UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES

University of California, Davis Health System
IT Purchasing
Internal Audit Services Project #13-19

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MANAGEMENT SUMMARY

BACKGROUND

The UC Davis Health System (UCDHS) Information Technology Division (IT) had an operating budget of $78.6 million and a capital budget totaling $15.0 million for FY2013. The UCDHS Vice Chancellor and UC Davis Medical Center Chief Financial Officer approve all IT capital projects and related budgets. All IT purchases are processed by the UCDHS Purchasing Department.

IT has created procurement and finance functions within the IT Business Operations unit. IT has also established an internal purchase approval and tracking system (eProcurement), which is housed on a SharePoint platform. Purchase requests are entered on an electronic form and routed for approval. Following IT management approval, requests for capital purchases are routed to UCDHS Capital Finance for verification that the project is approved and the purchase is within the project’s budget. Following verification, Capital Finance establishes a purchase requisition in Eclipsys, the UCDHS Materials Management program. IT enters requisitions for operating purchases directly into Eclipsys. IT also uses two interacting systems, Device Inventory (DI) and HP Asset Manager (HPAM), to track the inventory of its technology-related products.

IT has adequate procedures to independently receive its purchases and ensure these items are recorded into the inventory system for proper safeguarding.

UCDHS has a standard configuration for monitors and personal computers. IT orders these in bulk and stores them at Central Receiving. IT equipment purchases are received and stored in a secured area until they are sent to the end user. Non-standard products are evaluated by the IT Evaluation Team (ITET) for necessity, security and compatibility with the UCDHS network. Requests from IT staff members for new or unusual products are evaluated by the ITET. ITET also evaluates purchase requests from other UCDHS departments for software and technology products.

PURPOSE AND SCOPE

We reviewed the financial and operational management processes of IT purchasing as part of our FY2013 audit plan. The purpose of the audit was to examine processes and procedures governing expenditures for IT products and services, to ensure transactions are properly approved and processed and to look for opportunities to improve efficiency and effectiveness. Purchases for School of Medicine departments are handled through the UCD Materiel Management Department, and are outside the scope of this audit.

We reviewed IT purchasing transactions for the period of July 2012 through February 2013. We assessed the processes IT uses for ordering and receiving, selecting vendors, and approving purchases and invoices. We reviewed relevant University policies and procedures and interviewed IT personnel. We also interviewed representatives from Purchasing, Accounts Payable, Central Receiving and Capital Finance. We selected a sample of both operating and capital transactions and tested them for accuracy and compliance with policy. Finally, we examined the reports and procedures IT management uses to monitor operations.
CONCLUSION

IT has established processes and procedures to monitor ordering and receiving, select vendors and approve purchases and invoices. We concluded these processes and procedures are appropriate to control the costs for IT’s many projects and ensure the appropriate technical specifications are applied to the products and services purchased. We also concluded that there are opportunities to enhance the monitoring of technology equipment purchased by other units within UCDHS, improve the review of financial data and the efficiency of invoice approvals.

Our observations and recommendations are presented in the body of this report along with corresponding management corrective actions.
OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

1. MAINTENANCE CONTRACT VERIFICATIONS

Oversight of maintenance agreements could be improved

Information used to verify vendor quotes and invoices for hardware maintenance agreements is incomplete. IT tracks all equipment and software ordered in the HPAM database. IT Procurement verifies the existence and status of the covered equipment when it receives a quote for a maintenance contract or renewal. However, vendor quotes can include coverage for equipment UCDHS entities order without IT knowledge. Because the IT Storekeeper does not receive this equipment, there is no record in HPAM and the equipment’s status is unknown.

UC Accounting Manual Section D-371-36, Invoice Processing in Response to Purchase Authorizations, states that departments should ensure that payments charged to their accounts are valid and that department reviewers should verify “Item descriptions, unit prices, quantities received, F.O.B. points, discount terms, applicable taxes, and any other terms of the purchase order.” UCD PPM 330-11, Department Financial Administrative Controls and Separation of Duties requires departments to “safeguard University assets, assure the validity of financial transactions in departmental accounts, and assure adherence to prescribed policies and procedures.” Additionally, the UCD Administrative Responsibilities Handbook requires administrative officials to ensure that financial transactions include adequate explanations and sufficient documentation to support post-authorization review and audit.

Without information on all covered items, it is difficult for IT to verify the accuracy of the quote and the subsequent invoice. As a result, UCDHS could be overpaying for maintenance coverage on equipment that has been disposed of, is no longer in use, or no longer requires coverage.

Recommendation

IT recently implemented a function in HPAM that can scan the entire network and identify equipment not already in HPAM. IT staff should use this function to identify all equipment connected to the UCDHS network and verify the status of all previously unknown equipment to ensure that maintenance contracts are appropriate.

Management Corrective Actions

IT will identify and implement a process to inventory equipment and verify the status of all previously unknown equipment to ensure that maintenance contracts are appropriate.

Completion Date: June 27, 2014
2. FINANCIAL REVIEW

Review and correction of financial data and reports could be improved.

IT Finance is responsible for compiling and reviewing monthly financial reports. IT Finance has a general practice of reviewing the monthly revenue and expense report with IT managers. However, we found examples where the miscoding of invoices was not detected. In one of these instances, IT paid over $1,000 on a charge belonging to Food and Nutrition Services. IT Finance considered these transactions, along with $26,000 in revenue from an unknown source, to be immaterial and had not investigated them. In addition, General Ledger reviews for organization 1010 had not been certified in DaFIS since May 2009. UCDHS policy 1817 and UCD PPM 330-11 require that all departments use the General Ledger Review function to review and certify their ledgers monthly. These policies also state that departments should take appropriate action to correct all errors in the general ledger. Failure to provide adequate financial monitoring increases the risk that errors will go undetected.

Recommendation

IT should ensure that the General Ledger (GL) reviews are certified and that any errors are promptly corrected in accordance with University policy.

Management Corrective Actions

IT will ensure the monthly reviews of the General Ledger are certified and in accordance with applicable University policies. Finance will provide IT with the adequate training necessary to perform the compliant GL reviews.

Completion Date: September 30, 2014

3. INVOICE APPROvals

The invoice approval process could be more efficient.

IT management requires all invoices to have multiple approvals before they are forwarded to Accounts Payable for payment. The intent of this process is to improve expenditure monitoring. However, the added approvals are required even when the invoices agree with the previously approved purchase requests and receipt of the products or services were independently verified.

Regents Policy 5100, Resolution Regarding Administrative Efficiencies, details a commitment by the Regents to efficiencies in administration as a method to achieve a sustainable financial model.
IT processed 3,333 invoices during FY2013. We determined that 76% of the invoices were under $5,000, 65% were under $2,500, and 33% were under $500. Once the purchase has been approved and independent staff member(s) verify the services have been provided or the correct equipment received, requiring further approvals increases the use of resources committed to the payment approval process without an equivalent reduction in the risk of making an improper payment.

**Recommendation**

IT could increase the efficiency of its invoice approval process by reducing the approvals needed where the invoice matches an approved purchase request, and receipt of the equipment or services has been independently confirmed.

**Management Corrective Action**

UCDHS Accounts Payable implemented a process whereby invoices below $5,000 are not forwarded to departments. IT will continue due care in management of resources and will continue to follow the existing invoice approval process for all invoices forwarded from Accounts Payable.

**Completion Date:** No action required.

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