UCLA HEALTH PROCUREMENT & STRATEGIC SOURCING

AUDIT REPORT #18-1206

Audit & Advisory Services

October 2018

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Background

As part of the Health Sciences audit plan for 2017-18, UCLA Audit & Advisory Services (A&AS) conducted an audit of the key processes within Procurement and Strategic Sourcing (Procurement). Procurement is the central unit that processes UCLA Health’s purchase requests and which secures related local and Novation contracts. (Novation is a group purchasing organization for hospitals.) In addition, Procurement chairs the New Product Committee, supports the Value Analysis Committee, and manages the Owens and Minor supply distribution program. Procurement processes 200-300 purchase orders daily.

Under the direction of the Director, the purchasing function is allocated 24 full-time equivalents, including a strategic sourcing/data management coordinator, a data and system coordinator, a capital equipment coordinator, a capital equipment buyer, three strategic sourcing coordinators, four strategic sourcing buyers, a new technology/value analysis coordinator, four contracts specialists, three buyers, three purchasing assistants, and two administrative analysts. There are currently open positions for contracts specialists.

Procurement utilizes the Infor Lawson integrated computerized application, locally called Enterprise Materiel Management Payables Asset Management Computer (EMPAC) system. UCLA Health Information Services & Solutions (ISS) provides functional support for the EMPAC system.

In addition, Procurement partners with Global Healthcare Exchange (GHX) for supply chain automation and neutral electronic trading exchanges, as a means to lower costs and increase operational efficiency. Procurement also uses Caspio, a platform as a service provider, to enhance the department’s operational flow and processes.

Purpose and Scope

The purpose of the audit was to evaluate the adequacy of internal controls over the procurement function and to verify that University policies and procedures are followed.

The scope of the audit engagement focused on the following activities:

* Vendor Selection/Contracting
* Procurement Processes
* Information Technology

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews with selected Procurement personnel; review of purchase orders, contracts, and financial ledgers; and other procedures considered necessary to achieve the purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, management has implemented some good internal controls over procurement processes. However, further improvements are needed to strengthen internal controls and policy compliance.

*Vendor Selection/Contracting*

* The Master Vendor File requires clean-up. Duplicate vendor names and inactive vendors were identified.
* The certificate of insurance tracking system is not effective because the database has not been populated with all active vendors.
* While vendors are screened for Office of Inspector General List of Excluded Individuals and Entities (OIG LEIE) and General Services Administration System for Award Management (GSA SAM) exclusions at the initial set up in the Master Vendor File, there is no periodic reverification.
* Procurement is currently not matching vendor addresses against employee addresses to identify unallowable or potentially fraudulent vendors.
* Expired and expiring contracts cannot be monitored effectively, because the contracts management system that was implemented in December 2017 has not been populated with all active contracts.
* The terms and conditions of vendors’ proposed contracts should be reviewed more deliberately to ensure in­clusion of pertinent language from the UC Terms and Conditions of Purchase.
* Audit testing showed the existence of long delays in establishing contracts.
* The Introduction template used for requests for information, quote, or proposal is outdated.

*Procurement Processes*

* Some unreleased purchase orders were not closed on a timely basis.
* Procurement does not currently perform a periodic review of the Master Item File to inactivate EMPAC numbers with a long history of no activity.
* For a pricing agreement reviewed, the unit prices in EMPAC of two items did not match those listed on the agreement. A recent invoice for one of those items listed it at a lower price.
* The use of special orders is currently not reviewed to identify vendor items that are frequently requested and that should be added to the Master Item File.
* Blanket orders are not closed after having no activity for an extended period of time or when they have a low balance remaining.
* The “Standard PO Comment” template added to purchase orders is outdated.
* An expense that belongs to another unit was erroneously charged to Procurement’s cost center without detection.

*Information Technology*

* Infor Lawson access roles were inappropriately granted to a few employees unrelated to Procurement, and access was not inactivated on a timely basis in some instances.
* Procurement currently does not have a process in place to detect if any staff member is inappropriately creating or releasing purchase orders.
* The planned roll-out of new functionality activated in Infor Lawson to record requisition approvers has not yet been scheduled.

*Additional Observations*

* Staff members may be retaining records for a time period that exceeds their usefulness.
* There is information on the Procurement website that needs to be updated.
* Policies and procedures have been developed and documented, but they have not been reviewed and updated in accordance with Health System HS 0001, Policies.

The audit results and recommendations are detailed in the remainder of this audit report.

Audit Results and Recommendations

| **#** | **FINDING and**  **CRITERIA, where applicable** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| **VENDOR SELECTION/CONTRACTING** | | | |
| Audit work included the following:   * Discussed processes with Procurement staff * Reviewed the AP270 (Vendor Payment History) report from April 2017 to March 2018 * Reviewed a sample of 11 new vendors from November 2016, May and October 2017, and February 2018 for maintenance of vendor add request form, business information form, W-9 form, certificate of insurance, and exclusion screening * Discussed UC minimum insurance requirements for contractors and certificate of insurance maintenance with Office of Insurance and Risk Management and Medical Center Risk Management staff * Reviewed a sample of eight executed contracts from January to March 2018 for appropriate approval, inclusion of UC Terms and Conditions of Purchase language, and contract duration * Reviewed a sample of five vendors exceeding $100,000 in annual expense for bidding process; three of the vendors were selected from bids from May 2017 to May 2018, and two were selected from the AP270 report from April 2017 to March 2018 * Reviewed the UCLA Health Procurement website for information available   Issues identified are detailed below. | | | |
| 1 | Master Vendor File Maintenance  The Master Vendor File requires clean-up. Multiple vendor numbers for a vendor and inactive vendors were identified, which can lead to duplicate payments.   1. A review of 26 duplicate vendor names identified from the Vendor Payment History (AP270) report for the period of March 2017 to February 2018 revealed the following:  * Each of the vendors has multiple vendor numbers, ranging from two to eight. * Taxpayer identification numbers were not formatted consistently or correctly entered. Some vendor numbers are missing taxpayer identification numbers. * Some vendor names have been truncated to the first three words common to many vendor names or use acronyms with multiple meanings. They may, therefore, falsely appear as duplicates.  1. A periodic review of the Master Vendor File to identify inactive vendors is currently not performed.   For a vendor reviewed (Western Exterminator Company, Vendor# 005986666), there was yearly vendor activity from October 2006 to November 2011. There was no activity for more than five years until May 2017. [While contracts were recently executed on February 9, 2018, Procurement did not have the requisite information on file for the vendor (i.e., New Vendor Add Request form, Business Information form, Internal Revenue Service (IRS) W-9, and supporting documentation for exclusion screening.] | 1. Duplicate vendor names should be identified and consolidated to one vendor name, with a current taxpayer identification number. A standard format for recording a taxpayer identification number should be followed. Whenever possible, abbreviations should be used for parts of long vendor names, so that they do not have to be truncated to the extent that they are unidentifiable. 2. The Master Vendor File should be reviewed at least annually to identify inactive vendors. Procurement should establish the time length of inactivity after which it would be feasible to inactivate a vendor. | 1. In mid-July 2018, Procurement completed a review of inactive and duplicate vendors.   The criteria used to identify inactive vendors was no purchase activity in the past five (5) years. This exercise resulted in inactivating approximately 8,200 vendors.  Also, as part of this exercise, Procurement inactivated duplicate vendors, with the exception of any vendor with pending invoices. Procurement will continue to inactivate duplicate vendors when the invoice is paid.   1. To ensure Master Vendor File accuracy, Procurement will establish procedures and processes to perform annual reviews of the vendor file for duplicate or inactive vendors. |
| 2 | Certificate of Insurance Tracking  The certificate of insurance tracking database needs to be fully populated in order to be effective. Procurement has created a Caspio database to monitor expiration dates of certificates of insurance. The certificate of insurance information has not been entered for all vendors. As of mid-March 2018, about 2,300 of 10,000 vendor numbers (including non-purchase order vendors) had been entered in the database.    For a sample of 11 vendors added to the Master Vendor File during the months of November 2016, May and October 2017, and February 2018, and one additional vendor that was deliberately selected by the auditor for having two service contracts executed in February 2018:   * The certificates of insurance for ten vendors have expired. * Workers’ Compensation and Employers’ Liability were not indicated on a vendor’s certificate of insurance. On the same certificate, the Regents of UC was not named as an additional insured or as a certificate holder.   \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  Terms and Conditions of Purchase (revised November 29, 2017), Article 9 - Insurance: G. The coverages referred to under A and B of this Article must include UC as an additional insured. It is understood that the coverage and limits referred to under A, B and C of this Article will not in any way limit Supplier’s liability. Supplier will furnish UC with certificates of insurance (and the relevant endorsement pages) evidencing compliance with all requirements prior to commencing work under the Agreement. … | Procurement is encouraged to finish populating the certificate database, so that expiration dates can be monitored effectively. The Office of Insurance and Risk Management indicated that it is a good practice to have vendors’ current certificates of insurance on file.  When reviewing a certificate of insurance, the Principal Administrative Analyst should ensure that the Regents of UC are named as an additional insured, and the certificate holder should usually be the party to whom the service is provided.  Alternatively, the Procurement Director should consult with the UCOP Operations & Risk Finance Director regarding Insurance Tracking Services, Inc., a company that offers a certificate of insurance tracking solution. | Procurement will continue its efforts to maintain accurate and up-to-date insurance certificate records. Procurement initiated a special project to update its insurance certificate records. Procurement is developing plans to utilize the Lawson contracts management application to maintain and monitor insurance certificates. By March 31, 2019, Procurement intends to transition its current process for maintaining insurance certificates to the Lawson contracts management application.  Additional training has been provided to the Principal Administrative Analyst to ensure insurance certificates name “The Regents of UC” as an additional insured.  Not all goods and services require the same insurance requirements. Therefore, Procurement will ensure insurance certificates capture the appropriate limits as set forth in the University’s insurance policy and requirements. |
| 3 | Exclusion Screening  While vendors are screened for OIG LEIE and GSA SAM exclusions at the initial set up of the vendor in the Master Vendor File, there is no periodic reverification. The OIG LEIE is updated monthly. The GSA SAM is also updated constantly, and the registration of an individual or entity expires. Registration with GSA SAM is necessary to do business with the U.S. government.  In addition, for 4 of the 11 sampled vendors that were added to the Master Vendor File in November 2016, May and October 2017, and February 2018, the results of the GSA SAM screenings were not maintained in Procurement’s file, although screening was indicated as having been performed on the vendor add request form. | Procurement should perform periodic OIG LEIE and GSA SAM exclusion reviews, especially on vendors with whom the University has high dollar expenditures and/or has continued annual agreements/contracts. | Procedures and processes will be put in place to complete an annual comparison of the master vendor file with the OIG LEIE and GSA SAM exclusion lists. As appropriate, Procurement will inactivate any vendor appearing on either or both of the OIG LEIE and GSA SAM exlusion lists.  By November 30, 2018, Procurement will complete a comparison of the master file with the OIG LEIE and GSA SAM exclusion lists. Thereafter, Procurement will complete an annual comparison at the end of each fiscal year. |
| 4 | Employee-Vendor Relationship  Procurement currently has no process to match vendor addresses against employee addresses to identify unallowable or fraudulent vendors. At the time of the audit, campus Accounts Payable identified a vendor who is also a University employee. Accounts Payable alerted A&AS, who in turn notified the Procurement Director. The auditor identified a second vendor name used by the employee in doing business with the University. Both vendor names were consequently inactivated in the Master Vendor File.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UC Business and Finance Bulletin (BFB) BUS-43, Purchases of Goods and Services; Supply Chain Management (BUS-43), Procurement/Supply Chain Management III, Part 5, B.3. Restrictions on Purchases/Leases/Contracts: The following rules apply when there is an employee-Supplier relationship (as defined above in Section II):   1. Employee: No purchase or lease of goods or contract for services may be made with a University employee who has an employee-Supplier relationship, as defined in Section II, above. However, the University may enter into a contract for goods or services with an employee who has teaching or research responsibilities, or a student employee, provided that i) the Procurement/Supply Chain Manager (or designee) has made a specific determination that the goods or services are not available either from commercial sources or from within the University. | Procurement should match vendor addresses against employee addresses at least on an annual basis.  It would also be a good practice to send out an annual email announcement to Infor Lawson users to make them aware that an employee-vendor relationship is not acceptable. | Procurement received a report of all employees and their addresses from ISS. Procurement will compare vendor and employee addresses. As necessary, Procurement will contact the employee, the employee’s department, and the department who submitted the request for purchase to notify them of the violation. As appropriate, Procurement will terminate and/or cancel any open agreements or purchase orders.  By November 30, 2018, Procurement will complete the comparison of the vendor and employee addresses and by December 31, 2018, will have completed the notification and any appropriate actions to terminate any purchase orders and/or agreements. Procurement will establish procedures and processes to compare employee and vendor addresses at the end of each fiscal year. |
| 5 | Contract Duration and Exemption  Although a new contracts management system was implemented in December 2017, it has not been populated with all active contracts to allow effective monitoring of contract expirations. Expired and near expiration contracts were identified during the audit. Departments cannot be entirely relied upon to keep track of their contract expirations.   * Contract LLAB-0160 with Air Products & Chemicals has expired. It was initially executed on October 1, 2002. Amendment #3 of the contract expired September 30, 2017. The contract duration has exceeded ten years. * The contract with GHX has exceeded ten years. The contract with GHX was initially entered into on December 14, 2000, was amended on June 29, 2010, and renews annually until terminated by either party. * A perpetual software license contract, “IT1843-SPLU-SW License Agmt,” with LCN Services, LLC, is approaching ten years. The contract was entered into on December 12, 2008.   The latest revision of BUS-43 limits the duration of any UC contract to purchase goods and/or services, including the initial term and all amendments or extensions, to ten years.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BFB BUS-43, III.1.A, Contract Duration: The maximum duration of any UC contract to purchase goods and/or services, including the initial term and all amendments or extensions, shall not exceed ten years.  BFB BUS-43, III.1.A, Exceptions to Policy: Exceptions to this policy must be approved by the appropriate Policy Exception Authority. | 1. Procurement is encouraged to expeditiously complete populating the contracts management system with all active contracts. Thereafter, contracts that have expired or are near expiring should be identified, so that the corresponding departments can be notified for next steps (i.e., renewal, solicitation of bids, policy exemption, or termination). 2. As management is aware, with the revision of BUS-43 in November 2017, UCOP established a contract duration of no more than ten years, unless an exception to policy is approved. The Procurement Director, as Policy Exception Authority, should establish a process to grant and document exemptions to policy when warranted.   Appropriate actions should be taken for re-bidding or exempting the three contracts identified during the audit. | a. and b.  Management understands the importance of maintaining accurate and up-to-date contract information. However, when implementing the contracts management application, management made the decision not to retroactively populate the application due to the significant number of active agreements. Management made this decision due to the work required to retroactively enter existing agreements and the lack of available resources. Rather, management decided to add older contracts to the contracts management application as agreements are renewed or when updating the agreement with revised terms and/or conditions.  Procurement staff review the contract duration when agreements come up for renewal or as the Procurement staff modify existing purchase orders. At that time, Procurement takes the appropriate steps to meet the requirements for contract duration.  Procurement plans to use the contracts management application to monitor contract expiration dates, as well as to ensure compliance with the University’s contract duration requirements. |
| 6 | Contract Language  The terms and conditions of vendors' proposed contracts should be reviewed more deliberately, so as not to create unnecessary liabilities for the University. For a judgmental sample of five contracts executed in January and March 2018, the following issues were identified:   * Articles of the UC Terms and Conditions of Purchase (revised November 29, 2017) that are relevant to the contract reviewed were not always appended to them, such as those pertaining to fair wage/fair work, UC minimum insurance coverage, indemnity, waivers, etc. * A 1999 version of the UC Terms and Conditions of Purchase was used as the addendum to a contract. * For one contract, a paragraph on interest rate charges for late payment was appropriately red-lined, but provisions binding the University for attorney's fees and court costs were not. * For one contract, the vendor's terms state that their terms and conditions take precedence. This conflicts with the "Standard PO Comment," which states that the UC Terms and Conditions of Purchase take precedence. | While it is understood that contracts may vary from one to another, management should identify the critical articles of the UC Terms and Conditions of Purchase that must be included. Management should remind contracts personnel to append the pertinent UC Terms and Conditions of Purchase language. | Effective October 8, 2018, the Procurement contracting staff is required to make the UC Terms and Conditions of Purchase part of the agreement. As part of executing the agreement, vendors will need to acknowledge and sign the UC Terms and Conditions of Purchase. The executed agreement and UC Terms and Conditions will be made part of the purchase order and will be entered into the contracts management application. |
| 7 | Contracts Personnel  Audit testing showed the existence of long delays in establishing contracts. For instance, the contracts for two Requests for Proposal (RFPs), bids #7066 and #7077, were completed 301 and 156 calendar days, respectively, after vendor selection. The validity period as per Item K (Bid Validity Period) of the Introduction of the RFP was not met. It states, "All bids shall remain valid offers open for University acceptance for a minimum of 120 days following the Request for Proposal closing date." A vendor can rescind its acceptance after the validity period. In another instance, the purchase order for a cloud-based, patient outcome tracking platform remained unreleased, pending contract review, at the conclusion of the audit. As of July 6, 2018, the purchase order is 124 business days old.  At the time of the audit, there were two staff members responsible for contracts, one for information technology contracts and the other for goods/services contracts, and two unfilled positions. The current staff indicated that there were, at one point, up to four or five contracts analysts. Staff indicated that there is a backlog of contract requests.  Extended contracting delays in a healthcare environment, where products must be readily available, often result in departments acquiring goods and services without the protections of contract terms. This situation also has the unintended consequence of fostering a culture of non-compliance by departments with the stipulated purchasing channels. | While it is understood that employee resignations can be unexpected and that the hiring process can be lengthy, management should make every effort to devote sufficient resources to the contracting function. The use of temporary staff agencies, combined with the temporary reassignment of existing staff, may be an option, pending the hire of permanent contracting staff. In the meantime, management should ensure that the current staff is adequately prioritizing their workload. | Management is taking the appropriate actions to evaluate the required resources for reviewing and executing agreement in a timely and efficient manner. Although A&AS received staff feedback about workload and turnaround times, management recognizes there are performance issues with the current contracting team. Management is taking action to address the performance issues. Additionally, management engaged temporary staffing to assist with the backlog.  In an effort to improve the contracting process, a performance improvement initiative is underway. This initiative started prior to the audit review and is still a work in progress. This initiative includes representatives from Procurement, Performance Excellence, Compliance, Legal, and key department representatives. Many times, delays in reviewing and executing agreements are outside the control of Procurement. Therefore, the purpose of the initiative is to identify all touch points in the contracting process and to establish processes that will assist in the timely review and execution of agreements. |
| 8 | Introduction Template for Requests for Information, Quote, or Proposal  The Introduction template used for requests for information, quote, or proposal is outdated. Section M (Insurance Requirements) still references "Article 17" for the UC minimum insurance requirements. Section N (Audit Requirements) states three years for the period after final payment for review and audit by the University and State of California. The article reference and time period are not in agreement with the most recent version of the UC Terms and Conditions of Purchase, revised November 29, 2017. | The Capital Equipment Coordinator, who handles all competitive bidding, should review and update the Introduction template as necessary, so that it agrees with the language of the current UC Terms and Conditions of Purchase. | Corrective action is complete. The Capital Equipment Coordinator updated the RFP templates to ensure consistency with the current UC Terms and Conditions of Purchase. |
| **PROCUREMENT PROCESSES** | | | |
| Audit work included the following:   * Discussed processes with Procurement staff * Reviewed the status of a sample of 21 unreleased purchase orders from May 7, 2018, on May 30, 2018 * Reviewed a sample of ten EMPAC numbers assigned to one-time or clinical trial products * Reviewed the Accounts Payable (AP) Paid and Unpaid Invoices report for fiscal year 2018 through May 13, 2018, and reviewed invoices in Ascend, as necessary   Issues identified are detailed below. | | | |
| 9 | Unreleased Purchase Orders  Some unreleased purchase orders were not closed on a timely basis. A sample of 21 unreleased purchase orders from May 7, 2018, was reviewed. As of May 31, 2018, three of the sampled unreleased purchase orders still had an "Unreleased" status, with no comments regarding actions taken. When audit inquiries were made on May 31 about the unreleased purchase orders, one purchase order was canceled (53 business days from purchase order date), and another was released (27 business days from purchase order date) by the respective buyers. For the latter, the vendor confirmed and processed the order upon receipt of the purchase order on the same day. The third purchase order was released by the buyer about June 5, 2018 (31 business days from purchase order date). | Management should advise buyers to keep a tickler file for unreleased purchase orders for which they may be awaiting additional information from requestors. Purchase order comments should be documented as to the last actions taken.  Management should also review unreleased purchase orders on a biweekly basis to ensure that no unreleased purchase orders have been overlooked and follow up on those that have been on the list for a protracted time. | There are many reasons why a purchase order may stay unreleased for an extended amount of time. Management understands the importance of adding purchase order comments to avoid confusion about any delays in releasing the purchase order. Department policy requires buyers to update the purchase order with these comments. Management will work with its staff to emphasize the importance of adding appropriate comments to the purchase order and releasing purchase orders in a timely manner. |
| 10 | Master Item File Maintenance  Procurement does not currently perform a periodic review of the Master Item File to inactivate EMPAC numbers with no activity after a length of time, including EMPAC numbers assigned to one-time or clinical trial products that are not added to the medical formulary. Six of the ten EMPAC numbers reviewed had no history since 2013 to 2016.  Procurement does maintain the Master Item File as needed, such as when vendors notify them of discontinued products or when departments request EMPAC numbers to be inactivated. However, periodic maintenance of the Master Item File is essential because product information flows from Infor Lawson to the Charge Master and CareConnect. | Procurement should perform an annual review of the Master Item File to identify and inactivate EMPAC numbers with no activity after a designated length of time. | Due to the integration of Procurement Inventory Management, Accounts Payable, Charge Master, and CareConnect functions in EMPAC, it is not the sole responsibility of Procurement to identify inactive EMPAC numbers. Many items with EMPAC numbers were added as part of the CareConnect implementation and the integration of data with the Charge Master. Items were added to ensure availability of information for CareConnect records and charging. Many of these items do not have current purchase history but are maintained in the event they are used in a procedure.  Additionally, many of the EMPAC items reside on par locations. It is Materials Management’s responsibility to notify Procurement when an item on a par location should be inactivated. This information is rarely if at all shared with Procurement.  Procurement at its sole discretion cannot inactivate all items they identify as inactive, again due to the integration of EMPAC with other departments and systems. Additionally, there are specific requirements for maintaining items on the EMPAC item file even though there may be no purchase activity.  Procurement will take the appropriate actions to identify EMPAC numbers that are candidates for inactivation. It will inactivate those items that they have authority to inactivate. Procurement will share the inactive EMPAC number list with the appropriate departments and request their assistance to provide their approval to inactivate specific EMPAC numbers. |
| 11 | Vendor Item Prices  For a pricing agreement reviewed, the unit prices recorded in Infor Lawson for two vendor items (EMPAC numbers 646250 and 646251) did not match those listed on the agreement.  A review of a recent vendor invoice, dated June 12, 2018, reflected even lower prices than those on the agreement. | If not already being performed, a second staff member should review for accuracy the data entries of the staff member who recorded the vendor item information. | Management will evaluate the feasibility of establishing an audit process for reviewing data accuracy.  In the event the vendor submits an invoice price lower than the contract price, it is department policy to authorize the lower price for payment. When this occurs, Procurement does not immediately update the EMPAC pricing. However, if this continues to occur, it is the sourcing buyers’ responsibility to review the information with the sourcing coordinator(s) to determine the appropriate price and, as needed, update the Master Item File. |
| 12 | Special Orders  The use of special orders (Item Type "X") is currently not reviewed to identify vendor items that are frequently special ordered and that should be added to the Master Item File.  A requestor needs to enter the product information for every non-formulary item requisitioned. Further, if such items are billable to a patient, additional product information must be entered at the time of charge capture. In contrast, when a product is in the medical formulary, the requestor selects the EMPAC number, and the product information is pre-populated. Also, when the product is in the medical formulary, the information "flows down" from Infor Lawson to the Charge Master and CareConnect.    Currently, a vendor item is typically added to the Master Item File only upon request from a department. | Procurement should consider querying Infor Lawson for special orders to identify vendor items that are frequently ordered. These items should be assigned EMPAC numbers, so that requestors do not have to manually enter the vendor item information each time the item is ordered and billed. | Many times, an EMPAC number already exists and the department requestor chooses to place orders as a special. They find entering special requisitions easier than searching for the appropriate EMPAC number. Several attempts have been made to train staff or encourage staff to use EMPAC numbers when placing orders. The resources available in Procurement do not allow the buyer to research each special order to determine if an EMPAC number exists before processing the order.  Medical Center staff who enter requisitions for billable items generally understand the relationship between EMPAC and CareConnect and, therefore, will not use the special order function to place orders. There are procedures and processes in place to catch billable CareConnect items that do not have EMPAC numbers, which includes immediately assigning an EMPAC number, notifying the Charge Master team, and informing the requesting department of the newly assigned EMPAC number.  It is not an accurate statement that “a vendor item is typically added to the Master Item File only upon request from a department.” As part of the sourcing, product evaluation, and contracting processes, or when it is determined that a special order should be given an EMPAC number, the buyers and sourcing coordinators request the addition of items to the EMPAC master item file.  Identifying the ordering frequency of special orders is very difficult, time consuming, and complex because there is no consistency in the data entry. This is an area that management considers a challenge when trying to ensure supply chain best practices. Therefore, management will continue its efforts to identify practices and processes that will minimize the use of special orders and ways to move, as appropriate, special orders to the EMPAC item master. |
| 13 | Blanket Orders  Blanket orders (sometimes referred to as “standing orders”) are not closed on a timely basis. Procurement does not currently review open purchase orders or blanket purchase orders that are old, have had no activity for extended periods of time, or have low balances remaining. Currently, departments are relied upon to notify Procurement to request that blanket orders be closed. | It is understood that a purchase order should not be closed until all invoices have been paid. However, Procurement should determine, based on history, the time frame after which blanket orders can feasibly be closed. | Management will evaluate the feasibility of using the contracts management application to monitor blanket orders in order to close the order when it has expired or is no longer needed. |
| 14 | “Standard PO Comment” Template  The "Standard PO Comment" added to the purchase order field, "Comments to Print on Purchase Orders as Trailer Comments," is outdated. The template in use makes reference to "Appendix A" for the UC Terms and Conditions of Purchase, although that title is obsolete. In addition, the language regarding supplier representation and warranties is not in accordance with the current UC Terms and Conditions of Purchase that was revised on November 29, 2017. | Management should update the “Standard PO Comment” template to match the language of the latest UC Terms and Conditions of Purchase. | Efforts are already underway to review all Procurement standard PO comments to ensure consistency of language with the latest UC Terms and Conditions of Purchase. By October 31, 2018, the review and update processes will be completed. |
| 15 | Financial Oversight  The assistant to the UCLA Health Sciences Chief Financial Officer (CFO) continues to monitor Procurement’s cost center, WWH 84000, as a good compensating control for the lack of adequate segregation of duties of the Procurement Director’s responsibilities. However, there was one expense identified on the AP Paid and Unpaid Invoices report for fiscal year 2018 through May 13, 2018, that was incorrectly charged to WWH 84000 without detection. An instrument property tax in the amount of $345.17 was incorrectly charged to Procurement. The expense belongs to UCLA Medical Center, Santa Monica, Clinical Laboratories.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UCLA Policy 360, Internal Control Guidelines for Campus  Departments, III.B.3.d, Review and Reconciliation: Departmental accounting records and documents 1) are examined by employees who possess sufficient understanding of the University financial system to verify that recorded transactions actually took place and were made in accordance with prescribed procedures; and 2) are compared with University financial system reports and financial statements to verify their reasonableness, accuracy, and completeness. | As the individual responsible for the department’s finances, the Procurement Director should review, or designate a knowledgeable delegate to review, the AP Paid and Unpaid Invoices report monthly or quarterly, to ensure that the expenses listed on it properly belong to the department’s cost center. This review should occur as a supplement to that performed by the CFO’s office. | Procurement does not have dedicated staff to support administrative functions. However, management will try to identify someone who can regularly review the AP Paid and Unpaid Invoice report to ensure accuracy and, as needed, take the appropriate action(s) to correct any errors. |
| **INFORMATION TECHNOLOGY** | | | |
| Audit work included the following:   * Discussed the information technology systems used in the department with Procurement staff * Reviewed assignment of Infor Lawson functions for Procurement personnel using the user access report as of February 21, 2018 * Reviewed approval track authorizations as of June 4, 2018 * Reviewed a sample of purchase orders for releasing authorizer and documented comments   Issues identified are detailed below. | | | |
| 16 | Infor Lawson Access Role  Infor Lawson access roles were inappropriately granted or were not inactivated on a timely basis for a few employees, as of February 21, 2018.   * Two active employees whose home department is not Procurement were inappropriately granted some Infor Lawson access roles. One of these employees was granted a system administrator access role (rPurchSysAdmin). * The access roles of four employees were not inactivated upon their leaving the employment of Procurement. Three of these employees worked temporarily at Procurement as Float Pool employees. The fourth employee separated from the department in February 2017.     Once alerted by the auditor, Procurement management requested that ISS Identity and Access Management inactivate the Infor Lawson access roles of the individuals mentioned above.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BFB IS-3, Electronic Information Security, 1.a. Workforce and Authorization Management: … Procedures should be implemented:   1. to authorize access, both logical and physical, to only those individuals who have a legitimate business reason to access specific Resources (Authorized Individuals), 2. to modify access as appropriate, when duties change, 3. to revoke access upon termination, or when job duties no longer require a legitimate business reason for access, except where specifically permitted by University policy and by the Resource Proprietor. | 1. Management should promptly request ISS to inactivate a user’s Infor Lawson system access when an employee leaves the employment of Procurement. 2. At least annually, management should review the list of Infor Lawson users to ensure that an unauthorized employee has not been inadvertently granted Infor Lawson access rights reserved for Procurement personnel. | Procurement is not involved in approval of access to EMPAC. The ISS security team handles this process, and they do not notify Procurement of any requests for Procurement personnel-reserved access submitted by a department outside of Procurement. Therefore, we were unaware of the inappropriate EMPAC access. Upon notification of the inappropriate access, Procurement took immediate action to remove the employees’ accesses.  On an annual basis, management will make every effort to review EMPAC user access to ensure that only Procurement personnel have Procurement access and to inactivate EMPAC access for terminated employees. |
| 17 | Segregation of Duties  Procurement currently does not have a process in place to detect if any staff member is inappropriately creating or releasing purchase orders. The Infor Lawson security role of a strategic sourcing buyer allows the user to create a purchase order, although this task is not compatible with the user's responsibilities.  Also, Infor Lawson does not restrict a user from releasing a purchase order by entering another user's initials, even one with a higher dollar limit. Management is aware of this shortcoming of Infor Lawson. The Procurement Director, therefore, has instructed staff members to email the next level of authority to request that a purchase order be released. In the Director’s absence, designated staff members have been instructed to properly document comments for those purchase orders released on her behalf and to send her email notifications. Based on sampled purchase orders reviewed, the Director’s instructions are being followed. | To provide management with additional assurance that staff members are not using other staff members’ initials to inappropriately process purchase orders above their designated dollar limits, a review of released purchase orders should be performed. It would be ideal to have staff members receive and review a daily report listing all orders released with their initials to identify orders improperly attributed to them. | Added audit capabilities are now available in Lawson, and management hopes the new capabilities will allow them to monitor buyer actions, including the releasing of purchase orders. Management is looking into the new capabilities to determine how buyer actions are monitored/recorded.  However, due to the number of orders processed on a daily basis, it should be noted that it is unreasonable to have buyers review a daily report of released orders to identify orders improperly attributed to them. In a few spot reviews, management has not identified any inappropriate actions by any buyer. |
| 18 | Audit Trail for Requisition Requestors and Approvers  The planned roll-out of new functionality activated in Infor Lawson to record requisition approvers has not yet been scheduled.  In addition, the new functionality does not include a system screen to easily view approver data.    Until recently, the Infor Lawson system did not provide functionality to record the individual users who requested and approved purchase requisitions at the department level.  To compensate for this control weakness, Procurement personnel have been manually maintaining records of requisition approval track designees.  Starting in October 2016, Financial Services activated new functionality, known as Infor Process Automation (IPA), for two pilot departments: Surgical Services and ISS.  Training for these groups was completed in the third quarter of fiscal year 2017.    The Strategic Sourcing/Data Management Coordinator indicated that the primary reason for the unclear plan to complete the IPA roll-out to all departments is the amount of work required to enter all requestor information into Infor Lawson. | Procurement management should consider implementing plans to complete the roll-out of IPA functionality to all departments. The IPA functionality greatly improves the audit trail for the purchase requisition approval process and will reduce the amount of work required to manually maintain the current approval track workaround.  In addition, the software vendor should be consulted to determine if the IPA functionality can be enhanced so that individual requisition approver identities are apparent in an Infor Lawson screen. | Though the IPA functionally will improve the audit trail of purchase requisition approvals and improve the ease of approving requisitions, it does not reduce the amount of time required to maintain current approval tracks.  On a daily basis, approximately 700 purchase orders are processed through EMPAC. About 75% of the daily purchase orders (about 530 purchase orders) are processed through the IPA functionality. Of the remaining orders not processed through the IPA functionality, Procurement identified approximately five to six departments to add to the IPA functionality, which will increase the number of daily orders processed through the IPA functionality to approximately 630. This will represent about 87% of the total daily number of processed purchase orders.  By December 31, 2018, Procurement will complete the IPA functionality implementation for the five to six departments as referenced above. By June 30, 2018, Procurement will add all remaining departments to the IPA functionality.  Currently, the Core Lawson application resides on a different platform than the contracts management application. As part of the next Lawson upgrade, the Core Lawson application will move to the same platform as contracts management. When that occurs, this may provide more flexibility to integrate information across all Lawson applications. |
| **ADDITIONAL OBSERVATIONS** | | | |
| Audit work included the following:   * Discussed records retention practices with Procurement staff * Reviewed the UCLA Health Procurement website * Reviewed the policies and procedures provided to the auditor and in PolicyStat   Issues identified are detailed below. | | | |
| 19 | Records Retention  Staff members may be retaining records for a time period that exceeds their usefulness. Some interviewed staff members, who have been with the department for about ten years, indicated that their files have not been purged. Another staff member asked for guidance to determine the appropriate retention period for the files being maintained, because the storage areas are getting full.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  University of California Records Retention Schedule, Category 5, Financial and Procurement Records:   * Sub-category E.2, All Other Finance Administration Records (non-Financial Statement records). These records include pre-qualification and other vendor relation records, and vendor contracts and agreements for services and equipment. These should be retained for four years after the end of fiscal year in which all activity related to the records has ceased. * Sub-category F.1, Competitive Bidding Records used as supporting documentation for *sponsored* activities. These records may include but are not limited to requests for proposal, information, or quote records, and all responses relating to procuring goods and services records. These records should be retained for six years after the expiration/termination of the sponsored activities, resolution of any litigation, claim, or audit, or the period stated in the award document (whichever is longer). * Sub-category F.2, Competitive Bidding Records when used by or on behalf of a *health care provider*. These records may include but are not limited to requests for proposal, information, or quote records, and all responses relating to procuring goods and services records. These records should be retained for 4 years after the end of the fiscal year in which all activity has been completed. | Management should review Category 5, Financial and Procurement Records, of the UC Records Retention Schedule, to determine the appropriate retention period for the records generated and retained by the department. The relevant sub-categories are E.2, F.1, and F.2. Relevant records retention standards range from four to six years after the end of certain activities. | Management will work with the Procurement staff regarding the appropriate record retention requirements. |
| 20 | Procurement Website Information  The following information on the Procurement website is outdated:   * UC Terms and Conditions of Purchase, revised March 13, 2014 (After the auditor alerted the Strategic Sourcing/Data Management Coordinator, the latest version of the UC Terms and Conditions of Purchase was posted to the website.) * UC minimum insurance requirements for contractors, external users, vendors, and consultants * IRS Form W-9 (revised January 2002) | Information published on the Procurement website should be kept up-to-date. Various individuals (i.e., employees, suppliers, customers, etc.) rely on the department’s website for current and useful information. | Appropriate correction actions have been taken and the Procurement website reflects the most updated and accurate information. |
| 21 | Policies and Procedures  Policies and procedures have been developed and documented. However, the policies and procedures have not been updated and periodically reviewed in accordance with HS 0001, Policies.   * There are two versions of Policy PUR055, Value Analysis Committee/Process. The more current version is published on the Procurement website and was revised in December 2014. The review date was not indicated. * Most of the "PUR" policies and procedures were last reviewed in June 2009. * HS 0334, Product Hazard Alert and Recall, was last reviewed in March 2014.   \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  HS 0001, Policies: UCLA Health System Policy Guidelines, Policy: G. Policies shall be reviewed no less than once every three years unless there is a regulatory requirement for more frequent review. | Management should review and update the policies and procedures mentioned, including reflecting the current name of the department on the updated versions. When updated, the policies and procedures should be made available to staff members for awareness and familiarity.  Moreover, departmental policies and procedures should be reviewed at least once every three years, or sooner when there are operational changes, so that they properly reflect current procedures, protocols, standards, or guidelines. | By December 31, 2018, management will take the appropriate steps to update the procurement policies and procedures. |

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