

Purchasing Activities

Dell Medical School



August 2018

The University of Texas at Austin

Office of Internal Audits

UTA 2.302

(512) 471-7117

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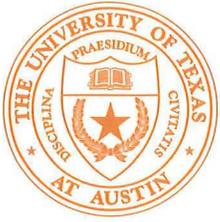
**The University of Texas at Austin
Office of Internal Audits**

Chief Audit Executive:	Michael Vandervort, CPA
Associate Director:	Jeff Treichel, CPA
Assistant Director:	*Angela McCarter, CIA, CRMA Chris Taylor, CIA, CISA
Audit Manager:	Brandon Morales, CISA, CGAP
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Auditor III:	Bobby Castillo, CGAP Kerri Jordan *Miranda Pruett, CFE
Auditor II:	Jason Boone
Auditor I:	Ryan Kothlow
IT Auditor II:	Mark Boze, GSEC, GCWN Mike McIntosh, GSEC, GSNA

* denotes project members

This report has been distributed to Institutional Audit Committee members, the Legislative Budget Board, the State Auditor's Office, the Sunset Advisory Commission, the Governor's Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**Dell Medical School: Purchasing Activities
Project Number: 18.007**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

1616 Guadalupe Street, Suite 2.302 • Austin, TX 78701 • (512)471-7117 • FAX (512)471-8099

August 14, 2018

President Gregory L. Fenves
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

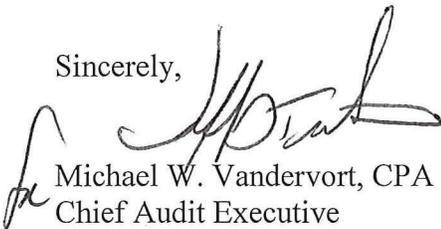
Dear President Fenves,

We have completed our audit of Dell Medical School (DMS): Purchasing Activities – Project #18.007. Our scope included purchasing activities from September 1, 2016-August 31, 2017.

Based on the audit procedures performed, we conclude that DMS is generally in compliance with The University of Texas at Austin's purchasing policies and procedures; however, three opportunities for improvement were noted regarding improving compliance with UT Market and Procurement Card documentation policies. Our audit report provides detailed observations for each area under review. Suggestions are offered throughout the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of DMS staff members throughout the audit and hope that the information presented herein is beneficial.

Sincerely,



Michael W. Vandervort, CPA
Chief Audit Executive

cc: Institutional Audit Committee Members
Mr. William O'Hara, Chair, Institutional Audit Committee
Dr. Maurie McInnis, Executive Vice President and Provost
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Mr. Carlos Martinez, Chief of Staff, Office of the President
Dr. David Wolcott, Chief of Staff, Office of the Executive Vice President and Provost
Dr. S. Claiborne Johnston, Vice President for Medical Affairs and Dean of the Dell Medical School
Mr. Jeff Treichel, Associate Director, Office of Internal Audits



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EXECUTIVE SUMMARY

Conclusion

Based on our review of Dell Medical School (DMS) purchasing processes, the Office of Internal Audits (Internal Audits) concludes that DMS is generally in compliance with The University of Texas at Austin's (UT Austin) purchasing policies and procedures. However, three recommendations were made to improve compliance with UT Market and Procurement Card (Procard) documentation policies.

Summary of Recommendations¹

Internal Audits identified two notable issues, which led to the following recommendations:

- UT Market: Documentation Retention (Audit Issue Ranking: High)
- Procurement Cards: Receipt of Goods (Audit Issue Ranking: High)

One additional recommendation is provided, but is considered minor in significance.

Management agrees with our three observations and has provided corrective action plans, which are expected to be implemented on or before September 1, 2018.

Audit Scope and Objective

The scope of this audit included purchasing activities from September 1, 2016 to August 31, 2017. The audit objective was to determine whether DMS purchasing practices are completed in accordance with UT Austin policies and procedures. In addition, this audit was performed in coordination with McCombs School of Business graduate students.

Background Summary

DMS is the first medical school in nearly 50 years to be built from the ground up at a top tier Association of American Universities research university. DMS began construction of its educational and administrative facilities in April 2014, and completed its teaching hospital in May 2017. In June 2016, DMS welcomed its first class of students.²

DMS is the newest school addition to UT Austin and as such, has been making a number of large purchases to establish the teaching school and clinics. This combination ranked DMS purchasing activity as a high on the annual risk assessment and included on the FY18 audit plan. In FY17, DMS had 12 departments and 7 institutes, with a total budget of \$74 million.

¹ Each issue has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions.

² Dell Medical School About: <https://dellmed.utexas.edu/about/mission-and-vision/history>



BACKGROUND

Dell Medical School (DMS) is the first medical school in nearly 50 years to be built from the ground up at a top tier Association of American Universities research university. DMS began construction of the educational and administrative facilities in April 2014 and completed with the teaching hospital in May 2017. In June 2016, Dell Medical School welcomed its first class of students.³

With a shared goal of better health for the people of Austin and Travis County, Dell Medical School and Central Health — the health care district serving Travis County — have partnered to create new models of care that improve outcomes, increase prevention and allow taxpayer funding to serve more people more effectively.⁴

DMS is the newest school addition to The University of Texas at Austin (UT Austin) and as such, has been making a number of large purchases to establish the teaching school and clinics. This combination ranked DMS purchasing activity as a high on the annual risk assessment and included on the FY18 audit plan. In FY17, DMS had 12 departments and 7 institutes with a total budget of \$74 million.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this audit included the purchasing activities from September 1, 2016 to August 31, 2017. The audit objective was to determine whether DMS purchasing practices are in accordance with UT Austin policies and procedures. In addition, this audit was performed in coordination with McCombs School of Business graduate students. The graduate students assigned to the Office of Internal Audits worked alongside auditors during the planning and fieldwork phases of this audit.

To achieve these objectives, the Office of Internal Audits (Internal Audits):

- Reviewed applicable policies and procedures;
- Interviewed the DMS finance team;
- Tested a sample of contracts, Authorization of Individual/Professional Service (AIS/APS) forms, purchase orders, Procurement Cards (Procards), UT Market purchases, and entertainment transactions; and
- Corresponded with relevant staff.

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

³ Dell Medical School About: <https://dellmed.utexas.edu/about/mission-and-vision/history>

⁴ Dell Medical School Goal: <https://dellmed.utexas.edu/about/mission-and-vision>



AUDIT RESULTS

To assist with establishing the teaching school and clinics, DMS created a centralized finance team who provides “assistance with day-to-day activities, financial reporting and budgeting/financial planning efforts across the school.”⁵ Internal Audits relied on the guidance of the DMS finance team and their documented purchasing policies and procedures for this audit. The sample size selected (Procards and UT Market) for this audit was chosen randomly, but was not representative of the total number of transactions performed by DMS in FY17. No recommendations in this report were related to the large dollar purchases (\geq \$30,001), but were from the areas with smaller purchases (\leq \$30,000) such as UT Market and Procard activities.

Three recommendations were made for UT Market and Procard documentation. Each issue has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions.

UT Market: Documentation Retention **Audit Issue Ranking: High**

Four (100%) of the four UT Market transactions tested did not have supporting documentation on file. UT Market transactions are performed electronically, but when an order is delivered to the department a hard copy of the packing slip or receiving report is included. The DMS finance team stated that they confirm delivery of UT Market orders via email, but were unaware of the requirement to retain a hard copy. If supporting documentation is not retained, then there is an increased risk of incorrect payments, and/or orders not being properly received or documented.

Section 20.3.3.E of UT Austin’s *Handbook of Business Procedures* states, “Packing slips and other support documentation received as hardcopy must be submitted to the Image Retrieval System (IRS) to be imaged or must be retained in the department in accordance with all applicable retention codes.”

Recommendation 1: Management should ensure that hard copies of UT Market supporting documentation are retained within the department or submitted to Imaging Retention Services to be imaged.

Management’s Response and Corrective Action Plan:

In February 2018, DMS Finance met with members of the UT Austin Accounts Payable department to develop policies and processes that align with UT policies for document retention. Once fully implemented, all purchases processed through UT Market that are delivered through Central Receiving will have verification of receipts and packing slip imaging handled by Central Receiving, as directed by the Purchasing Office (<https://purchasing.utexas.edu/ut-market>). For all future

⁵ Dell Medical School Finance: <https://dellmed.utexas.edu/finance>



purchase orders processed through UT Market that are Desktop Deliveries, DMS Finance will implement the process that was discussed and approved by Central Accounts Payable. In this process, tasks assigned to DMS Finance include: PO creation and approval, confirmation of receipt and imaging of receipts.

Responsible Person: Financial Analyst

Planned Implementation Date: September 1, 2018

Post Audit Review: Internal Audits will follow-up the second quarter of FY19.

Procurement Card: Receipt of Goods

Audit Issue Ranking: High

Four (100%) of the four Procard voucher payments tested did not show verification of the receipt of goods or services purchased. The DMS finance team stated that they were not aware of the requirement to have receipts marked as received. If receipts are not properly documented, then there is an increased risk of incorrect payments, and/or orders not being properly received or documented.

The *Procurement Card Program: Policies and Guidelines: Shipping and receiving states*, “In order to maintain internal controls, an employee other than the cardholder (but in the same department) is responsible for verifying the receipt of goods or services purchased. Receipt of goods and services must be documented – some examples of acceptable documentation are noting the date on the associated receipt or retaining the packing slip.”

Recommendation 2: Management should ensure Procard holders have a secondary employee, within the same department, verify and document the receipt of goods or services purchased.

Management’s Response and Corrective Action Plan:

DMS Finance will review all receipts submitted through the monthly Procard reconciliation process. Each Procard purchase will be required to be stamped with a receipt date and the signature of the person who received the goods. Packing slips for applicable Procard purchases will be collected as part of the Procard reconciliation process.

Responsible Person: Accountant II

Planned Implementation Date: September 1, 2018

Post Audit Review: Internal Audits will follow-up the second quarter of FY19.

Procurement Card: Missing Receipts

Audit Issue Ranking: Medium

One (25%) of the four Procard voucher payments tested did not have two receipts identified from voucher documentation. The DMS finance team stated that the Procard holder did not log the transactions nor provide the receipts for the items and the



individual who processed the voucher is no longer with DMS. If Procard receipts are not retained and documented on the Procard transaction log, then there is an increased risk of misuse of UT Austin property and a loss of funds.

Section 7.8.B of UT Austin's *Handbook of Business Procedures* states, "A Procard is issued to an individual employee who has sole responsibility for the control and use of the card. The cardholder must keep all receipts or documentation for any purchases made and is responsible for verifying that all transactions listed on bank statements are valid and accurate."

Recommendation 3: Management should ensure that all Procard transactions are logged and proper supporting documentation is kept on file.

Management's Response and Corrective Action Plan: DMS Finance will manage the DMS Procard program, including reviewing all transaction receipts and managing all Procard payments and VP7 reconciliations. The DMS Finance team will also communicate this corrective action plan to all the procard holders to let them know that as a part of the reconciliation process, all receipts must be properly logged and documentation must be kept on file to submit to Imaging. DMS departmental Procard training is scheduled for August 2018 to ensure that established processes and refreshed guidelines are communicated to all Procard holders. All Procard holders are required to attend this training in order to keep their Procards.

Responsible Person: Accountant II

Planned Implementation Date: September 1, 2018

Post Audit Review: Internal Audits will follow-up the second quarter of FY19.

CONCLUSION

Based on our review of DMS purchasing processes, Internal Audits concludes that DMS is generally in compliance with the UT Austin's purchasing policies and procedures. However, three recommendations were made to improve compliance with UT Market and Procard documentation policies.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.



APPENDIX

Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, UT Austin, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Austin or the UT System as a whole.
- **High** – An issue that is considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
- **Low** – An issue that is considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.