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State Auditor

An Audit Report on
**Contracting at The University of Texas
Health Science Center at Houston**

April 2022
Report No. 22-026



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Overall Conclusion

The University of Texas Health Science Center at Houston (Health Science Center) had processes in place to ensure that it procured, selected, and provided oversight of the contracts tested in accordance with applicable requirements. Specifically, the Health Science Center:

- Complied with requirements for procuring contracts and issuing payments.
- Adequately monitored contractor performance.
- Ensured that vendor proposals were selected fairly and objectively and were scored and ranked accurately.
- Complied with requirements related to contracting policies, procedures, and training.

However, the Health Science Center should strengthen certain controls over vendor selection and contract reporting. Specifically, required disclosures were not always completed timely. In addition, the Health Science Center did not comply with requirements for reporting contracts to the Legislative Budget Board and did not consistently ensure that contract information was reported accurately.

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 Health Science Center at Houston (Health Science Center)

The Health Science Center's Supply Chain Management division supports procurement and contracting processes for the acquisition of goods and services. Auditors selected a sample of four contracts procured with the support of Supply Chain Management to test selected contracting processes. (See Chapter 1 for additional details about the contracts tested.) The contract processes tested represent distinct phases, as defined by the *State of Texas Procurement and Contract Management Guide*, Version 1.3:

- **Procurement.** Identify the appropriate procurement method and, if applicable, issue a solicitation.
- **Vendor Selection.** Fairly and objectively select the vendor that provides the best value to the State.
- **Management and Oversight.** Administer and enforce the terms of the contract.

Sources: The Health Science Center and *State of Texas Procurement and Contract Management Guide*, Version 1.3.

Table 1

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
1-A	The Health Science Center Complied With Selected Contract Procurement, Payment, and Monitoring Requirements	Low
1-B	The Health Science Center Had Adequate Processes for Vendor Selection; However, It Should Ensure That Required Disclosures Are Completed in a Timely Manner	Medium
2-A	The Health Science Center Complied With Applicable Requirements Related to Contracting Policies, Procedures, and Training	Low
2-B	The Health Science Center Should Enhance Compliance With Contract Reporting Requirements	Medium

^a A 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(s) and reduce risks to the audited entity.

A 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(s) and reduce risks to the audited entity.

A 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(s) and reduce risks to a more desirable level.

A 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.

Auditors communicated other, less significant issues separately in writing to Health Science Center management.

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 Health Science Center's management agreed with the recommendations.

Audit Objective and Scope

The objective of this audit was to determine whether the Health Science Center has administered certain contract management functions in accordance with applicable requirements.

The scope of this audit covered the Health Science Center's contract administration, procurement, vendor selection, and oversight for contracts that were active at any time between September 1, 2020, and September 17, 2021. The scope also included a review of significant internal control components related to the Health Science Center's contract management processes.

Contents

Detailed Results

Chapter 1	
The Health Science Center Procured, Selected, and Provided Oversight of the Contracts Tested in Accordance With Applicable Requirements; However, It Should Strengthen Certain Controls Over Vendor Selection.....	1
Chapter 2	
The Health Science Center Complied With Selected Contracting Requirements, But It Should Strengthen Compliance With Reporting Requirements	4

Appendices

Appendix 1	
Objective, Scope, and Methodology	7
Appendix 2	
Issue Rating Classifications and Descriptions.....	11
Appendix 3	
Internal Control Components	12

Detailed Results

Chapter 1

The Health Science Center Procured, Selected, and Provided Oversight of the Contracts Tested in Accordance With Applicable Requirements; However, It Should Strengthen Certain Controls Over Vendor Selection

The University of Texas Health Science Center at Houston (Health Science Center) had processes in place to ensure that it adhered to contract procurement, vendor selection, and oversight requirements. However, the Health Science Center should strengthen certain controls to ensure that required conflict of interest forms and nondisclosure statements are completed in a timely manner.

Chapter 1-A

The Health Science Center Complied With Selected Contract Procurement, Payment, and Monitoring Requirements

The Health Science Center had processes in place to ensure that it complied with its requirements for the procurement of its contracts. In addition, it issued contract payments in compliance with applicable rules and adequately monitored contractor performance for the selected contracts.

Chapter 1-A
Rating:

Low ¹

Procurement. The Health Science Center properly approved and advertised the solicitations for all four contracts tested, as required by its *Contract Management Handbook*. (See text box for more detail on the contracts tested.)

Vendor Payments. The Health Science Center verified that it made payments to vendors in accordance with applicable statutory requirements and contract terms for the contracts tested. In addition, those payments were appropriately approved. (See text box for additional information on the payments tested.)

Contracts and Payments Selected for Testing

Auditors tested a sample of four contracts:

- IH Services, Inc.
- Prince Food Systems, Inc.
- Signal Perfection, LTD.
- Walter P. Moore and Associates, Inc.

Those contracts combined had 46 payments, totaling \$2,579,396, made between September 2020 and August 2021. Auditors tested 10 (28 percent) of those payments, totaling \$723,144. (See Appendix 1 for additional information on the contract populations and samples.)

Source: The Health Science Center.

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.

Vendor Performance Monitoring. The Health Science Center procurement division had evidence to support that it adequately monitored contractor performance for the selected contracts. In addition, the contracts tested did not require any formal corrective actions for the period reviewed.

Chapter 1-B

The Health Science Center Had Adequate Processes for Vendor Selection; However, It Should Ensure That Required Disclosures Are Completed in a Timely Manner

Chapter 1-B
Rating:
Medium²

The Health Science Center had processes in place to ensure that vendor proposals were selected fairly and objectively. However, disclosures were not always completed as required. (See text box for more information about required disclosures.)

Vendor Selection. The Health Science Center selected vendors for the four contracts tested in accordance with its policies and procedures and applicable statutes. For example, the Health Science Center ensured that the final evaluation criteria used to score the proposals it received were consistent with the criteria identified in the solicitation. In addition, it 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.

Required Disclosures

Conflict of interest disclosures. Each employee or official, of a state agency, including a higher education institution, involved in procurement or contract management, must disclose any potential conflict of interest. A state agency may not enter into a contract with a private vendor if the agency's procurement director or governing official has a financial interest.

Nepotism disclosures. Before the award of a major contract, an employee of a state agency, including a university system or institution of higher education, working on a contract valued at \$1 million or greater must disclose in writing any relationship with the business entity.

Nondisclosure agreements. Before employees involved in a procurement begin work, the contract manager will obtain signed nondisclosure statements and conflict of interest statements from those employees.

Sources: Texas Government Code, Sections 2261.252 and 2262.004, and the Health Science Center's *Contract Management Handbook*.

Conflict of Interest and Nepotism Disclosures. The Health Science Center ensured that most employees involved in purchasing for all four audited contracts had completed conflict of interest and nepotism disclosures as required by its *Contract Management Handbook*. However:

- Four (15 percent) of 27 staff evaluators involved in the procurement of the contracts tested did not sign and complete a conflict of interest form before beginning work on procurement, as required by the Health Science Center's *Contract Management Handbook*. In addition, two of

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 program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

those evaluators did not have a completed conflict of interest form for one of the contracts tested, as required by Texas Government Code, Section 2261.252.

- All 27 employees involved in the procurement of the contracts tested had signed Nepotism Disclosure Forms. However, 6 (22 percent) of those employees did not submit a signed and completed Nepotism Disclosure Form before the contract was awarded, as required by Texas Government Code, Section 2262.004.

Completing the disclosures in a timely manner is important to ensure that the process for selecting a vendor is fair and objective and that no vendor is given an unfair advantage.

Recommendation

The Health Science Center should ensure that employees involved in a contract's procurement complete all required disclosures in accordance with statute and internal policies and procedures.

Management's Response

Views of Responsible Officials: The University of Texas Health Science Center at Houston agrees there is an opportunity for improvement in completing the required disclosures in a timely manner. It is important to ensure that the process for selecting a vendor is fair and objective and that no vendor is given an unfair advantage.

Corrective Action Plan: Supply Chain Management procedures will be revised to clarify that prior to award and/or execution of a contract, that all disclosures are completed. This includes conflict of interest disclosures, nepotism disclosures, and non-disclosure agreement. Staff will be trained on the importance of completing the required disclosures in a timely manner.

Implementation Date: May 15th, 2022

Responsible Parties: Eric Williams, AVP Supply Chain Management, and Shirlanda Fairley, Director Procurement

The Health Science Center Complied With Selected Contracting Requirements, But It Should Strengthen Compliance With Reporting Requirements

The Health Science Center complied with applicable requirements related to contracting policies, procedures, and training for all four contracts tested. However, it should strengthen its process for reporting contracts to the Legislative Budget Board (LBB) to ensure compliance with statutory requirements.

Chapter 2-A

The Health Science Center Complied With Applicable Requirements Related to Contracting Policies, Procedures, and Training

**Chapter 2-A
Rating:
Low³**

The Health Science Center implemented policies and procedures in its *Contract Management Handbook* to address contract-related requirements in the Texas Education Code and the Texas Government Code. For example, the Health Science Center's handbook is consistent with the *State of Texas Procurement and Contract Management Guide*, which includes statutory requirements. In addition, the Health Science Center's policies incorporate statutory requirements for training and certification of employees involved in the contracting process.

The Health Science Center staff involved with the procurement of the four contracts tested had the required certifications and training. Those requirements included training in ethics, selection of appropriate procurement methods, and the purchase of information resource technologies.

³ The risk related to the issues discussed in Chapter 2-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.

The Health Science Center Should Enhance Compliance With Contract Reporting Requirements

**Chapter 2-B
Rating:**
Medium ⁴

The Health Science Center did not consistently report contracts to the LBB in accordance with the General Appropriations Act (86th Legislature), Article IX, Section 7.04. State entities are required to report all contracts, including amendments, modifications, renewals, or extensions with a total combined value of \$50,000, regardless of funding source. (See text box for more detail on those reporting requirements.) The Health Science Center also did not always accurately report contract information to the LBB.

Reporting Requirements

The General Appropriations Act (86th Legislature), Article IX, Section 7.04, requires contracts, including amendments, modifications, renewals, or extensions that increase a contract's value to greater than \$50,000, to be reported to the Legislative Budget Board within 30 days of award or modification. This includes a contract for which only non-appropriated funds will be expended.

Auditors analyzed active contract and purchase order vendors from September 1, 2020, through September 17, 2021, with a value of \$50,000 or more and reconciled that list with the list of vendors the Health Science Center reported to the LBB. At least 141 (82 percent) of 171 unique vendors identified with contracts that met the statutory reporting threshold did not have any contract information reported to the LBB. For the period reviewed, the Health Science Center's contract checklist required reporting contracts involving non-appropriated funds only if the contracts related to information system projects valued at more than \$1 million or professional services valued at more than \$14,000. All other contracts and purchase orders would be reported only if they involved state-appropriated funds. The Health Science Center provided documentation to support that it is working with The University of Texas System on a process to begin reporting all contracts that meet the statutory reporting threshold.

Auditors also tested the Health Science Center's data entry of selected information in the LBB Contracts Database. (See text box for details on key information tested and LBB requirements.) The Health Science Center accurately reported 1 (25 percent) of 4 contracts tested to the LBB. However, the other three contracts did not have the correct contract number, award date, and

LBB Contracts Database - Data Guide Field Requirements

Contract Number - Each contract number must be unique relative to other such numbers issued by an institution. Needed to maintain accurate, duplicate-free records.

Award Date - Date the institution executed the contract. Needed to track the overall life of the contract.

Contract Value - The total contract value obligated to date.

Source: LBB Contracts Database - Data Guide.

⁴ The risk related to the issues discussed in Chapter 2-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 program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

contract value in the LBB Contracts Database.

Not reporting complete or accurate contract information may prevent the LBB from effectively monitoring compliance with requirements and identifying risk.

Recommendation

The Health Science Center should align its LBB reporting policies and procedures with State and LBB reporting requirements to ensure accurate and complete reporting of all required contracts.

Management's Response

Views of Responsible Officials: The University of Texas Health Science Center at Houston agrees that not reporting complete or accurate contract information may prevent the LBB from effectively monitoring compliance with requirements and identifying risk.

Corrective Action Plan: The Health Science Center is working with UT System on an initiative to improve the accuracy of LBB reporting and commits to reporting accurate and complete information that aligns with statutory and LBB reporting requirements.

Implementation Date: Jun 1st, 2022

Responsible Parties: Eric Williams, AVP Supply Chain Management, and Shirlanda Fairley, Director Procurement

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether The University of Texas Health Science Center at Houston (Health Science Center) has administered certain contract management functions in accordance with applicable requirements.

Scope

The scope of this audit covered the Health Science Center's contract administration, procurement, vendor selection, and oversight for contracts that were active at any time between September 1, 2020, and September 17, 2021. The scope also included a review of significant internal control components related to the Health Science Center's contract management processes (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included conducting interviews with Health Science Center management and staff; collecting and reviewing contract files; reviewing applicable statutes and Health Science Center policies and procedures; and performing selected tests and procedures.

Data Reliability and Completeness

Auditors reviewed multiple data sets to assess the completeness and reliability of the Health Science Center's contract and expenditure data from September 1, 2020, through September 17, 2021. Data sets were obtained from the Health Science Center's Total Contract Management (TCM) and PeopleSoft Financials systems. Auditors compared TCM data to PeopleSoft Financials purchase order reports to compile a list of active contracts. The PeopleSoft Financials expenditure data set also was used to identify contracts that included state expenditures and to obtain a population of vendor payments for the period reviewed.

Auditors (1) observed the Health Science Center staff extract the contract population and expenditure data, (2) reviewed queries, and (3) analyzed the contract and expenditure population for reasonableness and completeness. Auditors determined that the contract and expenditure data were sufficiently reliable and complete for the purposes of this audit.

Sampling Methodology

Auditors selected a nonstatistical sample of 4 contracts from the population of 16 contracts that had state expenditures and were active anytime from September 1, 2020, through September 17, 2021. All four contracts were selected for testing the administration, procurement, vendor selection, and oversight phases. The population of 16 contracts with state funds had a total value of \$93.7 million. The sample contracts had a total value of \$62.1 million, representing 66 percent of the population.

Auditors selected the sample contracts for testing based on specific characteristics to address risk factors identified in the population, such as contract value and contracted services. The sample items were generally not representative of the population; therefore, it would not be appropriate to project those test results to the population.

Auditors selected a nonstatistical sample of 10 vendor payments (totaling \$723,144) from a population of 46 invoices (totaling \$2,579,396) from all four contracts. The sampling design was chosen to ensure that at least one payment was selected from each contract. The sample items were generally not 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:

- Health Science Center contracts.
- Statutes, policies, procedures, and other guidance relevant to the Health Science Center's procurement and contract management functions.
- Contract documentation, including solicitation information, vendor proposals, scoring and evaluation information, contract checklists, and monitoring tools and information.
- Contract payments, including purchase orders, invoices, and approvals.
- Health Science Center personnel training records, conflict of interest disclosure statements, and nepotism disclosure statements.

Procedures and tests conducted included the following:

- Interviewed Health Science Center management and staff to identify the Health Science Center's contracting processes, including internal controls, and the information that supports those processes.
- Reviewed the Health Science Center's contracting policies and procedures for compliance with applicable statutory requirements.

- Determined whether the contract managers and relevant procurement staff authorized to manage the audited contracts met training and certification requirements.
- Tested whether the Health Science Center reported contract information to the Legislative Budget Board as required.
- Tested contracts for compliance with procurement and vendor selection requirements.
- Tested the Health Science Center’s monitoring of vendors’ compliance with contract requirements.
- Tested contract payments for accuracy, required approvals, and compliance with applicable requirements.
- Tested access to the Health Science Center’s TCM and PeopleSoft Financials systems.

Criteria used included the following:

- Texas Government Code, Chapters 656, 2251, 2252, 2261, and 2262.
- Texas Education Code, Chapter 51.
- General Appropriations Act (86th Legislature).
- The Health Science Center’s *Contract Management Handbook*, September 2019.
- Health Science Center policies and procedures, manuals, and monitoring tools.
- The Legislative Budget Board’s Contracts Database - Data Guide.

Project Information

Audit fieldwork was conducted from August 2021 through February 2022. 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:

- Stacey Williams, CGAP (Project Manager)
- Jerod Heine, MBA (Assistant Project Manager)
- Alton Gamble
- Sarah Kade
- Nick Moore
- Mark Snyder, CFE
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Michael Anthony Simon, MBA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgment 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; noncompliance 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 2 provides a description of the issue ratings presented in this report.

Table 2

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.

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components of internal control, which are listed in Table 3.

Table 3

Internal Control Components	
Component	Component Description
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Copies of this report have been distributed to the following:

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The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Joan Huffman, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

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