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August 4, 2020

CHIEF PROCUREMENT OFFICER COOPER
UC HEALTH CHIEF PROCUREMENT OFFICER MIURA
LOCAL PROCUREMENT MANAGER GREENE
COORDINATOR SCANNELL

RE: Final Report Project No. P19A017: UCOP and Systemwide Procurement

Attached is a copy of the final report for: Audit Services Project No. P19A017 UCOP and Systemwide Procurement. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
        Executive Vice President Nava
        Executive Vice President Brostrom
        Executive Vice President Byington
        Associate Vice President Nelson
        Chief Transformation Officer Graham
        Executive Director Kalmijn
        Director Sullivan
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UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

UCOP and Systemwide Procurement
Audit No. P19A017
February 2020

Audit Conducted by:
Miriam Choi, Contractor
Manoj Subudhi, Contractor

Executive Summary

Introduction and Background

As part of the University of California Office of the President (UCOP) 2018 – 2019 fiscal year internal audit plan, Internal Audit performed an audit of UCOP and systemwide procurement that included a review of procurement controls at UCOP, including UCOP's local, systemwide and UC Health procurement processes. The audit included a review of the selection, payment and ongoing monitoring of vendor relationships and compliance with University policies and procedures.

UCOP's procurement departments oversee contracts with providers of goods and services. The procurement processes are administered by the procurement departments, and the accounts payable processes executed by the UCLA accounts payables team. Systemwide and UC Health Procurement identify strategic sourcing opportunities for the system and negotiate contracts for use by the campuses and medical centers. UCOP Local Procurement oversees the procurement of goods and services specific to UCOP.

Objectives and Scope

The primary objectives of the audit were to assess and evaluate the adequacy and effectiveness of UCOP, systemwide and UC Health procurement processes and internal controls. The assessment scope covered procurement activities from June 1, 2018 through May 31, 2019. There have been process and control design enhancements that have been implemented during the audit scope period, which were also evaluated as part of this assessment. The following activities were included in the assessment:

- Assessed adherence to appropriate contracting versus hiring processes, including the retention of appropriate evidence to support contracting and hiring decisions.
- Reviewed processes and controls supporting pre-approval certifications to determine if they are adequately performed or designed to mitigate the risk of considering and selecting prospective bidders that may not be considered as "responsible bidders."
- Assessed compliance with competitive bidding requirements to ensure that UC is engaging with suppliers/providers that are competitively qualified (i.e., competitive pricing).
- Assessed processes to support the inquiry, receipt of quotation(s), identification of suppliers and vendor negotiation to determine if UC selects suppliers/providers that are competitively qualified.
- Reviewed the vendor selection process, including the background and conflict of interest check processes to ensure that selected suppliers/providers are free from any conflicts of interest with UC and that processes are compliant with applicable requirements (including regulatory reporting requirements).
- Assessed processes supporting the authorization and approval of purchase orders to determine if existing controls adequately mitigate the risk of fraudulent activity, and potential for non-compliance with UC, State and Federal regulations around segregation of duties.
- Reviewed contracts (including extensions and amendments) to determine compliance with contract execution and signature authority hierarchy requirements, including execution of contract with accurate provisions/terms and approvals.
- Reviewed procurement documentation and retention processes to determine if relevant documentation is centrally and securely stored for record-keeping and audit purposes.
- Assessed the reconciliation of purchase order, invoice, and delivery data (and supporting processes) to determine if the potential for fraudulent activity or misappropriation of assets is adequately mitigated.

- Reviewed processes supporting payment to suppliers, including monitoring of contracts and approvals to determine if there is adequate control activity to mitigate the risk of inadequate segregation of duties, or fraudulent activity and misappropriation of assets.

Procedures Performed

To accomplish the project objectives and scope as documented above, Internal Audit performed the following procedures:

1. Conducted interviews with UCOP Local, Systemwide and UC Health procurement departments and performed process walkthroughs to gain an understanding of procedures in place for the procurement process.

2. Assessed policies and procedures, including the "BFB-BUS-43 Purchases of Goods and Services; Supply Chain Management" and the "The guidelines for contracting of services," for comprehensiveness and conformance with leading industry practices.

3. Selected a sample of payments and purchase transactions from the population of in-scope contracts for testing and review that occurred during the audit period.

4. Assessed the current state of processes and controls followed by UCOP Local, Systemwide and UC Health Procurement departments to assess whether control gaps or deficiencies existed.

Conclusion

Based on the audit procedures performed and inquiry with UCOP procurement personnel, Internal Audit concluded that the departments have established processes and controls to support the various procurement activities. For the processes and controls assessed for operating effectiveness, several opportunities for improvement were noted, which include:

1. Record retention practices supporting the 'procure to pay' processes should be consistently applied for UCOP Local, Systemwide and UC Health to ensure consistency.

2. Market analysis should be consistently performed to determine price reasonableness for services received by outside vendors.

3. A formal structure to support the collections, tracking and management of supplier incentive payments is currently not in place for UC Health.

4. Processes supporting the continual maintenance of the Glossary of Designated Positions should be formalized.

Further details of the observations tabulated above are provided within the **Opportunities for Improvement and Actions Plans** section of this report. **Appendix A** includes Additional Opportunities for Improvement and Recommendations. These additional recommendations are intended to better align with leading practices or require engagement and coordination from division leaders to successfully implement.

Opportunities for Improvement and Action Plans

1. *Record retention practices supporting the 'procure to pay' processes should be consistently applied for UCOP Local, Systemwide and UC Health to ensure consistency.*

   Documentation and data supporting the bidding, contracting and execution of services are not centrally stored. Specifically, the following inconsistencies in record retention were noted:

   - Documentation to clearly log all in-scope contracts and vendors was inconsistently maintained across UCOP's local and UC Health procurement departments. While these departments were able to furnish listings of vendors providing goods and services within their respective entities, there are opportunities to formalize the vendor and contract listings to promote consistency in how each entity tracks agreements, including the tracking of relevant contract data points (e.g., contract expiration date). As a result, a contract cannot currently be proactively tracked consistently to its termination. Thus, a clear list of procurement contracts for each respective group should be readily accessible, maintained and updated.

   - Documentation justifying the decision to select any one provider must be clearly documented for record purposes; however, it was noted that there have been instances in which employee turnover occurs within the procurement departments, and any documentation supporting the justification of selecting a provider may have been filed in an employee's personal files. While shared folders may exist to store this relevant documentation in a central location, this is inconsistently utilized across UCOP's local and UC Health procurement departments. UCOP systemwide procurement leverages CalUSource to document information to support selection decisions made; however, this only applies consistently to contracts that began after the implementation of CalUSource.

   - In a sample review of 25 Purchase Order (PO) transactions, it was noted that in one PO, documentation to evidence approval could not be provided.

   The inconsistencies noted in the documentation and retention practices may result in inefficiencies or internal control breakdowns within UCOP's procurement departments. By promoting consistency in documentation and supporting processes, there may be more opportunities to allow for more comprehensive monitoring and analysis of UC spend which, in turn, can be utilized in achieving organizational strategic sourcing goals.

   Action Plan:

   UCOP's local and UC Health procurement departments will formalize documentation and retention requirements to ensure consistency in documentation and supporting processes. A clear list of procurement contracts for each respective group will be readily accessible, maintained and updated. Vendor listings will be maintained with accurate and up-to-date information to promote consistency in how each entity tracks agreements, including the tracking of relevant contract data points (e.g., contract expiration date). UCOP systemwide procurement leverages CalUSource to manage its contracts. UCOP local and UC Health procurement management may consider leveraging the same system, which would allow for more proactive monitoring of their contracts while also allowing for consistent performance and trend analysis across the three departments.

   Documentation justifying the decision to select any one provider will be clearly documented for record purposes and stored in a centrally accessible location for relevant Procurement personnel. This applies more broadly for UCOP local and UC Health. For UCOP systemwide, management is encouraged to risk assess the population of contracts that were in migrated to CalUSource when it was implemented and, for contracts that are determined to be high-risk, update as needed with information that supports the selection decision made.

Responsible Parties:

UCOP Local Procurement: Manager, Local Procurement
UC Health Procurement: Chief Procurement Officer, UC Health
Systemwide Procurement: Director, Strategic Sourcing Center of Excellence

Target Date(s)
UCOP Local Procurement: October 1, 2020
UC Health Procurement: December 31, 2020
Systemwide Procurement: December 31, 2020

2. ***Market analysis should be consistently performed to determine price reasonableness for services received by outside vendors.***

Per UC's procurement policy requirements, prices shall be considered reasonable when it has been determined by the Director that competition secured has resulted in a reasonable market test. Lacking these assurances, reasonableness shall be determined by appropriate price analysis. However, our review of an outsourced campus security contract processed through UCOP's local procurement department noted that an adequate market analysis was not performed to determine that the price offered by the vendor remained competitive. While a Request for Proposal (RFP) was posted for this associated need, no other bidders responded to the RFP and as a result, no price analysis was performed beyond ensuring that prices were in compliance with union rate requirements.

Action Plan:

The UCOP Local Procurement Manager will provide additional communications and/or training to UCOP local procurement personnel around UC's procurement policy requirements, including competitive bidding requirements and the level of documentation required to validate that a reasonable market test was performed.

Target Date:
November 30, 2020

3. ***A formal structure to support the collection, tracking and management of supplier incentive payments is currently not in place for UC Health.***

Per UC procurement policy requirements, the Procurement/Supply Chain Director should negotiate quantity or payment discounts in lieu of supplier incentive payments; however, there are some vendors that only offer supplier incentive payments. We noted that UC Health's procurement processes do not have a formal tool or process to track supplier incentive payments received from vendors and, as a result, those incentive credits and payments have the potential to be used for unapproved purposes and/or be misappropriated. As a result, for purchase orders or purchase agreements that contain incentive payments, additional protocols should exist to ensure that funds and credits are being formally recorded, tracked and reported.

Action Plan:

UC Health Chief Procurement Officer will develop and formalize UC Health processes and implement a tool to record, track and report supplier incentive payments when these are received from vendors. This tool will document the movement of all incentive credits and payments to mitigate the risk of misappropriation and fraudulent activity.

Target Date:
June 30, 2021

4. ***Processes supporting the continual maintenance of the Glossary of Designated Positions should be formalized.***

Certain positions at UC are "designated" in the Conflict of Interest Code and those positions are listed in the Glossary of Designated Positions. An employee in a designated position must publicly disclose investments and business positions in business entities and income, including gifts, loans and travel payments, from sources of the type which, within the last two calendar years, have contracted with the University to supply goods or services. This includes providing grant, contract, or gift funds for research to the unit(s) for which the designated employee has authority relevant to these contracts. While existing processes and controls supporting the maintenance of this glossary appear to be designed appropriately, UC is also required to regularly update the publicly posted listing of designated position, which has not been done since 2014.

There are opportunities within the Office of General Counsel (OGC) to formalize processes in maintaining and updating the publicly posted listing of designated positions and disclosure categories to promote compliance with FPPC regulations. Leading practices would support a simultaneous update of the glossary and the publicly posted listing.

Action Plan:

The Public Records Act/Conflict of Interest Coordinator within OGC will formalize processes to maintain and update the publicly posted listing of designated positions and disclosure categories to promote compliance with FPPC regulations. Leading practices support a simultaneous update of the glossary and the publicly posted listing. The Public Records Act/Conflict of Interest Coordinator will ensure that relevant personnel have received sufficient training and education around such processes.

Target Date(s)

Completed prior to report issuance.

Additional Opportunities for Improvement and Recommendations

These additional recommendations are intended to better align with leading practices or require engagement and coordination from division leaders to successfully implement.

1. There are opportunities to increase synergies between the UC Systemwide and UC Health procurement sourcing strategies in order to fulfill needs at the lowest overall cost.

According to UC procurement policy, the University should satisfy its needs at the lowest overall total cost with the optimal qualitative requirements fulfilled through planned, quantity purchasing. Regional and Systemwide pool purchases, strategically sourced commodity agreements, and price schedules should be utilized to the maximum practicable extent. UC utilizes a seven-step methodology to frame strategic sourcing efforts and leverages the Strategic Sourcing Workbook to document and guide these analyses. Historically, UC Health has operated its systemwide operations independently from Systemwide Procurement's efforts and, as such, there are opportunities to increase synergies between the systemwide and UC Health procurement sourcing strategies in order to fulfill needs at the lowest overall cost.

Per inquiry with management overseeing systemwide Procurement practices, there has historically been minimal visibility into the services at the UC Health level to evaluate potential for overlap. For example, with goods purchased through e-procurement catalogues, procurement personnel can obtain specific data related to spending for these transactions; however, this same level of detail is not available for spend around services procured by UC Health. In addition, the ability to implement common strategic initiatives is not supported by the current governance structure, as the first point of common oversight over systemwide, local and health procurement is at the level of the President of the University. As such, regional and Systemwide pool purchases, strategically sourced commodity agreements, and price schedules are not being fully utilized to help minimize costs. The cost or price reductions realized through implementation of integrated sourcing strategies should be greater than could be obtained by an individual campus and should exceed the cost of administering the agreement or the aggregate costs of individual campus purchase actions.

Recommendation:

UCOP's local, systemwide and UC Health procurement departments should develop and formalize processes to support the organization's strategic sourcing initiatives, including but not limited to the following processes:

- Develop a governance structure and supporting processes to ensure that UCOP's local, systemwide and UC Health procurement departments have common oversight at an operational level and are meeting on a regular basis to analyze spending and identify opportunities for regional or Systemwide pool purchases, strategically sourced commodity agreements, or price scheduled to minimize costs with vendors, when possible.
- Spend data generated across UCOP's local, systemwide and UC Health procurement departments should be shared and readily accessible for relevant procurement personnel. Processes should be established and finalized to ensure that each procurement department assesses the spend data across UCOP to identify opportunities to increase synergies between Systemwide and UC Health procurement sourcing strategies in order to fulfill needs at the lowest overall cost.

Management Response:

Systemwide Procurement is committed to collaboration with UC Health and UCOP's local procurement organizations. Both teams are included in our regular governance meetings. We are also actively engaged with UC Health leadership to improve collaboration and data exchange through our organizations. UCOP local staff currently have access and the ability to use CalUsource and we continue to explore ways to extend the CalUsource platform to UC Health if it meets their operational and strategic needs.

2. Analytics are not consistently performed to track purchase order approval trends or contract extensions past maximum length requirements.

While there are currently limited analytics and reporting capabilities related to existing contract lengths and associated transaction amounts, there are no formal controls in place to consistently detect the following:

- Instances where departments may submit multiple transactions for approval that are submitted below an approval limit (instead of one total transaction) to bypass approval limits and avoid the total amount being escalated to an individual with a higher delegation of authority for approval.
- Instances where retroactive contracts may extend past the expected life of 10 years. Although controls have been implemented to help prevent this from happening at the contracting stage, analytics are not performed to detect if contracts are extended past the 10-year term without following all the associated, formal procurement processes.

Implementing additional capabilities to existing monitoring tools and processes supports better alignment of existing controls with best practices to improve governance, monitoring and oversight of procurement activities for UCOP Local, UC Systemwide and UC Health.

Recommendation:

Management should consider implementing reporting and analytics to determine trends in transaction amounts and associated approvals which are close to approval limits, as well as identifying extensions to legacy contracts that may get extended beyond the limits as specified by policy.

Management Response:

UC Systemwide procurement does not process purchase orders or receive data on approvals. Monitoring transaction activity for compliance with UC policy is the responsibility of location procurement leaders. Systemwide procurement will share this recommendation with the campus procurement leaders for consideration and possible implementation. As noted, controls have been implemented in the contracting process in UC Systemwide procurement to ensure that new contracts do not exceed the 10 year expected life without management approval and that renewals that would extend a contract beyond the 10 year expected life require approval.