

April 12, 2019

MEMORANDUM

TO: Michael J. Keneker
Vice President, Finance & Chief Accounting Officer

Calvin Wright
Associate Vice President, Supply Chain Management

FROM: Sherri Magnus *Sherri Magnus*
Vice President & Chief Audit Officer

SUBJECT: MDA 18-108 Procurement Review

Internal Audit has completed a Procurement Review, in accordance with the FY 2018 work plan. The objective of our review was to determine whether contracted rates were being paid for goods and services. The review covered the period September 2017 through December 2018.

Overall, the price match control in PeopleSoft to ensure that only contracted rates are paid appears to be working. For example, when a pricing discrepancy exceeds the established threshold, the payment of the invoice is prevented. In addition, exception reports are routinely reviewed by Purchasing and Materials Management Services staff. A process has also been established for review and resolution of any exceptions.

Our review also identified the following opportunities for improvement:

- Premier¹ pricing information had not been consistently updated in PeopleSoft. Without proper pricing updates, the Institution may pay more for goods than intended.
- Benchmarks related to the timeliness of price activation by Premier as well as the department had not been established to ensure requests are submitted timely in the Premier system. Delayed price activations could result in missed opportunities for discounted pricing.
- Invoice match exceptions, when the purchase order, receiving information, and invoice do not match, were not always resolved timely. Numerous exceptions were outstanding for 30 days or more, which increases the risk of delayed payments to vendors.

Detailed observations with management's corrective action plans are below. We sincerely appreciate the courtesy and cooperation extended to us during this review.

cc: Raul Davila
Aileen Maze
Scottie Chatman

¹ Premier is a group purchasing organization that negotiates agreements for products and services on behalf of member hospitals. These agreements enable the member to take advantage of available discounts on products including, but not limited to, medical-surgical supplies and various purchased services.

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DETAILED OBSERVATIONS

Observation 1:**Ensure PeopleSoft Premier Pricing Information is Current****RANKING: Low**

Premier contract and pricing information had not been updated in PeopleSoft for a sample of price activations reviewed. A total of 36 to 74 business days had passed since the price activations occurred.

Discounted pricing for various goods is available through Premier group purchasing agreements. These agreements have been negotiated on behalf of thousands of member hospitals, including MD Anderson. The Institution accesses pricing under selected agreements via price "activations" in the Premier online system. Once price activations are completed, additional time is required for related contract and pricing information to be updated in PeopleSoft. PeopleSoft updates help to ensure purchases will be made under the appropriate agreements at the negotiated prices.

Institutional policy requires the maintenance and reporting of reliable information. When pricing and contracting information in PeopleSoft is not current, there is a risk that the Institution could pay higher prices for goods. In addition, outdated pricing in the system may result in discrepancies between purchase orders and invoices. These discrepancies require time and resources to resolve and could cause delayed payments to vendors.

Recommendation:

Management should improve processes to ensure all applicable systems and databases are updated to reflect current Premier agreements and correct pricing.

Management's Action Plan:

Responsible Executive: Calvin Wright

Owner: Raul Davila

Due Date: November 30, 2019

An additional resource has been added to the content management team to maintain product pricing as a result of Premier agreement activations. This new resource runs a weekly report that shows all the activations from the prior week. The contract information from the report is used to obtain the contract details and update item master pricing records as appropriate. Additionally, Supply Chain Management has recommended the utilization of GHX Nuvia which is a service that captures Premier contract activations real-time and can generate the necessary information to update the item master pricing automatically (via an interface).

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**Observation 2:
Improve Timeliness of Premier Price Activations****RANKING: Low**

Our review indicated that the timing of Premier price activations could be improved. However, no departmental standard or benchmark for the timeliness of pricing activations has been established.

On average, we found that it took 28 days from the identification of Premier pricing opportunities to the final approval of the price activation in the Premier system. Although evidence suggests that Premier pricing does not necessarily guarantee the best price in all instances, this delay increases the risk that the Institution could pay higher prices for items while the approval for Premier pricing is pending.

According to management, final approval involves the vendors and may be delayed by the vendors' requests for additional information or other factors beyond MD Anderson's control. However, management has recognized the need to achieve greater efficiencies in the price activation process and took the initiative to improve the process during our review. Designated personnel within Sourcing and Contracts have been assigned to manage the price activation process.

Recommendation:

Management should establish a departmental standard or benchmark for the timeliness of Premier pricing activations. Management should then monitor the performance against the benchmark and implement additional improvements to improve timeliness as necessary.

Management's Action Plan:

Responsible Executive: Calvin Wright

Owner: Aileen Maze

Due Date: September 30, 2019

Starting in April 2019, Management will track the time from activation notification to final activation for a six-month period. Based on the various scenarios documented, a baseline and standard will be created. In addition, designated Sourcing personnel has been meeting bimonthly with Premier representation to ensure all documentation required for activation is secured, thereby avoiding a delay with the final activation.

Observation 3:**Resolve Invoice Exceptions in a Timely Manner****RANKING: Low**

Invoice exceptions were not consistently resolved in a timely manner:

- Outstanding match exceptions are routinely monitored within Purchasing and Materials Management Services (MMS). However, we noted that 63% of “invoiced not received” exceptions (where the user has not updated PeopleSoft to indicate whether the goods have been received) were outstanding for 30 days or more as of November 2018.
- 13% of pricing exceptions were outstanding for 11 to 73 days during the period reviewed in December 2018. At the time of our review, management’s expectation was that pricing exceptions should be cleared within 10 days.

Invoice exceptions occur in PeopleSoft when the purchase order, receiving information, and invoice do not match. The exceptions will post to a daily report for review and resolution by Purchasing or MMS. It is the Institution’s policy to ensure timely payments for goods and services. When invoice exceptions are not resolved promptly, this increases the risk that timely payments may not occur.

Recommendation:

Management should strengthen processes to ensure that outstanding match exceptions are resolved timely.

Management’s Action Plan:

Responsible Executive: Calvin Wright

Owner: Scottie Chatman

Due Date: November 30, 2019

A workgroup has been created to address the issue of match exceptions. This workgroup is identifying the match exception causes, resolution steps (how to resolve an exception), prevention measures (how to avoid them), and business process change recommendations. The workgroup will present their findings and recommendations by June 1, 2019. For pricing exceptions, Supply Chain Management has recommended the utilization of GHX Nuvia which is a service that captures Premier contract activations and local agreements real-time and can generate the necessary information to update the item master pricing automatically (via an interface) thus preventing match exceptions.

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APPENDIX A

Objective, Scope and Methodology

The review covered the period September 2017 through December 2018, and the objective was to determine whether contracted rates were paid for goods and services.

Our methodology included the following procedures:

- For a sample of invoice payments, tested the automated price match control in PeopleSoft to determine whether the control is working as intended.
- Evaluated whether match discrepancies were resolved promptly.
- Reviewed the process for updating pricing information in PeopleSoft related to Premier group purchasing agreements, as this was determined to be key reason for price match exceptions.
- Interviewed key personnel and reviewed relevant organizational policies to understand financial and administrative processes within the Department.

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.*”