to reliably address contract monitoring requirements established by the Legislature and Comptroller of Public Accounts.

Thank you.

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