



An Audit Report on

Selected Contracts at

The University of Texas System

February 2019

Report No. 19-032



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Overall Conclusion

The University of Texas System Administration (System Administration) has implemented procedures for contract planning, procurement, and formation. In addition, it ensured that its Supply Chain Alliance (Alliance), an internal group purchasing organization, followed those procedures when planning, procuring, and forming System Administration contracts. However, it did not ensure that it had documented contract monitoring processes in place for the Alliance to enforce contract terms.

The System Administration's procedures address the applicable contract-related requirements of Texas Education Code, Section 51.9337, and Texas Government Code, Chapter 2261, Subchapter F. However, the System Administration should strengthen its process to ensure that all contracts are reported as required by the General Appropriations Act.

The System Administration planned, procured, and formed the selected Alliance contracts in accordance with applicable requirements; however, it should strengthen controls over required disclosures. In addition, the System Administration should strengthen controls over monitoring and oversight of its Alliance contracts to ensure that contract terms are enforced.

Auditors communicated other, less significant issues separately in writing to System Administration management.

Table 1 on the next page presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Contracting at The University of Texas System Administration (System Administration)

The System Administration oversees more than 800 contracts that total approximately \$8 billion.

The System Administration's Supply Chain Alliance (Alliance) is an internal group purchasing organization that manages more than 40 System Administration contracts or price agreements totaling approximately \$4 billion.

(See the Background section on the next page for additional information.)

Source: The System Administration.

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1-A	The System Administration Implemented Appropriate Contracting Policies, Procedures, and Training	Low
1-B	The System Administration Should Enhance Compliance with Statutory Reporting Requirements	Medium
2	The System Administration Planned, Procured, and Formed the Selected Alliance Contracts in Accordance with Applicable Requirements; However, It Should Strengthen Controls Over Required Disclosures	Low
3-A	The System Administration Did Not Ensure That the Alliance Enforced Contract Terms for the Audited Contracts, and It Did Not Ensure That the Alliance Had Sufficiently Documented Contract Monitoring Processes	High
3-B	The System Administration Should Ensure That the Alliance Has Documented Policies and Procedures for Its Oversight of Administrative Fees, and That It Enforces Contract Terms for Those Fees	Medium

^a A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**. **Immediate action is required to address** the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**. Action is needed to address the noted concern and reduce risks to a more desirable level.

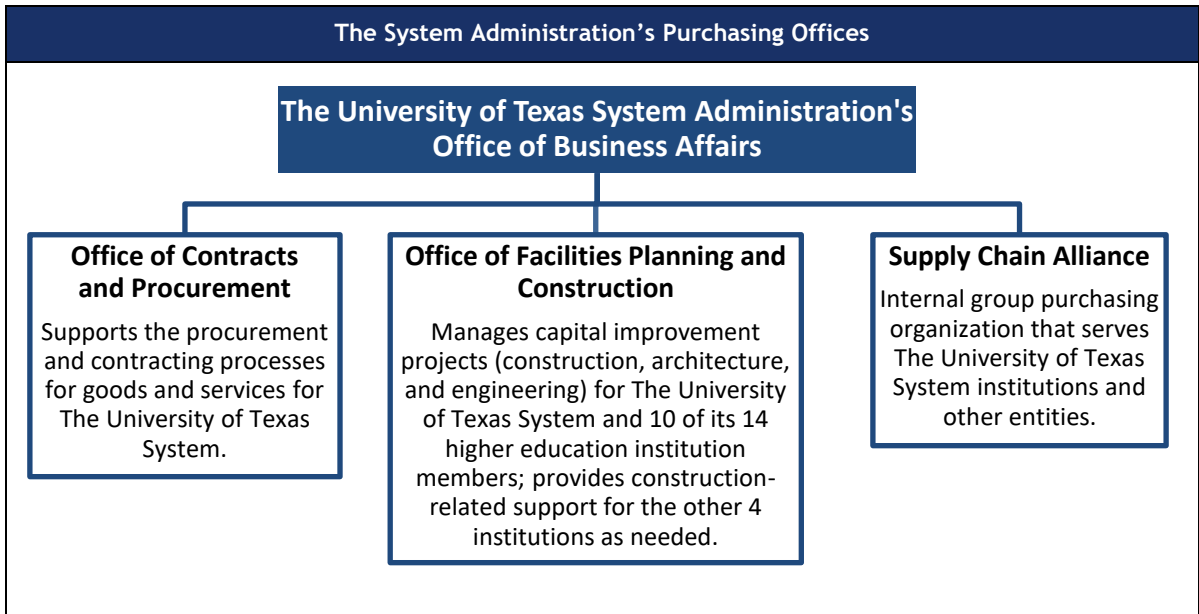
A chapter/subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Background

The University of Texas System Administration

The University of Texas System consists of 14 institutions of higher education and the System Administration. The System Administration has seven executive offices responsible for overseeing specific policies and operations while supporting the Board of Regents and the Chancellor. The Office of Business Affairs (Office) is the financial management division of the System Administration and operates under the leadership of the Executive Vice Chancellor for Business Affairs. The Office oversees three purchasing offices within the System Administration: (1) Contracts and Procurement, (2) Facilities Planning and Construction, and (3) the Supply Chain Alliance, its internal group purchasing organization. (See Figure 1 on the next page for additional information on each office.)

Figure 1



Source: The System Administration.

The Supply Chain Alliance

The Supply Chain Alliance (Alliance) is the System Administration's internal group purchasing organization (see text box for information on Alliance governance). The Alliance's goal is to leverage the size and combined purchasing power of The University of Texas System institutions to reduce costs and create value.

The Strategic Services Group (Group) oversees the **Alliance's daily operations**, and it consists of a director, contract managers, sourcing specialists, a sourcing analyst, a program manager for spend analytics, and a program director for clinical value analysis. The Group is part of The University of Texas System's Shared Services Initiative and is based at The University of Texas M.D. Anderson Cancer Center in Houston.

The Alliance works with the institutions to identify a need, conducts sourcing events for that need, oversees the evaluation and awarding of a contract, and monitors the contract utilization and supplier performance. In addition to The University of Texas System's higher education institutions, other state, private, and out-of-state entities participate in the Alliance sourcing events and use the contracts. Appendix 3 contains a list of the institutions that used contracts in fiscal year 2017 and the amount each spent.

Supply Chain Alliance (Alliance) Governance

The University of Texas System Shared Services Executive Committee - Provides oversight of the Alliance and executive-level guidance from its members, who consist of Chief Business Officers of The University of Texas System institutions of higher education and the Executive Vice Chancellor for Business Affairs.

Operating Committee - Provides direction for the Alliance and consists of the Chief Procurement Officers from the 14 University of Texas System institutions of higher education and System Administration.

Source: The System Administration.

The Alliance is funded by administrative fees it collects from its suppliers based on **the institutions' contract usage**. After operating expenses, the remaining amount in administrative fees is distributed to the institutions that used those contracts, and a portion is set aside to fund future Alliance operations.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The System Administration agreed with most recommendations in this report. It did not agree to implement the recommendation that it should report all contracts to the Legislative Budget Board, including contracts funded by non-appropriated funds, as required because **that requirement is an "extraordinary burden."** **The System Administration stated** that it would work with the Legislative Budget Board to resolve the issue. **The System Administration's detailed management responses are presented** immediately following the recommendations in each chapter.

Audit Objective and Scope

The objective of this audit was to determine whether higher education institutions have administered certain contract management functions for selected contracts in accordance with applicable requirements.

The scope of this audit covered the **System Administration's** contract-related processes for Alliance contracts active September 1, 2017, to August 31, 2018.

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Detailed Results

Chapter 1

The System Administration Substantially Complied with Applicable Requirements Related to Contracting Policies, Procedures, and Training; However, It Should Enhance Compliance with Reporting Requirements

The University of Texas System Administration (System Administration) substantially complied with applicable requirements related to contracting policies, procedures, and training; however, it should enhance compliance with reporting requirements.

Chapter 1-A

The System Administration Implemented Appropriate Contracting Policies, Procedures, and Training

The System Administration implemented policies and procedures to address the applicable contract-related requirements in Texas Education Code Section 51.9337, and Texas Government Code, Chapter 2261, Subchapter F.

Policies and procedures. The University of Texas' Board of Regents' *Rules and Regulations*, as well as System Administration policy statements, contained policies and procedures that the System Administration used to address the contracting requirements of Texas Education Code, Section 51.9337, and Texas Government Code, Chapter 2261, Subchapter F (see text box for more information).

Contract Management Handbook. The System Administration's *Contract Management Handbook* documents contract management processes and practices, in accordance with Texas Education Code, Section 51.9337, and Texas Government Code, Chapter 2261, Subchapter F. That handbook provides guidance for the System Administration's institutions of higher education on the procedures needed to plan, procure, form, and administer contracts.

Contract Training and Certification. System Administration policy requires employees involved in the contracting process to have the appropriate

Chapter 1-A
Rating:
Low ¹

Contracting Requirements

Higher education institutions are required to establish a code of ethics, a contract management handbook, contracting delegation guidelines, training for officers and employees involved in the contracting process, policies and procedures governing conflicts of interest, and internal audit protocols.

Additionally, employees of those institutions must disclose potential conflicts of interest, and the institutions must have an accountability and risk analysis procedure.

Sources: Texas Education Code, Section 51.9337, and Texas Government Code, Chapter 2261, Subchapter F.

¹ The risk related to the issues discussed in Chapter 1-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

training and certifications. In addition, employees are required to complete ethics training upon hiring.

Chapter 1-B

The System Administration Should Enhance Compliance with Statutory Reporting Requirements

Chapter 1-B
Rating:
Medium ²

The System Administration did not consistently report contracts to the Legislative Budget Board (LBB) in accordance with the General Appropriations Act. In addition, the System Administration did not always accurately report contract information to the LBB.

LBB Required Reporting

The System Administration reported 15 (83 percent) of 18 contracts tested to the LBB as required. However, the remaining three contracts exceeded the \$50,000 threshold and should have been reported according to requirements. The General Appropriations Act (85th Legislature), Article IX, Section 7.04(c), requires all contracts, including amendments, modifications, renewals, or extensions that increase a contract's value to greater than \$50,000, to be reported to the LBB. (See text box for reporting requirements.)

In addition, the System Administration policy for higher education institutions is to report to the LBB only contracts that entail the expenditure of appropriated funds, except for contracts involving major information systems and professional services, which it advises should be reported without regard to funding source. The General Appropriations Act (85th Legislature), Article IX, Section 7.04(e), states that state agencies and higher education institutions should report to the LBB contracts valued at greater than \$50,000 without regard to funding source, including contracts for which only non-appropriated funds will be used.

The System Administration should strengthen its process to ensure that all contracts are reported as

Required Reporting to the Legislative Budget Board

- All contracts exceeding \$50,000 must be reported within 30 days of award or modification.
- Major information system contracts exceeding \$100,000 must be reported not later than 10 days after award.
- Construction projects exceeding \$14,000 must be reported not later than 10 days after award.
- Professional or consulting services contracts exceeding \$14,000 must be reported not later than 10 days after award.
- Non-competitive contracts exceeding \$1,000,000 must be reported before the first payment but not later than 30 days after award.
- Emergency contracts exceeding \$1,000,000 must be reported within 48 hours after the first payment.
- Contracts exceeding \$10,000,000 must be reported before the first payment but not later than 30 days after award.

Source: Legislative Budget Board
Contract Reporting Guide at
www.lbb.state.tx.us.

² The risk related to the issues discussed in Chapter 1-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

required by the General Appropriations Act and the LBB. Not reporting all contracts may prevent the LBB from effectively monitoring compliance with requirements and identifying risks.

Reporting Accuracy

Auditors identified inconsistencies in the contract dates and amounts reported to the LBB for the audited contracts. Specifically:

- For 10 of the 15 contracts tested that were reported to the LBB, the System Administration did not report the contract award date according to LBB contract reporting requirements. The LBB defines the award date as the date an agency or institution executed a contract. However, the System Administration asserted it used the date it completed its contract checklist, which is an internal control document to ensure all contract elements are present, as the award date reported to the LBB. In addition, some contracts tested were reported to the LBB with a date that was not consistent with the contract checklist date.
- For 1 of the 15 contracts tested, the System Administration did not report the accurate amount. The contract amount reported to the LBB was \$1 million less than the actual contract amount.
- For 1 of the 15 contracts tested, both the award date and amount were inaccurately reported by the System Administration. The contract award date was the contract checklist completion date, and the contract amount reported to the LBB was \$300,000 more than the actual contract amount.

Although the System Administration has policies and procedures in place for LBB reporting, it should strengthen those policies and procedures to ensure that the guidance provided is complete, concise, and consistent for accurate reporting.

Contract reporting discrepancies can result in the LBB having inaccurate information, which can affect its oversight and decision making processes.

Recommendations

The System Administration should:

- Ensure that it reports all contracts to the LBB in accordance with statutory requirements.
- Strengthen its policies and procedures to ensure that all contracts are reported accurately.

Management's Response

Recommendation (Chapter 1-B #1)

The System Administration should ensure that it reports all contracts to the LBB in accordance with statutory requirements.

Management's Response

The System Administration acknowledges that the General Appropriations Act (85th Legislature), Article IX, Section 7.04 requires it to report to the Legislative Budget Board as to contracts regardless of funding source. It takes that obligation seriously and has worked diligently to comply as to contracts funded through appropriations. The System Administration has not, however, reported as to contracts funded by non-appropriated funds because of both the extraordinary burden the requirement imposes and general appropriation bill limitations as defined in the Texas Constitution.

Implementation Date -- *The System Administration will communicate with the LBB, through its Office of Governmental Relations, pertinent data on the extraordinary burden and fiscal impact of a literal interpretation of Article IX, Section 7.04, without regard to the limitations defined by the Texas Constitution. To ensure any changes enacted during the current legislative session are considered, this communication will occur after the close of the session (by August 31, 2019).*

Responsible Individual – *UT System Executive Vice Chancellor for Business Affairs*

Recommendation (Chapter 1-B #2)

The System Administration should strengthen its policies and procedures to ensure that all contracts are reported accurately.

Management's Response

The System Administration agrees. Staff who are responsible for LBB reporting will be provided with the LBB Data Dictionary which identifies the reporting requirement for each field such as "Award Date". Management will advise staff to seek guidance when preparing to report contracts where there is conflicting information in the contract and on the contract processing checklist regarding the actual contract amount. Management will implement a practice of

periodically reviewing a sample of LBB reported contracts to assure that accurate reporting is being maintained.

Implementation Date – March 1, 2019

Responsible Individual – Director, Contracts and Procurement

The System Administration Planned, Procured, and Formed the Selected Alliance Contracts in Accordance with Applicable Requirements; However, It Should Strengthen Controls Over Required Disclosures

Chapter 2
Rating:
Low³

The System Administration complied with applicable statutes and System Administration policies and procedures to plan, procure, and form the selected Alliance contracts awarded to Dell Marketing LP and SHI Government Solutions for personal computers and the contract awarded to Fisher Scientific Company, LLC for distribution of laboratory supplies and equipment. (See the text box for more information about the audited contract management phases.)

Contract Planning

The Alliance performed contract planning activities necessary for identifying the contract objective and the procurement strategy for the audited (1) personal computer contracts awarded to Dell Marketing LP and SHI Government Solutions and (2) distribution of laboratory supplies and equipment contract awarded to Fisher Scientific Company, LLC. Specifically, the Alliance consulted with subject matter experts, assessed needs and risks, determined a procurement strategy, and estimated costs.

Contract Procurement

The Alliance procured the selected contracts in accordance with System Administration policies and procedures and applicable statutes. For example, the Alliance prepared requests for proposal that included required information, such as the purpose, scope of work, procurement schedule, and selection criteria. It also ensured that the final evaluation criteria used to score the proposals it received was consistent with the criteria identified in the solicitations. The Alliance reviewed each proposal against the criteria listed in the solicitation, scored all proposal evaluations correctly, and selected the appropriate contractors based on its evaluation criteria.

Contract Planning, Procurement, and Formation

Planning: Identify contracting objectives and contracting strategy.

Procurement: Fairly and objectively select the most qualified contractor(s).

Formation: Ensure the contract contains provisions that hold contractor(s) accountable for producing desired results, including all relevant terms and conditions as well as establishing processes that are cost-effective and aligned with the cost of providing the goods/services.

Source: **The System Administration's Contract Management Handbook.**

³ The risk related to the issues discussed in Chapter 2 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

However, the Alliance did not ensure that the nepotism disclosure form required by Texas Government Code, Section 2262.004, was completed and retained for 2 (8 percent) of 26 evaluators for the Dell Marketing LP and SHI Government Solutions contracts. Not having a signed nepotism disclosure form for all individuals involved in contract procurement increases the risk for potential conflicts of interest by purchasing personnel in the awarding of a contract based on financial interest or a personal relationship.

Contract Formation

The audited contracts contained key provisions required by System Administration's policies and procedures, and they aligned with the templates provided in the solicitations. The executed contracts were signed by the appropriate staff, according to System Administration policy, and were adequately reviewed and approved by System Administration and Alliance staff.

Recommendation

The System Administration should ensure that the Alliance strengthens its procedures to complete and retain the required nepotism disclosure form for all applicable personnel prior to entering into a contract.

Management's Response

The System Administration agrees. The Alliance will strengthen written processes for obtaining nepotism disclosure forms.

Implementation Date -- March 31, 2019.

Responsible Individual – Director, UT System Supply Chain Alliance

The Alliance Should Strengthen Its Contract Management and Oversight Processes

The System Administration did not ensure that the Alliance adequately enforced the terms of the audited contracts. In addition, the Alliance did not have sufficiently documented policies and procedures in place to monitor its contracts or to oversee the administrative fees collected.

Chapter 3-A

The System Administration Did Not Ensure That the Alliance Enforced Contract Terms for the Audited Contracts, and It Did Not Ensure That the Alliance Had Sufficiently Documented Contract Monitoring Processes

Chapter 3-A
Rating:
High ⁴

The Alliance did not enforce the terms of its monitoring provisions in the audited contracts. The Alliance includes a monitoring provision in all of its contracts with suppliers that requires quarterly business reviews and identifies the key business and performance metrics that must be met, when a corrective action plan is necessary, and the outcomes of not meeting a corrective action plan (see text box for specific requirements). Those terms also specify when the quarterly business reviews should be performed and the information that should be provided by suppliers during those reviews. However, the Alliance did not consistently perform those quarterly reviews or obtain the required supplier-submitted reports for the audited contracts.

Contract Enforcement

Quarterly Business Reviews. **The Alliance did not perform the required number of quarterly business reviews of supplier-submitted reports for all 10 contracts tested. In addition, for some of those tested contracts, it did not require the supplier to develop strategic action**

Supplier Relationship Management Requirements

Quarterly business reviews: These reviews are to be held four times annually and scheduled within 60 days after the end of the calendar year quarter or every 3 months beginning 6 months after the effective date of the contract.

Required reports: The supplier will submit a report consisting of the key performance indicators and the business relationship indicators identified in the contract.

Key performance indicator: **The supplier's** performance will be determined as measured against the service level for each performance measure identified in the contract.

Business relationship indicators: The business relationship indicators are designed to confirm that the objectives and goals of the relationship between the supplier and the Alliance remain aligned and moving in a mutually beneficial direction. Within a certain number of days after the effective date of the contract, the supplier will submit a written strategic action plan to achieve the goals in the contract.

Corrective action plans: The Alliance will notify the supplier during a quarterly business review if the supplier is not meeting the key performance indicators. Within 15 days of such notice, the supplier will provide a written corrective action plan to address unacceptable scores.

Source: **The Alliance's** contract provision.

⁴ The risk related to the issues discussed in Chapter 3-A is rated as High because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

plans or corrective action plans when necessary according to contract terms. Specifically:

- For 37 (73 percent) of 51 quarterly business reviews that should have been conducted, the Alliance did not have documentation of a review or that reports were provided by the supplier as required by the contract. While the Alliance had documentation of supplier-submitted reports for 14 of those reviews, 7 (50 percent) were conducted late. Those reviews occurred between 21 and 33 days after the required timeframe.
- For 6 (60 percent) of the 10 contracts tested, the supplier was required to submit a strategic action plan to address the business relationship indicator goals identified in the contract. However, the Alliance did not have documentation that it received strategic action plans for any of those six contracts.

Because the Alliance did not perform reviews in accordance with contract terms, it was not able to identify for the tested contracts whether a corrective action plan for suppliers that were not meeting contract terms would have been required. Auditors identified two instances in which the supplier reported a key performance indicator score of zero, which would have required a corrective action plan to be submitted, according to the terms of the contract.

Required Reports. The Alliance did not have a process to verify the completeness and accuracy of reports on performance indicators that suppliers submitted. Specifically:

- The Alliance did not have documentation that it received any of the required 16 performance reports for 4 (40 percent) of the 10 contracts tested.
- For the remaining 6 of those 10 contracts tested, the Alliance received 14 (40 percent) of 35 performance reports. Only 1 of the 14 reports contained all of the performance indicators and business relationship indicators required by the contract.

Not conducting quarterly business reviews and obtaining supplier reports as required by contract terms prevents the Alliance from adequately monitoring suppliers and ensuring that those suppliers are the best value for the institutions that purchase goods or services under those contracts.

Contract Monitoring Processes

The System Administration provides guidance on how to monitor contracts in its *Contract Management Handbook* (Handbook). The Handbook requires the

development of monitoring tools based on the specifics of a contract. However, the Alliance did not develop and implement documented monitoring tools for its contracts to ensure that contract terms were enforced.

The Alliance developed a risk assessment process for identifying the required amount and type of monitoring for its awarded contracts. However, that assessment did not align with the monitoring provisions in the audited contracts. Contract monitoring provisions required quarterly monitoring, but the risk assessment process determined the frequency of required monitoring as either annually, semi-annually, or quarterly. In addition, the Alliance did not have a documented monitoring process for the results of that risk assessment, and it did not document the rationale for not enforcing the terms of the contracts audited.

Further, the Alliance did not have a documented process for how it determines the business and performance indicators in the monitoring provisions that are applicable to each contract. The Alliance asserted that performance and business indicators are developed through negotiation with the supplier; however, that negotiation process is not documented.

Not ensuring that the Alliance has documented processes increases the risk of inconsistent contract monitoring and unmet contract requirements.

Recommendations

The System Administration should ensure that the Alliance:

- Conducts quarterly business reviews and obtains performance reports as required by contract terms.
- Verifies the completeness and accuracy of performance reports submitted by suppliers.
- Develops and documents its processes related to risk assessment, monitoring, determination of performance and business relationship indicators, and negotiation of monitoring terms.

Management's Response

The System Administration agrees. The Alliance will enhance the existing process for making risk-based assessments of when periodic business reviews, corrective action plans, business and performance indicators, monitoring provisions, etc. are warranted. The Alliance also will change contract

language to provide for supplier relationships to be managed in a manner consistent with the risk-based assessments.

Implementation Date – April 30, 2019.

Responsible Individual – Director, UT System Supply Chain Alliance

Chapter 3-B

The System Administration Should Ensure That the Alliance Has Documented Policies and Procedures for Its Oversight of Administrative Fees, and That It Enforces Contract Terms for Those Fees

Chapter 3-B
Rating:
Medium ⁵

The System Administration did not have a process in place to oversee the administrative fees included in some of its Alliance contracts. In addition, the Alliance did not have documented policies and procedures for its oversight of the administrative fees for suppliers that it includes in some of its contracts. Those administrative fees are used to fund Alliance expenditures, and the Alliance distributes remaining funds to the institutions that use the contracts. (See text box for additional information on administrative fees.) Without ensuring that the Alliance has documented policies and procedures for the collection and distribution of those fees, the risk of contract terms not being followed increases.

The Alliance did not have a process to verify the completeness and accuracy of the quarterly spend reports that its suppliers submit and the administrative fees that its suppliers pay. In addition, the Alliance’s monitoring process was not sufficient to help ensure that suppliers submitted their quarterly spend reports and paid administrative fees in a timely manner. Specifically:

Administrative Fees

Some of the Alliance’s contracts include an administrative fee that is collected from suppliers. This fee ranges from 0.5 percent to 3.0 percent of total net sales and is agreed to by the Alliance and the supplier. The fee is used to fund Alliance expenses, and the remaining funds from the fee are distributed to the institutions annually, with the Alliance reserving a certain amount for future needs.

Suppliers pay fees quarterly based on the spend reports they submit. The supplier determines the amount of the fee based on quarterly spend by the institutions using Alliance contracts, and the Alliance confirms the fee amount based on supplier-provided data. The fees are due within 30 days of the end of the quarter.

The distribution of fees is based on an institution’s usage of a contract. The amount of fees distributed to an institution is proportional to the amount that institution spends on contracts. The Executive Vice Chancellor for Business Affairs must approve the fee distribution.

Source: The Alliance.

⁵ The risk related to the issues discussed in Chapter 3-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

- For 6 (11 percent) of 55 administrative fees tested, suppliers did not submit to the Alliance the correct amount according to the terms of the contract. The incorrect amount of fees ranged from an underpayment of \$28,966 to an overpayment of \$9,555. The Alliance’s process allows suppliers to correct the fee amounts in the next quarterly payment; however, the Alliance did not have a process to ensure that submitted fee payments were sufficient or that fee payment corrections were made in the following quarter.
- For 16 (29 percent) of 55 administrative fees tested, suppliers did not submit administrative fees in a timely manner according to the terms of the contract. Those fees were collected between 9 and 80 days late.
- The Alliance provides supplier-submitted quarterly spend reports to the institutions that purchase goods or services with Alliance contracts, and it relies on those institutions to review them and notify the Alliance if they have a concern about the spend amounts reported by suppliers. However, the Alliance did not require any documentation from the institutions to confirm the amounts the supplier reported.

Not ensuring that the correct amount of administrative fees is paid in a timely manner increases the risk that the Alliance will not receive all of the fees due under the terms of the contract.

Table 2 includes the amount of administrative fees collected and distributed for fiscal year 2017 (the most recent information available).

Table 2

Fiscal Year 2017 Administrative Fees Collected and Distributed by the Alliance			
Administrative Fees Collected	Alliance Operational Expenses ^a	Administrative Fees Reserved by the Alliance	Administrative Fees Distributed to Member Institutions and Affiliates ^b
\$4,415,154	\$1,990,651	\$1,055,632	\$1,368,871
^a Amount includes fiscal year expenses and any operational reserves between fiscal years. ^b Amount includes the fees distributed to other state, out-of-state, and private institutions that use the Alliance’s contracts. (See Appendix 3 for a list of those institutions and their expenditures.)			

Source: The Alliance.

Recommendations

The System Administration should ensure that the Alliance:

- Develops and documents policies and procedures for administrative fee calculation and distribution.
- Develops and implements a process to ensure that it receives administrative fees in the correct amount and in a timely manner, according to contract requirements.

Management's Response

The System Administration agrees. The Alliance will develop policies and procedures for administrative fees that are collected and distributed. In addition, the System Administration will ensure all UT System institutions are offered the UT System Spend Analytics Program (Program) in order for the Alliance to have centrally a UT source to reconcile against supplier-reported spend. If an institution is unable to implement the Program, the Alliance will immediately begin seeking written, quarterly certification of the amount of supplier spend through Alliance contracts.

Implementation Date(s) -- *Policies and procedures will be completed by June 30, 2019. Program implementation will be completed by December 31, 2019.*

Responsible Individual(s) – *Policies and procedures: Director, UT System Supply Chain Alliance; Program implementation: UT System Executive Vice Chancellor for Business Affairs*

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether higher education institutions have administered certain contract management functions for selected contracts in accordance with applicable requirements.

Scope

The scope of this audit covered The University of Texas System Administration's (System Administration) contract-related processes for Supply Chain Alliance (Alliance) contracts active September 1, 2017, to August 31, 2018.

Methodology

The audit methodology included collecting and reviewing planning, procurement, and formation information for Alliance contracts for personal computers, awarded to Dell Marketing LP and SHI Government Solutions, and for the distribution of laboratory supplies and equipment, awarded to Fisher Scientific Company, LLC. For their review of contract monitoring and oversight, auditors tested selected samples of Alliance contracts for compliance with contract terms and conditions.

Activities included conducting interviews with System Administration and Alliance staff; reviewing applicable statutes, rules, and System Administration policies and procedures; and performing selected tests and procedures.

Data Reliability and Completeness

Auditors determined the accuracy and completeness of the contract population for their selection of contracts to test. The data was determined to be sufficiently reliable for sample selection.

The Alliance's administrative fee spreadsheet was compared to supplier reports to determine whether the administrative fee to be distributed to Alliance members and affiliates was calculated accurately. The data was determined to be sufficiently reliable for the purposes of the audit.

Sampling Methodology

Auditors selected risk-based samples of the Alliance's requests for proposal to test the planning, procurement, and formation of contracts. Those sample

items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors selected a non-statistical sample of the Alliance's contracts to determine whether monitoring was conducted in accordance with policies and procedures and contract terms primarily through random selection. In some cases, auditors selected additional Alliance contracts based on risk. Auditors selected a risk-based sample of the Alliance's contracts that contained administrative fees to determine whether those fees were calculated and collected in accordance with contract terms. Those sample items were not necessarily representative of the population; therefore, it would not be appropriate to project those test results to the population.

Auditors selected a non-statistical sample of contracts that were reported to the Legislative Budget Board and contracts that were not reported to the Legislative Budget Board primarily through random selection. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project those test results to the population.

Information collected and reviewed included the following:

- System Administration contract population.
- Alliance contract planning, procurement, formation, monitoring, and oversight information including requests for proposal, evaluation criteria and documentation, bid documentation, contract documents, approvals, and related supporting documentation.
- System Administration and Alliance personnel training and certification information and nepotism disclosure statements.

Procedures and tests conducted included the following:

- Interviewed System Administration and Alliance staff.
- Reviewed the System Administration's contracting policies and procedures for compliance with applicable state statutes.
- Determined whether the System Administration and Alliance employees authorized to execute contracts met training and certification requirements.
- Reviewed documentation to determine whether the Alliance performed appropriate contract planning, procurement, formation, monitoring, and oversight procedures.

- Reviewed documentation to determine whether Alliance purchasing personnel and bid evaluators completed applicable nepotism disclosure forms.
- Tested whether the System Administration accurately reported contracts to the Legislative Budget Board.

Criteria used included the following:

- Texas Education Code, Chapter 51.
- Texas Government Code, Chapters 572, 669, 2113, 2161, 2166, 2251-2253, and 2260-2262.
- The University of Texas System Board of Regents' *Rules and Regulations*.
- The University of Texas System policies and procedures.
- The System Administration's *Contract Management Handbook*.
- Contract terms in the audited contracts.
- The General Appropriations Act (85th Legislature).

Project Information

Audit fieldwork was conducted from August 2018 through November 2018. We conducted this performance 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 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 based on our audit objectives. The following members of the State Auditor's staff performed the audit:

- Jennifer Brantley, MS, CPA (Project Manager)
- Bill Morris, CPA (Assistant Project Manager)
- Thomas Mahoney, CGAP
- Sterling Pape
- Jessica I. Prieto
- Mary B. Schwing, CPA, CGMA, CFE
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Cesar Saldivar, CFE, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; non-compliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 3 provides a description of the issue ratings presented in this report.

Table 3

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Institutions Using Supply Chain Alliance Contracts

The University of Texas System Administration (System Administration) established its Supply Chain Alliance (Alliance) September 1, 2007, to consolidate contracted purchasing efforts for the System Administration's higher education institutions. Other state, out-of-state, and private institutions also use the Alliance's contracts, and those non-System Administration institutions are considered Alliance affiliate member institutions.

Table 4 identifies the System Administration Alliance member institutions that utilized contracts during fiscal year 2017 (the most recent information available) and the total amount that each spent on Alliance contracts.

Table 4

Alliance Member Institutions' Fiscal Year 2017 Total Spend	
Alliance Member Institutions	Total Spend
The University of Texas at Arlington	\$ 13,377,786
The University of Texas at Austin	57,790,244
The University of Texas at Dallas	11,475,619
The University of Texas at El Paso	7,681,261
The University of Texas Health Science Center at Houston	24,547,964
The University of Texas Health Science Center at San Antonio	21,878,134
The University of Texas Health Science Center at Tyler	3,350,365
The University of Texas M.D. Anderson Cancer Center	88,604,987
The University of Texas Medical Branch at Galveston	30,654,074
The University of Texas of the Permian Basin	913,367
The University of Texas Rio Grande Valley	5,607,807
The University of Texas at San Antonio	6,934,617
The University of Texas Southwestern Medical Center	33,517,621
The University of Texas System Administration	14,038,978
The University of Texas at Tyler	1,624,304
Total Alliance Members' Spend	\$321,997,128

Source: Supply Chain Alliance Fiscal Year 2017 Administrative Fee Distribution Report.

Table 5 shows the Alliance affiliate member institutions that utilized contracts during fiscal year 2017 and the total amount that each spent on Alliance contracts.

Table 5

Alliance Affiliate Member Institutions' Fiscal Year 2017 Total Spend	
Alliance Affiliate Members	Total Spend
Angelo State University	\$ 96,605
Baylor College of Medicine	16,422,239
Baylor University	435,910
Children's Medical Center Dallas	74,930
Manor Independent School District	8,867
Prairie View A&M University	43,617
Rice University	1,842,961
Stephen F. Austin State University	102,486
Tarleton State University	192,278
Texas A&M Agrilife Research	243,878
Texas A&M International University	167,160
Texas A&M University	1,664,210
Texas A&M University - Central Texas	17,905
Texas A&M University - Commerce	129,124
Texas A&M University - Corpus Christi	103,098
Texas A&M University at Galveston	43,030
Texas A&M University - Kingsville	150,276
Texas A&M University - Texarkana	17,687
Texas A&M University System- Health Science Center	30,552
Texas A&M Veterinary Medical Diagnostic Laboratory	3,470
Texas State Technical College	2,907
Texas Tech University Health Sciences Center	3,657,845
Texas Tech University Health Sciences Center - El Paso	24,687
Texas Tech University	1,003,620
Tyler Junior College	68,792
University of North Texas	1,316,966
University of North Texas Health Science Center at Fort Worth	2,384,168
University of Tennessee	664,817
University of Tennessee Health Science Center	988
West Texas A&M University	123,929
Total Affiliate Members' Spend	\$31,039,002

Source: Supply Chain Alliance Fiscal Year 2017 Administrative Fee Distribution Report.

Copies of this report have been distributed to the following:

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The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dennis Bonnen, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Zerwas, House Appropriations Committee
The Honorable Dustin Burrows, House Ways and Means Committee

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The Honorable Greg Abbott, Governor

The University of Texas System

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