

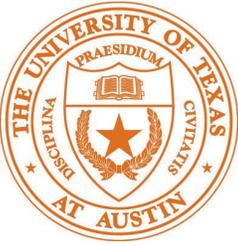
Procurement Processes

Procurement and Payment Services

August 2021



The University of Texas at Austin
Office of Internal Audits
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OFFICE OF INTERNAL AUDITS
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August 30, 2021

President Jay C. Hartzell
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Hartzell,

We have completed our audit of Procurement Processes as part of our Fiscal Year 2021 Audit Plan. The objectives of the audit were to determine whether there are improvement opportunities in the request for proposal (RFP)/request for quote (RFQ) process, whether best practices are used for bulk purchases, and whether contracts are used outside their approved terms and conditions. The report is attached.

Overall, The University of Texas at Austin should improve processes related to RFPs/RFQs, bulk purchases, and business contracts. Management has provided their action plans and implementation plans.

Please let me know if you have questions or comments regarding this audit.

Sincerely,

A handwritten signature in blue ink that reads "Sandy Jansen".

Sandy Jansen, CIA, CCSA, CRMA
Chief Audit Executive

cc: Mr. Rogelio Anasagasti, Assistant VP, Procurement and Payment Services
Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
Ms. Tiffany Dockery-Gibson, Director, HUB and SB Office
Ms. Monica Horvat, Director of Administration for the President
Ms. Melissa Loe, Interim Chief of Staff, Financial and Administrative Services



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Executive Summary

Procurement Process Procurement and Payment Services Project Number: 21.016

Audit Objectives

The objectives of the audit were to determine whether there are improvement opportunities in the request for proposal (RFP)/request for quote (RFQ) process, whether best practices are used for bulk purchases, and whether contracts are used outside their approved terms and conditions.

Conclusion

Overall, The University of Texas at Austin should improve processes related to RFPs/RFQs, bulk purchases, and business contracts. Management has provided their action plans and implementation plans.

Audit Observations¹

Recommendation	Risk Level	Estimated Implementation Date
Contract Monitoring	Priority	August 2022
Bulk Purchase Monitoring	High	April 2022
Training and Resources	High	August 2022
Internal Collaboration	Medium	August 2022

Engagement Team

- Mr. Myles Johnson, Auditor I
- Ms. Erika Lobsinger, Auditor I
- Mr. Brandon Morales, CISA, CGAP, Audit Manager
- Mr. Jeff Treichel, CPA, Associate Director

¹ Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



Audit Results

Overall, The University of Texas at Austin (UT Austin) should improve processes related to RFPs/RFQs, bulk purchases, and business contracts.

The following four recommendations, will enhance efficiencies, improve business functions, and make better use of the university's buying power. In addition to the recommendations included in this report, we have provided additional risk considerations to departmental management.

Observation #1 Contract Monitoring

The university does not centrally monitor executed business contracts for compliance with terms and conditions. In addition, departmental contract administrators do not always abide by terms and conditions in executed contracts. Payment Services does not have a process to determine whether contract payments are allowable per the contract's terms and conditions and does not require standard documentation to process the payment. The electronic financial system (*DEFINE) does not have a dedicated field for contract numbers to be included in purchasing or payment documentation.

Contract administrators within departments have sole responsibility to abide by the contract terms and conditions with no oversight. The lack of monitoring allows purchases to exceed approved contracted amounts, some of which could require after-the-fact Board of Regents' approval.

Recommendation: Procurement and Payment Services (PPS) management should centrally monitor executed contracts to prevent contracts from being used outside of their approved scope of work and terms and conditions. To enhance monitoring and tracking, PPS management should require contract numbers be entered in a dedicated field on payment vouchers.

Management's Corrective Action Plan: The function of contract management is the primary responsibility of the designated contract manager. As noted in the Vendor Contract Audit (dated August 20, 2019), it is the goal of Procurement and Payment Services to help create an environment where all colleges, schools, and units (CSU) and vice president (VP) areas can identify their designated contract manager who will be responsible to have full knowledge of contract terms and ensure contract terms are complied with during the contract life cycle. As part of that audit, PPS is actively requesting executive support for the designated requirements, including three additional staff members to facilitate the expedited rollout and ongoing support and maintenance of the Total Contract Manager (TCM), the current contract management software, to all CSU and VP areas.

Working with the team from Enterprise Business Information Technology Solutions (eBITS) and as part of the contract management training, PPS will address the use of an existing or new data field within *DEFINE that can be used for purposes of tracking the contract number on purchasing and payment documentation.



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This will require further business process discovery and design before any required programming can be created, tested, and finalized into the production environment as needed.

At present, PPS has contract management responsibilities for 46 contracts within the Capital Projects and Business Contract/Procurement area. It is envisioned that PPS will centrally monitor and be the designated contract manager for future enterprise agreements to prevent enterprise contracts from being used outside of their approved scope of work and terms and conditions.

In summary, the proposed near-term solution to ensure greater oversight and compliance with contract terms and conditions will be accomplished in partnership with the CSU designated contract manager. Through training and the development of simple tools, it is envisioned that better oversight can be accomplished by both the contract manager and central procurement, particularly as contract modifications and/or subsequent purchase orders are issued against a contract. Combined with the proposed improvement to track contract numbers within *DEFINE, these recommendations will improve the process and facilitate better oversight to prevent contracts from being used outside of their approved scope of work and terms and conditions.

Responsible Person: Assistant Vice President for Procurement and Payment Services

Planned Implementation Date: August 31, 2022 (in alignment with the Vendor Contract Audit)

Observation #2 Bulk Purchase Monitoring

The university does not provide a mechanism for departments to know whether an existing contract is in place that can be used for purchases. Because departments are not aware of executed contracts available for goods or services, multiple contracts are awarded to the same vendor. This situation does not allow the university to leverage its buying power and take advantage of lower costs using one contract for multiple purchases across campus.

Recommendation: PPS management should lead the university in leveraging its buying power by providing strategies for procuring goods and services in bulk when available. As part of this strategy, PPS should provide departments with the relevant information of current available contracts.

Management's Corrective Action Plan: PPS envisions performing greater amount of strategic sourcing and bulk purchasing as a result of the work that is currently underway with the Procurement workstreams under the Strategic Planning contract. Under the current engagement, PPS is leveraging the partnership with Bain & Associates to review spend patterns during FY19 (most recent fiscal period prior to COVID-19).

It is proposed that as enterprise-level strategic sourcing and bulk purchasing events are completed, the resulting contract information shall be posted using the PPS website and TCM software for easy access by CSUs. It is the goal of PPS to post information on all available agreements including a contract roadmap that helps the CSU understand what is included under the contract award and how to properly use the contract.



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Furthermore, solicitations that are now being completed, whenever possible, are being done in consideration of future needs and will be negotiated to allow for the purchase of additional quantities and discounted pricing in support of CSUs.

As a result of the current spend data analysis, PPS will identify a series of opportunities that will range from low to high on the value and disruption spectrum. The goal will be to seek the highest value – lowest disruption items that PPS can easily agree on and go to market in a similar way to the work that was completed with regards to Personal Protective Equipment (PPE) that was led by PPS following the onset of COVID-19 and in support of all CSUs.

As an example, an evaluation of the FY19 PO spend data (approximately 82,000 POs valued at \$257M) indicates a total of 49,000 POs (60 percent) valued at \$40M (15 percent of total FY19 spend) were issued to UT Market suppliers. Although this metric illustrates a significant volume of bulk purchasing being processed through the existing e-procurement system (lowest cost of operation), there is still great opportunity in seeking more commodities and creating more catalogs so that PPS can similarly increase the total spend under contract.

It is recognized that more work will be needed in this space, and as part of the Procurement Phase 1 Transformation Plan, the previous Buyer II position has been converted to a Procurement Analyst position. The goal of the new position is to support the procurement needs of campus and to use an expanded skill set (data/spend analysis, category/commodity management) to better understand the needs of campus and more proactively bring future strategic sourcing and bulk purchase opportunities to campus. In addition, the Buyer III position was converted to a Procurement Contracting Officer (PCO) position that will lead strategic sourcing events and have responsibility for the required contract management over the life of the contract in support of all CSUs.

By the noted implementation date, it is proposed that PPS will have an online presence where CSUs may easily find enterprise contracts that have been awarded. In addition, based on the work in partnership with Bain, it is anticipated that PPS will have a final report of FY19 spend analysis that will serve as the basis for strategically targeting bulk purchasing and strategic sourcing opportunities.

It should be noted that strategic sourcing, the related data/spend analysis, and category/commodity management are ongoing initiatives that will not have an end date.

Responsible Person: Assistant Vice President for Procurement and Payment Services

Planned Implementation Date: April 30, 2022

Observation #3 Training and Resources

PPS has not established a formal training program for its employees and has provided minimal resources for departmental personnel. There is an increased risk of mistakes and inefficiencies when formal, documented training is not provided.



Recommendation: PPS management should provide documented training and resources to both the internal staff and the campus community for business contracts, bulk purchases, and RFPs/RFQs. A training pathway would enhance job performance for procurement-related job positions across campus.

Management's Corrective Action Plan: The PPS portfolio is actively working to create a comprehensive training program to ensure compliance with UTS 156² that can cover all areas of the portfolio including: Procurement, ProCard, HUB/SB³, Business Contracts Office (BCO) and Payment Services. The team experienced delays in this work because of response to COVID-19, and has recently been focused on trainings centered on the ProCard program implementation and Contract Management initiatives related to the rollout of TCM over the past 15 months.

The goal of the proposed new training program is to create a framework that can serve as the basis for training and development of both current and new staff who perform various functions of the procure-to-pay process. This initiative is being formulated to cover not only the professional staff that work within PPS, but to grow the skillset of the more than 1,500 individuals who have access to procurement related functions as evidenced in the *DEFINE financial system, in addition to suppliers as to relevant aspects of the process intended to simplify the process and increase competition.

This initiative includes ensuring that personnel responsible for the purchase of goods and services subject to competitive solicitations obtain and maintain the required certification, and those responsible for negotiation of goods, services, and information technology contracts attend all required trainings and development.

It is envisioned training program will allow PPS to partner with CSUs to bring greater value and agility while reducing duplicity in work effort. The program will cover the following areas:

1. Procurement ethics
2. Supplier relationship management
3. HUB program
4. Applicable laws, rules, and regulations
5. Role of the buyer and responsibility
6. Documentation and records management
7. Applicable policies and procedures
8. Contract administration
9. Principles of "best value" procurement
10. System training on PPS aspects of PointPlus and DEFINE (requisition, PO, receiving, payments)
11. ProCard program operations and maintenance
12. Sustainable procurement practices

² UTS 156 Purchaser and Certain Contract Negotiator Training and Certification

³ Historically Underutilized Business and Small Business Office



The proposed timeline will allow for the necessary time to develop the 12 training modules and for the realignment and possible onboarding of new staffing to lead in the efforts of continuous training in PPS-related content.

Responsible Person: Assistant Vice President for Procurement and Payment Services

Planned Implementation Date: August 31, 2022

Observation #4 Internal Collaboration

Processes are duplicated and/or take longer than expected because areas within PPS function independently instead of working together as a single unit. Furthermore, some aspects of purchasing are not integrated into the purchasing processes at the beginning, making the process less efficient.

Recommendation: To increase efficiency and to better meet the university's needs, PPS management should align the offices with a more wholistic approach of all areas during planning of projects instead of having them work independently.

Management's Corrective Action Plan: Since joining the PPS team in January 2020, the AVP has focused on understanding the existing business processes and the roles and responsibilities of the team members. The goal has been to work towards integrating the services provided across the PPS portfolio in a more holistic and customer-centric model to bring greater value to the CSUs and researchers.

To that end, initial efforts have been focused on the Procurement team, which has historically been understaffed and managed. With the introduction of the Procurement Analyst position and the PCO position, PPS has begun the process of aligning the business practice to a future state that will provide greater data/spend analysis along with category/commodity management.

Moreover, with the breakout of the Procurement and Strategic Sourcing teams and integration of UT Market with the Procurement Analyst, PPS is focused on deeper integration across the entire portfolio and on expanding HUB/SB to increase awareness, identification, and opportunity for HUB/SB firms. This work can result in more contract awards to the most qualified diverse suppliers.

By bringing the BCO into the Procurement process, PPS is creating a cross-training model and defining career paths where BCO-trained staff can lead sourcing events, and PCOs can lead negotiations and contract management functions in support of enterprise-level contracts being awarded.

Work continues with the ProCard team, which has been expanded to include two additional team members who provide website, reporting, and general support across the entire portfolio.

Finally, as a result of COVID-19, PPS has been able to cross train key members of the Payment Services team to support the broader portfolio and provide greater understanding and exposure to



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work across PPS. All team members are working to create a better understanding of the procure-to-pay process with the goal of optimizing the process and experience for both CSUs and suppliers.

The goal is to enable staff to learn and grow, while simultaneously creating career paths that team members, through their cross functional work, can begin to work towards areas that are of greatest interest for future employment opportunities.

Overall, the vision is to create a more qualified and operationally diverse team of professionals who *really enjoy* the work they perform and can see a path for career advancement both within PPS and the University more broadly. Provided such an environment, experience has demonstrated that PPS will be able to have a stronger functioning and more integrated team that will yield greater and higher-level performance than the historical transactional work approach.

This opportunity is ongoing and will evolve in phases, and as PPS covers the foundation work that was completed during the past year, there will be greater opportunities and continuous improvement as PPS addresses more complex issues in support of campus.

Responsible Person: Assistant Vice President for Procurement and Payment Services

Planned Implementation Date: August 31, 2022

Other Risk Considerations

Staffing

Staff within PPS and throughout campus voiced concerns about both the low number of staff and the skill sets of staff within PPS. As PPS leadership continues efforts to right size the department to efficiently manage UT Austin's needs, they should also emphasize the correct skill sets for each office within the PPS portfolio.

Management's Corrective Action Plan: Ensuring that PPS is adequately staffed has been among the AVP's greatest concerns since joining the team, where he first observed staffing levels in key areas. As part of the onboarding process, he immediately focused on identifying the root causes for the understaffing and high turnover. He began working to develop strategies to improve the culture and overall contributing circumstances.

As part of the Procurement Phase 1 Transformation Plan, the AVP used funding from certain vacant positions to augment the salaries of the newly created positions of Procurement Analyst and PCO. Although greatly improved, both positions' salaries remain low compared to market. As PPS staffs up and trains the team, salaries will need to be adjusted to reduce the risk of losing personnel for similar positions that pay more among other CSUs and numerous state agencies within the Austin market.

In addition, PPS has begun the implementation of the new single use account project. The project should provide new rebate revenue that, with executive support, can be used to make much



needed investments in the PPS team. Investments will include staff augmentation, training, upskilling, and increased compensation, and the purchase of much needed sourcing automation and related technology. These investments can be utilized to streamline and make the process more efficient in support of all CSUs.

RFP and PO Processing

PPS management should consider having PPS staff create purchase orders for departments as part of the RFP process to expedite the process.

Management's Corrective Action Plan: It is anticipated that as part of the Procurement Workstream (noted in Observation 2 above), various process improvements will be realized to ensure a more efficient and streamlined process. At present PPS issues POs or completes a business contract for those solicitations that are finalized in support of a direct purchase.

In those instances where a resulting RFP may be for a good or service to be used on an as needed basis, greater training and communication needs to occur to help CSUs understand the correct course of action which may take the form of a low dollar (below the current small purchase limit of \$15,000) purchase order being completed at the CSU for greatest efficiency, versus a higher dollar purchase order being completed by Central Procurement.

It is the goal of PPS to help create more master-level agreements and enterprise contracts, which will include a contract award roadmap designed to help CSUs understand the contract. Creating a framework would allow for a faster method of engaging an awarded supplier within the governing policies and procedures.

Background

PPS is comprised of four areas including Business Contracts, Historically Underutilized Business and Small Businesses, Purchasing Office, and Payment Services. Within the past five years, PPS has had multiple changes in its leadership team. During the course of this audit, the COVID-19 pandemic stalled some initiatives within PPS as they dedicated services to campus-wide personal protective equipment purchases.

In 2017, an outside consultant reviewed PPS processes and provided recommendations. The recommendations in this audit indicate that some of the previously identified issues have not yet been addressed.

Scope, Objectives, and Methodology

This audit was conducted in conformance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a



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reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

The scope of this review includes transactions and processes in place for Fiscal Year 2020 and 2021. Specific audit objectives were to determine whether:

- Improvement opportunities exist in the RFP/RFQ process
- Best practices are used regarding bulk purchases
- Contracts are used outside their approved terms and conditions

The following procedures were conducted:

- Interviewed key staff for processes within PPS
- Interviewed PPS clients in university departments
- Mapped procurement processes
- Where possible, tested transactions for processes reviewed



Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of The University of Texas at Austin (UT Austin) or the UT System as a whole.
High	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	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	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

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

Report Distribution

The University of Texas at Austin Institutional Audit Committee

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