UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES

Procurement - Sole Sourced Contracting
Project #20-036

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Jim Hine
Associate Vice Chancellor
Supply Chain Management

Kevin Pattison
VP Supply Chain/Support Services
UCSF Health

SUBJECT: Procurement – Sole Sourced Contracting

Audit and Advisory Services ("A&AS") conducted a review of Sole Sourced Contracting. The purpose of this review was to assess and validate the internal controls in place to ensure the appropriate use of sole source contracts, including justifications on initial contracting and subsequent renewal.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the "IIA Standards").

Our review was completed and draft reports were provided to Campus Supply Chain (SCM) and Health Procurement Services management in March and September 2020, respectively. Campus SCM and Health Procurement Services management provided their final comments and responses to our observations in June and October 2020, respectively. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report.

A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services

EXECUTIVE SUMMARY

I.   **BACKGROUND**

As a planned audit for the fiscal year 2020, Audit & Advisory Services conducted a review of the adequacy of the internal controls over sole sourcing within the UCSF Campus Supply Chain Management (SCM) and UCSF Health Procurement Services (Health Procurement Services).

As defined in University of California (UC) Business and Finance Bulletin BUS-43, "*Purchases of Goods and Services,*" sole sourced 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.

California Public Contract Code (PCC), sections 10507.7 et seq., requires the University of California to formally competitively bid the purchase of goods and/or services that exceed ≥$100,000 per annual year unless an exception applies and the basis for the award is documented in writing.

In August 2017, the California State Auditor's Office issued a report on UC contracting practices including a finding that UCSF Campus and Health awarded contracts to vendors through a sole-source process without proper justification. As a result of this report, in October 2018, UCOP Procurement Services rolled out the first version of the Source Selection and Price Reasonableness Justification Form (SSPRJ). As per UC Procurement guidelines, "*the SSPRJ should be used by the requesting department for all federally funded purchases ≥$10,000 (including tax and shipping) & non-federally funded purchases ≥$100,000 (excluding tax, but including shipping), to substantiate the appropriateness of source selection and price reasonableness.*" Additionally, it encouraged campuses to seek competition even in cases where goods and/or services are exempt from the requirement to competitively bid. The SSPRJ has been modified a few times since the first release.

SCM started using the SSPRJ in January 2019 and decided to lower the limit for non-federally funded purchases to ≥$25,000. Section I of the SSPRJ requires departments to select the procurement sourcing methodology, sole source being one of the options. If sole source option is selected, departments need to provide details on the unique circumstances and/or specifications that make this the only supplier capable of meeting their requirement and why other suppliers were not selected.

According to data provided by SCM, in FY 2019, a total of $67.5M of procurement sourcing was through sole source. The breakdown is as follows:

	Total Amount	No of POs
Federally Funded Purchase Orders (POs)	$ 7,523,877	128
Non-Federally POs over $25K	59,997,639	595
	$ 67,501,516	**723**

UCSF Health Procurement Services uses the SSPRJ thresholds established by UCOP Procurement Services. Effective July 2019, Health Procurement Services began tracking and managing all contracts in ContractKing[1].

Increased use and/or insufficient justification of sole source procurement increases the risk of circumvention of competitive bidding requirements and potential violation of University Policy and California Public Contract Code. Additionally, continued use of same supplier over a period without performing any updated price reasonableness or market testing could potentially result in increased costs for the University through higher prices.

II.   AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess and validate the internal controls in place to ensure the appropriate use of sole source contracts, including justification on initial contracting and subsequent renewal. The scope of the review covered sole source contracts for the period of July 1, 2018 to June 3, 2020.

To conduct the review, the following procedures were performed:

(1) conducted walkthroughs and interviews with relevant personnel to understand the processes and controls for sole source contracts;
(2) obtained sole source contract population for data analysis and sample selection for detailed testing;
(3) determined how sole source contracts are reviewed and assessed by SCM and Health Procurement Services to ensure there is clearly no other competitive option for the goods/services needed;
(4) independently verified through research on the internet that no other supplier could meet the buyer's requirement;
(5) verified that sole source justification was adequately documented, including all required documentation and was approved by appropriate personnel;
(6) assessed whether there is adequate management and monitoring of sole source contracts;
(7) determined compliance with University Policies and federal requirements; and
(8) identified opportunities for process improvement.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork for the SCM and Health Procurement Services was completed in March and September 2020, respectively.

III.   SUMMARY

Based on procedures performed, sole source contracts were generally in compliance with University and UCSF policies. SCM and Health Procurement Services continue to reinforce the importance of proper documentation of sole source justifications including the review and approval of sole source contracts. Buyers within the SCM and Health

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[1] Salesforce Contract Management software platform.

Procurement Services review the SSPRJ forms and work with departments to ensure sole source justification is adequate and price reasonableness is performed.

It was noted that there is a major difference in the SSPRJ thresholds used by the SCM and Health Procurement Services. For non-federally funded purchases, Health Procurement Services uses the threshold of ≥$100,000 whereas SCM decided to lower their threshold to ≥$25,000. The lower threshold increases the volume of sole source contracts which needs to be reviewed by SCM.

Additionally, SCM was able to provide a population of sole source contracts for review since they have the SSPRJ embedded within most of the procurement forms in Bearbuy. On the other hand, Health Procurement Services does not have an efficient way to identify sole source contracts. Sole source contracts are not flagged in their procurement system therefore making it difficult to identify sole source contracts.

While we did not identify any significant control deficiencies during our review, we identified opportunities for SCM and Health Procurement Services to strengthen its sole source processes related to the monitoring of sole source contracts, educating departments on the proper classification of requisitions as sole source, and having adequate sole source documentation.

The specific observations from this review are listed below as well as in Section IV. Observations and Management Corrective Actions.

A. Campus and Health

1. Inconsistent thresholds are being used by SCM and Health Procurement Services for completing the SSPRJ*.*
2. SCM and Health Procurement Services do not have a process in place to easily identify and monitor the usage of sole sourced purchases.

B. Campus

1. The sole sourcing justification documented by departments was insufficient and was not always approved by an authorized department official.
2. Departments are incorrectly classifying procurement actions as sole sourced thereby subject to unnecessary compliance requirements.

Additionally, opportunities for improvement were identified related to automation of procurement forms in BearBuy[2] to include the SSPRJ.

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[2] BearBuy is the UCSF campus e-Procurement system for purchasing goods and services. It is an online application that automates many aspects of the procurement process including: requisition creation and approval, sending purchase orders to suppliers, invoice approval, and payment.

IV.   OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS ("MCA")

A. Campus SCM and Health Procurement Services

No.	Observation	Risk/Effect	Recommendation	MCA
1.	*Inconsistent thresholds are being used by SCM and Health Procurement Services for completing the SSPRJ.* While UCOP Procurement Services rolled out the Source Selection and Price Reasonableness Justification (SSPRJ) Form for campuses to document proper justification when contracts to vendors through a sole-source process, Campus SCM and Health Procurement have different thresholds for completing the SSPRJ. Campus SCM's threshold is $25,000 whereas Health Procurement uses $100,000. According to UCOP Procurement Services, it is a campus decision on whether they choose to document SSPRJ for purchases under $100,000 though the State does not require it.	By not having a consistent threshold for the use of the SSPRJ, there may be unnecessary confusion on when to use the form. Campus SCM may also be burdened with unnecessary compliance reviews by having a threshold lower than required by the State	SCM should perform a risk analysis and determine if the threshold it has established is appropriate. As part of this process, SCM should document its rationale for its decision. SCM should consider working with Health Procurement Services on the SSPRJ thresholds.	**Action:** SCM will revise the threshold for the SSPRJ to $100,000 to align with Health Procurement Services threshold. **Target Date:** January 31, 2021 **Responsible Party:** Associate Vice Chancellor, Supply Chain Management
2.	*SCM and Health Procurement Services do not have a process in place to easily identify and monitor the usage of sole sourced purchases.* A) **Campus SCM**: does not perform any periodic monitoring or trending analysis of active sole source contracts. SCM's ability to monitor sole source contracts has been limited by the fact that identifying sole source contracts was a very manual process. Sole source contracts were not flagged in BearBuy; therefore, SCM analyst would have to review sole source pdf attachments to determine which contracts were procured through sole sourcing.	Periodic reviews and monitoring of active sole source contracts allow management to identify trends and potential actions utilized to circumvent the purchasing process. These practices help keep sole source use visible to stakeholders and provide a secondary control over the process as a whole.	a) Periodically (quarterly or semi-annually), SCM and Health Procurement Services should generate a list of all new and active sole source procurements. The listing should be reviewed to identify trends, such as an increasing number of sole sourced procurements.	**Action:** **Campus SCM:** SCM worked with BearBuy team and found that reporting on Sole Source Justification is not a current feature of BearBuy. It will require manual report. SCM will evaluate the resources needed to accomplish this reporting.

No.	Observation	Risk/Effect	Recommendation	MCA
	However, with the implementation of the SSPRJ form in Bearbuy, it will enable SCM to perform better data analysis of sole source procurement. B) **Health Procurement Services**: Sole source purchase orders (PO's) are currently not flagged in the Contractking database therefore identification of sole source contracts is a manual process. Health Procurement Services has to review SSPRJ forms attached to PO's over $100k to determine the procurement source type. As such A&AS was not able to obtain a population of sole source contracts audit and therefore random sample selection was deployed for detailed testing. The inability to easily identify sole source contracts also limits Health Procurement's ability to generate reports to perform periodic reviews on sole sourced contracts.		Additionally, the review should include sole source procurements with reoccurring purchase orders to determine if any new vendors have been contracted that could provide the same service. Evidence of this review should be retained. (b) Health Procurement Services should also explore the option of adding a source selection field in ContractKing.	**Target Date:** July 1, 2021 **Responsible Party:** Associate Vice Chancellor, Supply Chain Management **Health Procurement:** Health Procurement Services has added a field in ContractKing to capture source selection type for PO's that have an SSPRJ. Going forward this will enable reports on sole source PO's to be easily generated. As such, Health Procurement Services will have the capability to perform ad hoc analytics on PO's by source type, including sole source for monitoring trends. **Target Date:** **Action Completed** **Responsible Party:** VP Supply Chain/Support Services

B. Campus SCM

No.	Observation	Risk/Effect	Recommendation	MCA
1	***The sole sourcing justification documented by departments was insufficient and was not always approved by an authorized department official.*** Review of SSPRJ identified the following: Two out of ten sole source documentation reviewed were not adequately documented. Based on our review, the documentation did not have sufficient description or explanation as to why the vendor was unique and/or have specifications that make this the only vendor capable of meeting the department's requirement. A similar finding was noted in the California State Auditor's Report, report # 2016-125.1, issued in August 2017. • An authorized person had not signed two out of ten sole source justification forms. The signature on the SSPRJ is an essential certification by department management to document the justification for sole sourcing and the decision to work with that vendor. The person approving the requisition may not be the same as the person who prepares the SSPRJ and documents the sole source justification. It is, therefore, important that the SSPRJ form is signed off by the appropriate authorized personnel.	Inadequate documentation to justify sole source increases the risks that departments may not be following university policy. There is lack of accountability for the sole source justification when the SSPRJ is not signed off by the appropriate personnel.	SCM should reinforce to buyers the need to ensure that sole source documentation is adequate and provide sufficient information that details the unique specifications or circumstances to meet the user's needs and that sufficient due diligence was performed to determine that this was the only solution. SCM should also instruct buyers to ensure that the SSPRJ is signed off by the appropriate individual	**Action:** (a) SCM will put a note in their monthly newsletter about the importance of sole source justifications, including a link to their sole source justification guide. **Target Date:** November 30, 2020 (b) SCM will review, update or reinforce buyer instructions on how to handle poorly worded sole source justifications. **ACTION COMPLETED 9/23/2020** (c) SCM is in the process of revising the SSPRJ threshold. As a result, SCM will email campus reminding the need to ensure sole source justifications are adequately

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				documented.
				(d) SCM will add the source justification section to all the forms in BearBuy to eliminate signatures on PDFs in lieu of electronic approvals.
				Target Date: January 31, 2021
				Responsible Party: Associate Vice Chancellor, Supply Chain Management
2.	***Departments are incorrectly classifying procurement actions as sole sourced and thereby subject to unnecessary compliance requirements***. During our data analysis of sole source requisitions for FY 2019, it was noted that there were a total of 162 requisitions out of 723 marked as sole source even though the requisition did not meet the sole source threshold requirement. Requisitions ranging from $35 to $24,950 are being flagged as sole source. This indicates that departments do not have a good understanding of when to classify a procurement action as sole source or threshold requirement for documentation of sole source justification.	Lack of understanding of when and how to use the SSPRJ increases the administrative burden for departments in completing the form as well as inaccurate capture of sole source data.	SCM should consider providing education to departments on the appropriate use of the SSPRJ, which includes the sole source selection option.	**Action:** (a) SCM is in the process of revising the SSPRJ threshold as noted in 1(c) above. As a result, SCM will email campus via newsletter on the SSPRJ requirements, including instructions on when to complete the SSPRJ. **Target Date:** January 31, 2021

No.	Observation	Risk/Effect	Recommendation	MCA
	As a result of the incorrect classification of procurement actions as sole sourced, departments are unnecessarily required to complete the sole source justification and provide detail the unique circumstances and/or specifications that make this the only supplier capable of meeting their requirement.			(b) For purchase orders that go to buyers, SCM will work with the control points to clarify the role of the central buyers regarding cleaning up paperwork. **ACTION COMPLETE 9/23/2020** (c) SCM will work with School of Medicine to identify deficient transactions and identify how to improve these at the department level. **Target Date:** January 31, 2021 **Responsible Party:** Associate Vice Chancellor, Supply Chain Management.

V. IMPROVEMENT OPPORTUNITIES

No.	Observation	Risk/Effect	Recommendation
1	***Consider embedding the SSPRJ with the procurement forms within BearBuy to improve monitoring/reporting and enhance efficiencies.*** In June 2019, SCM updated three of its forms in BearBuy to include a source selection and price reasonableness section. By doing this, it allows departments to directly document sole source procurement in BearBuy and eliminated the need to complete and attach a pdf copy of the SSPRJ with these three forms. However, Software and Cloud Computing and After the Fact PO forms have not yet been updated and still require the buyers to fill out the SSPRJ and attach it to BearBuy as a pdf. Adding the SSPRJ requirements directly into BearBuy forms helps reduce the back and forth between the campus departments and central buyers and standardizes the procurement process to create a more predictable process for campus users. These changes also eliminate the manual process of attaching a pdf version of the SSPRJ with these three forms. Since the SSPRJ contains a conflict of interest section, it also reduces the need to attach any conflict of interest forms, unless a known or suspected conflict of interest exists.	SCM's ability to easily generate reports and perform any monitoring on procurement by sourcing types is limited when all forms do not have the SSPRJ embedded. Embedding the SSPRJ within the procurement forms in BearBuy will help ensure better compliance since departments will be required to select the sourcing type as part of the requisition process.	SCM should consider embedding the SSPRJ and all its components for all forms in BearBuy.