

August 11, 2022

BRAD OUELLET
Director, Supply Chain Management Services
UC San Diego Health
8913

RON SKILLENS
Chief Compliance and Privacy Officer
UC San Diego Health
0836

**Subject: *Health System Vendor Contracting (Medical Services and Supplies)
Report 2022-14***

The final report for Health System Vendor Contracting (Medical Services and Supplies) 2022-14, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
 Alexander Bustamante
 Lori Donaldson
 Steve Garfin
 Brendan Kremer
 Patty Maysent
 David Melendez
 Pierre Ouillet
 Precious Presto
 Nichole Schirm

UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Health System Vendor Contracting (Medical Services and Supplies)
Report No. 2022-14
August 2022

FINAL REPORT

Performed By:

Tessa Melendez, Senior Auditor
John Teevan, Manager

Approved By:

Christa Perkins, Director

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY 1

II. BACKGROUND..... 3

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES 4

IV. CONCLUSION..... 5

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION 6

 A. Requisition Approvals..... 6

 B. Conflict of Interest Disclosure 8

 C. Sole-Source Purchase Identification in Premier Connect..... 10

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Health System Vendor Contracting (Medical Services and Supplies). The objective of our review was to evaluate whether internal controls and processes for vendor contracting provided reasonable assurance that agreements for vendor-provided healthcare supplies and services are appropriately approved, compliance requirements are addressed, potential conflicts are fully disclosed and managed, and oversight mechanisms are effective for these types of contracts.

We concluded that processes could be improved to ensure that vendor-provided agreements are approved by an appropriate department authority, compliance requirements are met, potential conflicts are fully disclosed and managed, and oversight mechanisms are effective for these types of contracts. Specifically, we noted that Procurement was in the process of implementing new systems for vendors, which will make some current manual processes obsolete; however, Procurement did not ensure purchase requisitions were supported with proper signature authority.

Additionally, Compliance implemented staff conflict of interest (COI) training and disclosure processes last year; however, collaboration between Procurement and Compliance could be improved to manage and share positive disclosures. Compliance was in the process of completing a vendor conflict of interest disclosure to be built into the vendor onboarding system (currently in the process of implementation). Further, Procurement did not have a documented process to manage conflict of interest disclosures, and updated department forms were not required to be filled out when form language was updated or the form was missing from the vendor file. Lastly, the procurement system to manage purchase agreements lacked the ability to identify sole-source agreements.

Management Action Plans to address our findings are summarized below:

A. Requisition Approvals

1. Supply Chain Services (SCS) is in the process of implementing ServiceNow, which will house automatic approval routing and financial unit information, including appropriate signature authority, for requisitions.
2. SCS management will use their best efforts to validate the signature authority for sole-source agreements processed prior to the implementation of ServiceNow, to stop the processing of requisitions when signature authority cannot be confirmed.
3. SCS management will review and, if necessary, amend the current sole-source workflow to ensure that signature authority is accurate for each agreement, and includes the new approval requirements for clinical and patient care goods and services.

B. Conflict of Interest Disclosure

1. SCS is in the process of automating certain processes including capturing new vendor COI information through PaymentWorks.
2. Compliance and Procurement will work together to ensure all new agreements require vendors to fill out the new vendor COI questionnaire as part of the PaymentWorks system integration, with periodic reviews on an ongoing basis.

3. SCS management will establish processes and reinforce to staff that a new Source Selection & Price Reasonableness (SSPR) form should be completed for each agreement, as applicable.
4. SCS management will establish processes and reinforce to staff that each submitted SSPR should be thoroughly reviewed to ensure forms are completely filled out and signed.
5. SCS management will formally document Procurement's review process for SSPR forms and supporting documentation as well as the follow-up for a positive COI disclosure from either staff or a vendor, including notification of positive disclosures to Compliance.
6. Compliance will document their COI training and employee-related review practices and standards in formalized department guidance.
7. Procurement and Compliance will continue to work together to ensure education and training efforts reach all affected personnel.

C. Sole-Source Purchase Identification in Premier Connect

1. SCS management will evaluate whether a process can be implemented to clearly identify sole-source exceptions in Premier.

Observations and related Management Action Plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Health System Vendor Contracting (Medical Services and Supplies) as part of the approved audit plan for Fiscal Year 2021-22. This report summarizes the results of our review.

Health Supply Chain Services (SCS) manages procurement for University of California San Diego Health (UCSDH). The SCS unit is made up of Strategic Sourcing, Contracts, and Purchasing, all operating in unison under the SCS Director to manage adherence to University purchasing policies.

University of California (UC) policy Business Finance Bulletin (BFB) – BUS 43 Purchases of Goods and Services, Supply Chain Management governs procurement policy for UC, and is supplemented by additional guidance such as the Supplemental Guidelines for Using Procurement Contracts at UC. According to these documents, purchases for goods or services are typically made via a procurement contract or purchase order (PO). A contract is legally binding when both parties sign and specifies performance standards, scope of work, and complex terms associated with the purchase of a good or service whereas a PO is a commercial document and one-time contract valid only for the purchases referenced on the PO that is legally binding only upon the acceptance or performance of the supplier¹. Contracts are more appropriate for long term arrangements and/or complex, highly sensitive procurements where risks must be minimized; POs are better suited for one-time transactions or to “effect releases against an existing contract.”

According to the California Public Contract Code, a bid threshold of \$100,000 annually has been established requiring purchase agreements over this amount to be competitively bid, unless an exception applies. Procurement requires a Source Selection & Price Reasonableness (SSPR) Form to document instances where procurements meet one of the allowed exceptions to the competitive bid requirement.

At the time of our review, Procurement and the UCSDH Office of Compliance & Privacy (Compliance) were in the process of updating *UCSDH Policy (UCSDHP) 550.1: Vendor Policy and Guidelines*, which established “guidelines governing the activity of all vendors who are doing business, or intend to do business with the UCSDH.” Updates to the policy included specifying the policy applied to both onsite and offsite vendors as well as including specific vendor conflict of interest (COI) language, a COI disclosure form to be retained by Procurement, and required COI training. The new policy was effective March 22, 2022.

Updates to *UCSDHP 703.1, Centralized Purchasing* were also effective March 22, 2022. These updates included the requirement for the SSPR form to “be signed by an appropriate budget and decision-making authority, subject to approval by the Director, SCS” as well as the explicit statement that “all exemption requests for clinical and patient care goods and services must be signed by the appropriate clinical chair,” which had not been either a requirement or practice in the past.

In addition to the above, new processes were being developed by both Procurement and Compliance to update training and awareness of policies, as well as plans to update vendor and requestor

¹ ‘Supplier’ and ‘vendor’ are synonymous for the purposes of our report and are used interchangeably throughout.

information. Additionally, two new procurement systems were in varying stages of implementation: PaymentWorks and ServiceNow. PaymentWorks will automate new payee onboarding and change requests, eliminating the paper process for W9s and the security risk of passing information via email. It will also generate up to date tax information, certificates for small and minority-owned business, COI information, and continuous federal debarment and exclusion screening. The rollout was in process and scheduled for final automation in July 2022. ServiceNow will provide additional automation and replacement of legacy systems, forms, policies, and procedures. It will include automated approval routing for Financial Units, Compliance, Information Security, Equipment Planning, and others, as needed. The most significant transformation is that the 55-year-old *Purchase Request for Non-Stock Material 390* form will be replaced. Procurement has indicated that this implementation will be an asset to the University by making SCS processes more efficient. ServiceNow is scheduled for its third and final phase of implementation in July 2022.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls and processes for vendor contracting provided reasonable assurance that agreements for vendor-provided healthcare supplies and services are appropriately approved, compliance requirements are addressed, potential conflicts are fully disclosed and managed, and oversight mechanisms are effective for these types of contracts. In order to achieve our objective, we performed the following:

- Reviewed the following policies and guidance:
 - BFB – BUS 43 Purchases of Goods and Services, Supply Chain Management,
 - Supplemental Guidelines for Using Procurement Contracts at UC,
 - UC Health Terms and Conditions of Purchase;
 - UC Healthcare Vendor Relations Policy²,
 - UCSDH Policy (UCSDHP) 550.1 Vendor Policy and Guidelines,
 - UCSDHP 703.1 Centralized Purchasing,
 - UCSDHP 750.2 Conflict of Interest, and
 - UCSDHP 782.1 Signature Authorization;
- Interviewed the following:
 - Director, SCS,
 - Manager – Contracting, SCS,
 - Manager – Purchasing, SCS,
 - Senior Project Manager – Systems & Solutions, SCS,
 - Director – Conflict of Interest, Research Compliance and Integrity,
 - Chief Compliance/Privacy Officer, UCSD Health Sciences,
 - Manager, Compliance,
 - Analysts, Compliance, and
 - Financial Service Analyst, Financial Services;
- Reviewed:
 - Compliance training documents, and
 - Procurement forms;

² A supplement to BFB G-39 – Conflict of Interest Policy.

- Evaluated a selection of eight (8) purchase agreements issued during the scope period of July 1, 2021 to April 30, 2022 for the following:
 - Appropriate approval authority,
 - Compliance with purchasing requirements, and
 - Conflict of interest disclosures and management.

Sample Selection Methodology

We reviewed a population of 649 POs that were issued between July 1, 2021 and April 30, 2022. In order to review those agreements we assessed were at the highest risk, which are those that are sole-source³ purchases, we filtered out POs under \$100,000, leaving 175 POs that could potentially have been exceptions to the competitive bidding requirement, requiring additional justification and approvals.

The Premier Connect (Premier) system does not have the ability to filter out sole-source only POs, so we reviewed documentation for the 175 individual POs in an attempt to identify whether they were sole-source. Our review identified eight (8) sole-source agreements that we performed detailed testing on. During our detailed testing, SCS stated that one of the agreements we identified was not considered a sole-source agreement as the vendor had been selected after a competitive bid was completed through a systemwide group purchasing organization (GPO) agreement; however, we chose to keep this agreement in our testing sample.

IV. CONCLUSION

Based on our review, we concluded that processes could be improved to ensure that vendor-provided agreements are appropriately approved, compliance requirements are addressed, potential conflicts are fully disclosed and managed, and oversight mechanisms are effective for these types of contracts.

Procurement was in the process of implementing new systems for vendors, which will make some current manual processes obsolete; however, Procurement did not ensure purchase requisitions were supported with proper signature authority. Specifically, signature authorizations for two department approvers had indicated they only had limited authority, which meant they should not have been able to approve the requisition without an additional approval from the department head. There were additional instances when the cost center or financial unit noted on the purchase order did not match the signature authorization.

Compliance implemented staff conflict of interest training and disclosure processes last year; however, collaboration between Procurement and Compliance could be improved to manage and share disclosures made to each department. Compliance was in the process of completing a vendor conflict of interest disclosure to be built into the vendor onboarding system currently in the process of implementation; however, at the time of this report, we were unable to confirm whether this would apply to all vendors or just new vendors.

³ Sole source goods and/or services are the only ones that will meet the University's needs because they are: a) unique; b) available from only one source; or c) are designed to match others used in or furnished to a particular installation, facility or location.

Procurement did not have a documented process to manage conflict of interest disclosures, and updated forms were not required to be filled out when form language was updated or the form was missing. As noted above, new systems will help facilitate certain aspects of vendor conflicts of interest; however, Procurement could also strengthen review processes to ensure disclosures are reviewed and properly escalated, when necessary.

Finally, the procurement system to manage purchase agreements lacked the ability to identify sole-source agreements, which resulted in the inability to identify and confirm an accurate number of exceptions to the competitive bid requirement.

Observations supporting these comments are detailed in Section V.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Requisition Approvals
Procurement processed purchase requisitions based on outdated signature authorizations that had not been updated with cost centers/financial units or to expand authority based on title.	
Risk Statement/Effect	
Purchase requisitions should be supported with accurate signature authorization to reduce the risk of inappropriate purchases.	
Management Action Plans	
A.1	SCS in in the process of implementing ServiceNow, which will house automatic approval routing and financial unit information, including appropriate signature authority, for requisitions.
A.2	SCS management will use their best efforts to validate the signature authority for sole-source agreements processed prior to the implementation of ServiceNow, to stop the processing of requisitions when signature authority cannot be confirmed.
A.3	SCS management will review and, if necessary, amend the current sole-source workflow to ensure that signature authority is accurate for each agreement, and includes the new approval requirements for clinical and patient care goods and services.

A. Requisition Approvals – Detailed Discussion

Per UC Policy, only the Purchasing Department has delegated signature authority to purchase goods and services. However, individuals may be granted signature authorization by their Associate/Assistant Directors to approve purchase requisitions.

UCSDH Executive Team Members have been delegated the authority to approve all cost center transactions within their area of responsibility, with some exceptions, and may re-delegate certain

authority to department heads, employees who are authorized to act on behalf of the department head, and other employees (with limited⁴ authority).

Signature authorizations are maintained by UCSDH Finance within an online UCSDH signature authorization database called Lason. Finance reviews forms for correct financial unit, payroll title, and signatures as well as ensuring an authority is filled out: the department head, the employee who will act on behalf of the department head, or the employee who has limited authority. Procurement buyers are expected to consult Lason to ensure accurate signature authority for purchase requisitions; however, it was noted during the review that a buyer may be familiar with certain purchases under their purview and who has department signature authority, so they would not explicitly consult the system for each purchase received. Finance noted that the database does not have any ongoing monitoring to ensure the forms remain current.

We reviewed signature authorizations for our sample selection of eight agreements and noted signature authorizations were on file for each department employee who approved the requisition. However, we noted the following exceptions:

- Six signature authorization forms did not list the cost center or financial unit that was noted on the PO.
- Two signers' signature authorization forms indicated the employee only had limited authority.
 - In one instance, the signature authorization was filled out in 2005. Procurement should not have processed the requisition until the employee submitted an updated signature authorization to confirm expanded authority to act on behalf of the department head or the department head should have approved the requisition.
 - In the other instance, the signature authority form was filled out in 2017; however, the employee was currently acting in the capacity of interim Chief Information Officer. Procurement should not have processed the requisition until a signature authorization form with expanded authority under the interim capacity was filled out.
- One signature authorization from 2010 did not include a start date for the employee's signature authority.

Signature authorizations should have been reviewed to confirm the employee authorization is appropriate for the cost center/financial unit, titles are accurate, and all fields are completed. According to SCS, when ServiceNow is fully implemented, it will have automatic routing approvals for requisitions, rendering the signature authorizations forms obsolete. The go live date is currently scheduled for July 11, 2022.

According to the SCS Director, there were no sole-source agreements issued after March 22, 2022, the effective date for the new purchasing requirements; therefore, we were unable to review compliance with these new policy requirements regarding SSPR form approvals including signoffs by an appropriate budget and decision-making authority as well as appropriate clinical chair signoff on clinical and patient care goods and services.

⁴ Employees who are granted limited signature authority may only approve requisitions for online purchase requisitions (excluding capital expenditures) and online travel expenditures.

B.	Conflict of Interest Disclosure
Conflict of interest processes did not ensure disclosures that could impact procurement decisions were always made, reviewed, and managed. Updated forms were not required to be filled out when form language was updated or the form was missing.	
Risk Statement/Effect	
Personnel involved in contracting decisions may have financial or other arrangements which could result in a conflict of interest.	
Management Action Plans	
B.1	SCS is in the process of automating certain processes including capturing new vendor COI information through PaymentWorks.
B.2	Compliance and Procurement will work together to ensure all new agreements require vendors to fill out the new vendor COI questionnaire as part of the PaymentWorks system integration, with periodic reviews on an ongoing basis.
B.3	SCS management will establish processes and reinforce to staff that a new SSPR form should be completed for each agreement, as applicable.
B.4	SCS management will establish processes and reinforce to staff that each submitted SSPR should be thoroughly reviewed to ensure forms are completely filled out and signed.
B.5	SCS management will formally document Procurement’s review process for SSPR forms and supporting documentation as well as the follow-up for a positive COI disclosure from either staff or a vendor, including notification of positive disclosures to Compliance.
B.6	Compliance will document their COI training and employee-related review practices and standards in formalized department guidance.
B.7	Procurement and Compliance will continue to work together to ensure education and training efforts reach all affected personnel.

B. Conflict of Interest Disclosure – Detailed Discussion

Staff COI

The UCSDHP policy on COI disclosures was updated in October 2020 for staff and clinicians. The policy was applicable to “any team member involved with making business, financial, or purchasing decisions at UCSD Health Sciences” including both staff and practitioners.

In March 2021, Compliance launched COI training to UCSDH for the purposes of complying with the new vendor policy. During our review, Compliance provided documentation indicating 10,692 UCSDH employees completed the training from March 2021 through the first week of May 2022. At the end of the training, employees were notified of various COI that required disclosure. If the employee identified a potential COI, they were prompted to complete a questionnaire to provide additional

information. Based on the results of the training questionnaire, 615 disclosures were made. Compliance stated that these disclosures were reviewed and followed-up with by the Chief Compliance Officer and former Compliance Associate. Compliance is in the process of revising the disclosure process to narrow the request to only information from certain individuals who have been identified. Additionally, Compliance is currently recruiting for a new Regulatory Manager to review these disclosures going forward. However, we noted that these training and/or employee COI review processes are not documented in departmental policy or procedure.

Within our sample, one department member who approved the purchase requisition made a positive disclosure. Compliance was unable to find additional information regarding the disclosure, therefore we were not able to review the disclosure; however, the vendor was selected via a competitive bid process performed by a third party with whom UCSDH has a relationship through a GPO agreement.

In addition to the above noted Compliance procedures, Procurement had processes to disclose COI; on the SSPR form, which included a COI statement wherein the department member certified the purchase would not present a conflict of interest. If the employee disagreed, they were able to provide an explanation. Procurement also indicated that the SSPR forms have an interpreted useful life of ten (10) years when the same product is purchased for the same vendor; however, this standard is not formalized or documented in departmental guidance.

During a review of eight SSPR forms for our sample, we noted the following inconsistencies in the collection and review of SSPRs:

- Three agreements did not have an SSPR on file. According to the SCS Purchasing Manager, two of the agreements should have had an SSPR filled out; however, the third did not meet the definition of a sole-source agreement as the vendor had been selected after a competitive bid was completed by a vendor with whom UCSDH has a relationship with through a GPO agreement.
- One SSPR form was provided; however, the COI portion was not filled out.
- One SSPR form was provided but was not signed by the department.
- One SSPR form was reused from a prior agreement. According to the Purchasing Manager, informal department procedures allowed forms to be reused if it was filled out within the last ten years.

The SSPR should be thoroughly reviewed to ensure forms are completely filled out and signed. Additionally, to ensure information remains up to date and accurate, we recommend a new form to be filled out for each agreement.

Vendor COI

New vendors filled out a Supplier Information Data Sheet (SIDS). This form was required by Procurement and included, among other things: the remit address and business classification (large, small, woman-owned, disabled veteran, etc). The form had been updated over the years with additional information added, including an attestation that the vendor had not been excluded by the federal government, as well as a COI disclosure. This form was initially submitted to Procurement, and at this time Procurement performed a federal exclusion check. Once completed, SCS would submit the form to Finance to perform a tax identification number check before uploading all documentation and vendor information into Premier.

During our review, we obtained SIDS forms and attachments for the seven (7)⁵ suppliers in our sample for review and noted the following:

- One form could not be located by Finance.
- 4⁶ of 6 form versions did not contain the COI statement.
 - 1 form was not signed by the vendor.
- 2 of 6 forms contained the COI statement, and neither supplier made a positive disclosure.

For those suppliers whose SIDS form version did not contain updated COI statements, the Purchasing Manager stated that the forms are only filled out and reviewed once: at the time of new vendor onboarding. There was not a process to review or update forms for established vendors on a regular or routine basis. The Purchasing Manager stated that there were at least 5,370 active vendors in Premier and that it would be an administrative burden to review and update every vendor with a new SIDS form.

UCSDH vendor policy and guidelines were recently updated in March 2022 to specify COI procedures including required training and disclosures. At the time of this report, Compliance was in the process of creating a vendor COI form and Compliance and Procurement were working together to integrate the form into PaymentWorks for vendors to complete at the time they are on-boarded into the new system. It was unclear whether existing vendors would be required to complete the new form to disclose any conflicts for new procurements going forward. According to Compliance, Procurement will be responsible for reviewing COI disclosures within PaymentWorks and would reach out to Compliance for any responses that are considered high risk. The process, including defining “high risk”, is still being finalized.

There should be a clearly defined process for Procurement to review and process SSPR forms and follow-up with a positive COI disclosure from either staff or a vendor. If there is not consistent and ongoing reporting and review of COI, financial interests may not be identified and properly managed.

C.	Sole-Source Purchase Identification in Premier Connect
We were unable to identify and confirm an accurate number of exceptions to the competitive bid requirement.	
Risk Statement/Effect	
The inability to identify agreement types made it difficult to perform compliance checks for competitive bid exception requirements.	
Management Action Plans	
C.1	SCS management will evaluate whether a process can be implemented to clearly identify sole-source exceptions in Premier.

⁵ The AMAS audit sample was eight (8) identified agreements which related to seven (7) different suppliers / vendors.

⁶ Form versions that did not include the COI disclosure were from 1996 (signed 1997), 2002 (signed 2003), 2004 (not signed), and 2007 (signed 2013).

C. Sole-Source Purchase Identification in Premier Connect – Detailed Discussion

Premier Connect (Premier) is UCSDH's material management information system that is used to place requisition and purchase orders, manage medical supply inventories, provide various reports, and manage invoice and payments. However, it did not have the capability of providing reports to identify requisition types.

According to the California Public Contract Code, a bid threshold of \$100,000 annually has been established requiring purchase agreements over this amount to be competitively bid, unless an exception applies. University policy outlines the following exceptions:

- When the Procurement/Supply Chain Director determines that the goods and/or services are sole-source goods and/or services,
- The services are professional services or personal services,
- There is an unusual or compelling urgency to obtain the goods or services,
- The procurement takes place through the Small Business First Program,
- The federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-federal entity (in the case of federally funded purchases only), or
- After solicitation of a number of sources, competition is determined inadequate.

As explained in the Sample Methodology section above, we were unable to accurately identify the entire universe of sole-source contracts versus competitive bid agreements as the system did not have a field or other feature being used to capture or identify agreement type. The scope period of our review resulted in 175 purchase agreements that could have been sole-source exceptions. Our identification of requisition type included reviewing documentation for purchase agreements and was dependent on buyers previously uploading the SSPR form into Premier (or identifying the requisition as "sole-source" on another uploaded document if the SSPR form was not filled out and/or uploaded). Based on this process, we did not have assurance that we accurately identified all of the sole-source exceptions during our scope period.

Discussions with the SCS Project Manager and Purchasing Manager disclosed the system is unable to tolerate a specific field to identify whether it was sole-source or competitive bid as there are other fields that take precedent and need to be identified, such as "fair wage fair work" or "prevailing wage" agreement types. The Purchasing Manager indicated that Premier had a comment section wherein buyers could indicate that the agreement was sole-source, but it would need to be identified as a new department process and buyers would have to be notified and educated about the new process.

A clear and efficient way to identify agreements that are excluded from competitive bid requirements is necessary for the purpose of reviewing and confirming compliance with requirements.