

PERFORMANCE AUDIT



Office of the
Washington
State Auditor
Pat McCarthy

University of Washington's Procurement Contracts: Approving, tracking and reporting

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Executive Summary

Background (page 6)

The University of Washington (UW) spent more than \$1.6 billion for goods and services in fiscal year 2020. To support its complex operations, two offices help university employees with procuring goods and services—Procurement Services and UW Medicine Supply Chain. These two offices must approve all purchases for goods and services more than \$10,000, and a limited number of employees have the authority to sign contracts more than this amount. A contract is considered unauthorized when an employee makes a purchase of more than \$10,000 without prior approval from either of these offices.

The Legislature passed a bill in 2019 that required the State Auditor’s Office to conduct a performance audit examining UW’s contract management practices, including contract tracking and reporting. This audit examined whether UW employees signed unauthorized contracts, and whether UW can make information about its procurement contracts more transparent and accessible to the public.

Though unauthorized contracts for goods and services are rare, UW could improve how it tracks and prevents them (page 8)

Less than 1 percent of the 3,400 contracts that Procurement Services managed in 2020 were unauthorized. Unauthorized contracts at UW Medicine Supply Chain also appear to be rare, but because it does not track unauthorized contracts, it is unclear how often they actually happen. Both procurement offices have gaps in how they prevent, track and respond to unauthorized contracts. For example, while Procurement Services tracks unauthorized contracts, it does not collect the information it needs to understand why they happen. Additionally, UW Medicine Supply Chain has not developed a way to track unauthorized contracts or gather the information it needs to understand why they happen. Unlike UW, other universities respond to unauthorized contracts with corrective action plans to prevent them from happening again.

UW could be more transparent by providing complete and accessible contract information to the public (page 14)

State law requires all state agencies, including UW, to report their contracts for goods and services annually to increase transparency. The public does not have all of the information about UW's procurement activity because UW did not report all of its contracts to the Department of Enterprise Services (DES). For example, Procurement Services does not report all of its contracts to DES because it misinterpreted DES policy. Additionally, UW Medicine Supply Chain reported all but a few of its contracts. Both offices rely on manual processes that are subject to human error, with the result that some contracts have been left out of the annual report. UW also does not provide specific details or spending information about its contracts on its website. However, UW is implementing a new financial system that may improve how it publicly reports information about its contracts.

State Auditor's Conclusions (page 19)

This legislatively required audit examined two aspects of the University of Washington's contracting practices—whether employees executed contracts in accordance with UW's procurement processes, and how transparent UW is about its contracting activities.

We found that unauthorized contracts that do not receive proper approval appear to be rare, but we also found an area where the university can make improvements. We recommend both procurement offices within UW collect and track more information about the unauthorized contracts they do identify. This would help them determine why the processes weren't followed and limit the number of unauthorized contracts in the future.

In addition, we found UW could do more to make its contracting activities more transparent, including complete reporting to DES and publishing additional information on its own website. UW is implementing a new financial system, and we encourage the university to use that as an opportunity to address the issues raised in this audit.

Recommendations (page 20)

We made a series of recommendations to the Procurement Services and UW Medicine Supply Chain offices to address issues with preventing unauthorized contracts, including understanding why they happen. We also made recommendations to these offices about how to make contract information more transparent and accessible to the public.

Next steps

Our performance audits of state programs and services are reviewed by the Joint Legislative Audit and Review Committee (JLARC) and/or by other legislative committees whose members wish to consider findings and recommendations on specific topics. Representatives of the Office of the State Auditor will review this audit with JLARC's Initiative 900 Subcommittee in Olympia. The public will have the opportunity to comment at this hearing. Please check the JLARC website for the exact date, time and location (www.leg.wa.gov/JLARC). The Office conducts periodic follow-up evaluations to assess the status of recommendations and may conduct follow-up audits at its discretion. See **Appendix A**, which addresses the I-900 areas covered in the audit. **Appendix B** contains information about our methodology.

Background

The University of Washington (UW) is an educational institution with complex business operations

Founded in 1861, UW is one of the oldest universities in the western United States. UW has 20 schools and colleges located across three campuses in Seattle, Tacoma and Bothell. The university employs approximately 36,000 faculty and staff, and its fall 2020 enrollment exceeded 60,000 undergraduate and graduate students. In fiscal year 2020, UW's budget was approximately \$8.25 billion, and it spent more than \$1.6 billion on goods and services.

In addition to its education and research functions, UW also has many self-sustaining business operations, such as UW Medicine (which includes three hospitals and multiple clinics), intercollegiate athletics, housing and food services and other specialized service facilities. Like other universities, UW uses contracts to purchase goods and services to support its departments and operations.

Two offices have the authority to procure goods and services: Procurement Services and UW Medicine Supply Chain

UW's Board of Regents has delegated the authority to execute contracts for the procurement of goods and services to two offices: the Procurement Services and UW Medicine Supply Chain, each through the senior leadership of the offices. Procurement Services authorizes and manages contracts and purchases of goods and services for the entire university, while UW Medicine Supply Chain does so only for UW Medicine. For contracts worth more than \$10,000, which were entered into or renewed in fiscal year 2020:

- Procurement Services managed about 3,400 contracts. We estimate that these contracts had a total value of about \$900 million.
- UW Medicine Supply Chain managed about 300 contracts. These contracts totaled almost \$85 million in money spent that year.

A contract is any agreement for the procurement of goods and services. The agreement may or may not include a formal contract document, but does include an agreement to commit funding on the university's behalf for a specified good or service.

Only these two offices have the authority to sign contracts for goods and services more than \$10,000, and a limited number of employees in these offices have signing authority. A contract is considered unauthorized when an employee makes a purchase of more than \$10,000 without prior approval from either of these offices. Procurement Services or UW Medicine Supply Chain usually identify unauthorized contracts when an employee submits a request to process payment.

Safeguards on purchasing and reporting help reduce risk and increase transparency

Public agencies like UW have an obligation to spend public funds responsibly and the public is interested in knowing how these funds are used. They are expected to take steps to reduce their financial and legal liability, and prevent service issues that risk their operations. For UW, this means following requirements for competitive procurements and ensuring contracts are properly approved by those offices with delegated authority for procurement. Following procurement rules can also ensure that the university meets its own contractual obligations, fostering positive relationships with vendors.

Providing information about spending for procurement contracts is an important way to be transparent about how public funds are used. Both the Institute for Public Procurement and the National Association of State Procurement Officials recommend that procurement offices report contract details, such as the vendor, purpose and associated costs, to stakeholders and the public. Specifically, procurement offices should publish annual reports and provide regularly updated spending information. These leading procurement organizations also recommend sharing accessible and timely data so that decision-makers, including legislators, have accurate information to inform their decisions. Transparency with the public about how government agencies use public funds to procure goods and services builds public trust, increases competition and provides better value.

This audit examined how UW approves, tracks and reports procurement contracts

The Legislature passed a bill in 2019 that required the State Auditor's Office to conduct a performance audit examining UW's contract management practices, including contract tracking and reporting. The audit answers following questions:

1. Do UW employees execute contracts to procure goods and services for which they lack authority?
2. How can UW ensure it tracks and reports all its procurement contracts in a transparent and accessible manner?

Audit Results

Though unauthorized contracts for goods and services are rare, UW could improve how it tracks and prevents them

Results in brief

Less than 1 percent of the 3,400 contracts that Procurement Services managed in 2020 were unauthorized. Unauthorized contracts at UW Medicine Supply Chain also appear to be rare, but because it does not track unauthorized contracts, it is unclear how often they actually happen. Both procurement offices have gaps in how they prevent, track and respond to unauthorized contracts. For example, while Procurement Services tracks unauthorized contracts, it does not collect the information it needs to understand why they happen. Additionally, UW Medicine Supply Chain has not developed a way to track unauthorized contracts or gather the information it needs to understand why they happen. Unlike UW, other universities respond to unauthorized contracts with corrective action plans to prevent them from happening again.

Less than 1 percent of the 3,400 contracts that Procurement Services managed in 2020 were unauthorized

Procurement Services managed about 3,400 contracts that were more than \$10,000 and were entered into or renewed in fiscal year 2020. Procurement Services identified 25 unauthorized purchases related to these contracts, which represents less than 1 percent. The estimated value of the 25 unauthorized contracts was about \$3 million (this was the total amount available to spend, not the actual amount the university spent).

Exhibit 1 shows that the largest purchase was a \$2.2 million marketing contract funded by a private donation to recruit participants for a research study. Fifteen purchases had an estimated value of less than \$30,000 each and were for a variety of goods and services, such as leadership coaching or laboratory supplies. In response to each unauthorized purchase, Procurement Services gathered supporting documentation that could help justify the selection of the vendor, check whether an existing contract could be applied, or explain the circumstances of the unauthorized purchase. Procurement Services approved all 25 unauthorized purchases after the fact.

Exhibit 1 – Breakdown of 25 unauthorized contracts by estimated value range

Fiscal year 2020

| Estimated value range for contracts | Number of contracts | Sum of estimated value |
|---|---------------------|------------------------|
| Greater than \$175,000 | 1 | \$2.2 million |
| Greater than \$30,000 and less than or equal to \$175,000 | 9 | \$0.5 million |
| Greater than \$10,000 and less than or equal to \$30,000 | 15 | \$0.3 million |
| Total | 25 | \$3.0 million |

Source: Auditor prepared based on Procurement Services’ contract management system report.

We did not find any unauthorized contracts through our own testing. To conduct the testing, we selected a statistically significant random sample of 54 contracts from the 3,400 contracts that Procurement Services managed in 2020. This sample was large enough to give us reasonable confidence to determine whether unauthorized contracts are rare. We reviewed the contracts to verify that an authorized employee signed them prior to the first invoice. We also reviewed four additional contracts with high dollar values, over \$1 million each, and found that none were unauthorized. Since Procurement Services’ tracking shows a low rate of unauthorized contracts, and our sampling did not find any, we can conclude that unauthorized contracts are rare at Procurement Services.

Unauthorized contracts at UW Medicine Supply Chain also appear to be rare, but because it does not track unauthorized contracts, it is unclear how often they actually happen

UW Medicine Supply Chain management does not have clear information about the magnitude or severity of unauthorized contracts. Similar to Procurement Services, UW Medicine Supply Chain also identifies unauthorized contracts when an employee submits an invoice for payment. According to UW Medicine Supply

Chain, unauthorized contracts occurred fewer than five times in the past five years. However, UW Medicine Supply Chain lacks a process for documenting and tracking when unauthorized contracts happen and how it responds to them.

In the absence of UW Medicine Supply Chain tracking, we selected a random sample of 22 contracts from around 200 contracts this office managed in 2020 to verify that an authorized employee signed them prior to the first invoice. Due to the small number of contracts that this office managed, we do not intend for these results to be projected to the entire population. We did not find any unauthorized contracts in our sample. Since UW Medicine Supply Chain self-reported a low rate of unauthorized contracts, and we did not find any unauthorized contracts in our limited sample, we have enough evidence to conclude unauthorized contracts appear to be rare in UW Medicine Supply Chain.

Both procurement offices have gaps in how they prevent, track and respond to unauthorized contracts

While Procurement Services tracks unauthorized contracts, it does not collect the information it needs to understand and address why they happen

Procurement Services does not collect the information on unauthorized contracts that it needs to understand why they happen and how they can be prevented. When Procurement Services identifies an unauthorized contract, it requires the employee responsible for it to complete a follow-up questionnaire. The questionnaire asks if the employee had previously contacted Procurement Services, and if the purchase is part of a master contract that the university intends to use multiple times.

A review of the documentation for the 25 unauthorized contracts and interviews with employees involved with some of them identified several reasons why unauthorized contracts occur.

- **New or temporary employees were unfamiliar with procurement requirements for two contracts.** In one case, a new employee stated they lacked experience working on contracts; in the other, a temporary researcher initiated a contract for research-related work without prior approval.
- **Employees worked with familiar suppliers, but did not get pre-approval each time for nine contracts.** For example, sometimes employees did not realize that they needed to obtain prior approval from Procurement Services for every purchase over \$10,000, regardless of whether they have worked with the vendor before.

- **Employees working on projects with short timelines did not have time to follow the proper process for four contracts.** In one case, the employees rushed the project to meet deadlines the external funder set. In another case, employees needed to work quickly to mobilize laboratory equipment for emergency COVID-19 testing. UW adopted emergency procurement rules during this time to allow for competitive solicitation exemptions, but those rules did not change who was allowed to initiate contracts on behalf of the university.
- **Employees tried to follow the proper process, but they experienced delays in setting up the work for five contracts.** Employees were waiting for people in other departments to act in order to move forward with the procurement process. Sometimes another department's internal review process took longer than expected, which delayed determining the right procurement method. In another example, a consultant caused a delay by not promptly registering as a vendor.
- **Changes in scope caused the cost of three contracts to go over the \$10,000 threshold after projects had commenced.** In these cases, initial cost estimates were less than \$10,000, but changes during the contract work made the final cost more than \$10,000. For example, an employee initiated a purchase for equipment repair because the estimated quote was less than \$10,000. However, once the equipment was at the repair shop, unforeseen damage raised the cost above the \$10,000 threshold.

Procurement Services uses its website to inform employees about procurement requirements to prevent unauthorized contracts from happening. Specifically, the office's website has resources on how to initiate contracts and purchases, including a procurement guide, university-created trainings, and links to the procurement trainings that the Department of Enterprise Services (DES) requires. Procurement Services also offers monthly webinars on a variety of procurement topics, and it uses an electronic newsletter to communicate that information to employees who subscribe to it.

Procurement Services needs to collect additional information about why unauthorized contracts happen

The follow-up questionnaire that Procurement Services uses in response to unauthorized contracts does not ask employees why they did not follow the proper procurement process. The office could modify the questionnaire to gather specific information about why unauthorized contracts happened. Because the questionnaire does not ask employees questions about why unauthorized contracts happened, the office does not have the information it needs to improve certain aspects of its procurement process. For example, this could include directing information and outreach to specific groups of employees who are most likely to initiate an unauthorized contract.

Procurement Services' response to unauthorized contracts also does not include any specific guidance or training suggestions for employees. After going through the follow-up process, some employees reported that they still did not understand why the purchase was considered unauthorized. During the audit, the office reported that it was assembling a task force to examine its process with the aim of providing better guidance to employees by enhancing and clarifying current information.

UW Medicine Supply Chain does not have a way to track unauthorized contracts or gather information about why they happen

UW Medicine Supply Chain does not track unauthorized contracts and does not gather information about why they happen. The office does not identify unauthorized contracts with comments or a designated information field in its contract management system, which the office would need to create a summary report for management review. The office also does not have a tool or procedure outside of its contract management system that it could use as an alternative way to track unauthorized contracts.

According to UW Medicine Supply Chain, its contract management system does not have a way to add comments to track unauthorized contracts. The office's employees said that they have not developed an alternative tracking method outside of the contract management system. According to these employees, adding resources to implement a manual workaround would have minimal value since current controls have already lowered the risk of unauthorized contracts.

Without tracking the contracts in its contract management system or through an alternative method, UW Medicine Supply Chain cannot create summary reports for management review that show the low level of risk. Additionally, the office does not have the information it needs to determine why unauthorized contracts happen, which could lead to targeted improvements to its procurement process. Tracking unauthorized contracts and understanding why they happen would help the office adjust its outreach and education efforts to university employees to prevent unauthorized contracts.

During our report writing period, UW Medicine Supply Chain managers informed us that they had created an Unauthorized Contracts Tracker, to document when unauthorized contracts occur. The new process will be rolled out early in 2022.

Unlike UW, other universities respond to unauthorized contracts with corrective action plans to prevent them from happening again

While UW did not have many unauthorized contracts in fiscal year 2020, it could make improvements to address the gaps in how both offices track and respond to unauthorized contracts. These improvements could also help reduce the chance of unauthorized contracts from happening again in the future.

Other universities – including University of California, Berkeley, University of California, San Francisco and University of Wisconsin – have policies for “after-the-fact purchases” and unauthorized contracts. Before these universities approve a payment for an unauthorized contract, the employee responsible for it must submit two pieces of information. First, the employee must provide a justification for the unauthorized contract and an explanation for why it happened. Second, the employee must prepare and commit to a corrective action plan to prevent an unauthorized contract from happening again.

Both offices could improve their response to unauthorized contracts by requiring employees to commit to a corrective action plan if they are responsible for an unauthorized contract. Neither Procurement Services nor UW Medicine Supply Chain require employees to commit to a corrective action plan. Corrective action plans should do two things:

- Document the preventive measures the employee takes to eliminate the causes of the unauthorized contract
- Verify that the measures are effective for preventing future unauthorized contracts

UW could be more transparent by providing complete and accessible contract information to the public

Results in brief

State law requires all state agencies, including UW, to report their contracts for goods and services annually to increase transparency. The public does not have all of the information about UW's procurement activity because UW did not report all of its contracts to the Department of Enterprise Services (DES). For example, Procurement Services does not report all of its contracts to DES because it misinterpreted DES policy. Additionally, UW Medicine Supply Chain reported all but a few of its contracts. Both offices rely on manual processes that are subject to human error, with the result that some contracts have been left out of the annual report. UW also does not provide specific details or spending information about its contracts on its website. However, UW is implementing a new financial system that may improve how it publicly reports information about its contracts.

State law requires all state agencies, including UW, to report their contracts for goods and services annually to increase transparency

State agencies are required to report their contract activity annually to DES. The Legislature passed this reporting requirement in 2013 to make the procurement process for state agencies more transparent, competitive and efficient. The information state agencies report to DES includes the names of the contractors, the effective dates of the contracts and the contract costs. DES then publicly shares this information in a centralized location on its website.

DES provides guidance to state agencies on how to report their contracts. This guidance identifies the specific contract information that agencies need to report, how they should submit their reports to DES and the submission deadline. This guidance also includes information about reporting exemptions, including purchase orders and purchases below \$10,000 that do not have specific project requirements. DES also does not require agencies to report expert witness agreements or other agreements that do not have a financial component, such as data sharing agreements, in order to protect sensitive information. Based on DES

guidance, if agencies are unsure about whether an exemption applies to a contract, they should include it in their annual reports. As of 2021, to further promote transparency, DES now also requires state agencies to report interagency agreements and all active contracts, rather than just the contracts that agencies had entered into or renewed during that year.

Other public universities also report to oversight bodies similar to the DES requirements. All universities we interviewed (listed in the sidebar) report procurement information to state procurement offices or university leadership, such as the Board of Regents. Reporting typically includes which contracts it entered into and their costs. For example, universities in Florida are required to report on their contracts annually to the state's Board of Governors, which oversees all universities in the state. The University of Michigan reports to its Board of Regents quarterly. This information is available through the Board of Regents website and is also referenced on the university's procurement website.

We interviewed employees at other public universities of similar size and structure to UW:

- Florida State University
- Pennsylvania State University
- University of Colorado
- University of Florida
- University of Michigan
- University of Utah
- Washington State University

The public has incomplete information about UW's procurement activity because UW did not report all of its contracts to DES

Procurement Services did not report all its contracts to DES because it misinterpreted DES policy

Out of the 3,400 contracts managed by Procurement Services, the office reported 27 contracts to DES that were new or renewed in fiscal year 2020; these contracts had an estimated value of \$12 million. While not all of the 3,400 contracts were required to be reported to DES, we used DES guidance on reporting contracts and found that around 2,500 contracts – with an estimated value of about \$800 million – may have been eligible for reporting to DES.

Some of these 2,500 contracts may have been exempt from reporting. However, we could not determine the actual number because the contract information that the office provided for us did not include the details we needed to accurately determine which contracts should have been reported. Identifying the exact number of contracts that the office should have reported to DES would have required a line-by-line review of each contract's supporting documents. The office acknowledged that it may be unintentionally excluding some contracts from its annual reporting. For example, two large one-time contracts that the office should have reported to DES were for software subscription and professional services related to the UW Finance Transformation project. These two contracts had a total estimated value of \$62 million.

Procurement Services did not report all of its contracts to DES, as state law requires, because of its broad interpretation of the DES reporting requirements. When the office prepares its annual report to DES, it only includes master contracts, which are established for multiple uses. The office excludes one-time contracts, which have a specific or limited purpose. Managers said they interpreted DES policy 210-01 to mean that they only need to include master contracts in the annual report. However, DES's guidance does not distinguish between master contracts and one-time contracts. DES also verbally confirmed to us that agencies must report all of the contracts that have a statement of work.

UW Medicine Supply Chain reported all but a few of its contracts to DES

Out of about 300 contracts managed by UW Medicine Supply Chain, this office reported to DES around 200 contracts that were entered into or renewed in fiscal year 2020; some of the contracts were exempt from reporting. These 200 contracts had an estimated value of \$29 million. During our review of the office's contracts, we found that the office did not report at least nine contracts totaling \$14.2 million to DES. The office said it did not leave these contracts out intentionally, and that employees overlooked them during their manual review of contracts to include in the report.

Both offices rely on manual processes that are subject to human error, with the result that some contracts have been left out of the annual report

Procurement Services and UW Medicine Supply Chain manually review their contracts to determine which ones should be reported to DES, but doing so means some contracts have been left out of the annual report. For example, Procurement Services must run a separate report to get the spending information for the contracts it reports to DES. Employees then manually add the spending information to the standard report, which is a process that is subject to human error. Additionally, UW Medicine Supply Chain mistakenly left out a contract from its report because it had a similar contract number to one that was exempt from reporting.

During our audit, UW Medicine Supply Chain reviewed and made changes to its reporting process. The changes include clarifying where and how employees can find the information they need for the report, as well as the contracting manager's review of the information before the office submits the report. The changes the office made to its DES reporting process will likely ensure annual reports include a more complete list of contracts and more detailed cost information.

UW does not provide specific contract details or spending information on its website

While some information about UW's contracts and spending activities is publicly available on DES's website, UW neither publishes it on its own website nor refers readers to DES's website. Although state agencies are not required to publish contracting information, national procurement organizations recommend making procurement spending information available to the public as a leading practice.

Procurement Services and UW Medicine Supply Chain also do not publish any specific contract details on their public web pages. Employees said this is because of pricing and proprietary information in the contracts, but the public can request information about specific contracts through a public records request. This practice of making specific contracts available only through a public records request is consistent with that of other public universities.

The procurement information that UW posts online is intended for university employees, not the general public. For example, Procurement Services has a procurement guide on its website that explains how to buy and pay for various categories of goods and services. However, unlike UW, several of the universities we interviewed make procurement information available to the public by providing a list of vendors that have contracts with them. This information includes the types of goods and services purchased, but not the value of their contracts.

Procurement Services also reports to UW's Board of Regents on the university's procurement spending, but this report is not easily accessible to the public. Beginning in October 2020, Procurement Services started reporting to the Board of Regents semiannually on UW's procurement activities. The report includes Procurement Services and UW Medicine Supply Chain's spending information on different categories of goods and services, but the report does not have any details about specific contracts. Additionally, while this report is available online, it is not easily accessible to the public because it is posted on pages for specific meetings on the Board of Regents' website.

UW is implementing a new financial system that may improve how it publicly reports contract information

UW is in the process of transitioning to a single financial system, Workday, for the whole university. Currently, Procurement Services and UW Medicine Supply Chain manage their contracts in two separate systems. Procurement Services uses Ariba,

and UW Medicine Supply Chain uses Horizon Enterprise Materials Management (HEMM). When UW fully implements Workday, all of the university's contracts will be stored in one system, but the two offices will continue to manage them separately.

UW anticipates that Workday will have enhanced reporting capabilities that will be useful to the Board of Regents, DES and the public. Technical staff will also be able to use Workday to build standard and customizable reports to better meet the university's reporting needs, such as the annual report to DES. Workday will not be fully implemented until 2023, so the exact details of UW's reporting capabilities have not yet been determined.

State Auditor's Conclusions

This legislatively required audit examined two aspects of the University of Washington's contracting practices—whether employees executed contracts in accordance with UW's procurement processes, and how transparent UW is about its contracting activities.

We found that unauthorized contracts that do not receive proper approval appear to be rare, but we also found an area where the university can make improvements. We recommend both procurement offices within UW collect and track more information about the unauthorized contracts they do identify. This would help them determine why the processes weren't followed and limit the number of unauthorized contracts in the future.

In addition, we found UW could do more to make its contracting activities more transparent, including complete reporting to DES and publishing additional information on its own website. UW is implementing a new financial system, and we encourage the university to use that as an opportunity to address the issues raised in this audit.

Recommendations

For the University of Washington's Procurement Services and UW Medicine Supply Chain

To prevent employees from signing unauthorized contracts, as described on pages 8-13, we recommend:

1. Procurement Services modify and UW Medicine Supply Chain develop a tool to track unauthorized contracts and gather specific information about why they happened. In addition, when UW implements Workday (discussed on pages 17-18), the system should be configured to track unauthorized contracts.
2. Analyze the causes of unauthorized contracts to identify why they happened and possible trends. The offices should then develop appropriate plans to address the causes of unauthorized contracts. This could include targeted outreach to ensure employees who are most likely to sign an unauthorized contract know the correct procedures.
3. Require employees who are involved with unauthorized contracts to prepare and implement a corrective action plan to prevent unauthorized contracts from happening again.

To ensure the public has access to transparent contract information, as described on pages 14-18, we recommend both offices:

4. Provide more, and more easily accessible, information about procurement contract activities on their web pages. This information should include a link to the DES contract transparency reporting page and a link to procurement spending reports that the offices provide to the Board of Regents.
5. Improve their processes for preparing annual reports to DES by establishing a secondary level of review for the contracts that are considered exempt from reporting, to minimize the possibility of excluding contracts. The university should also reach out to DES for guidance to ensure all of the required contracts are included in the report.

Agency Response

University of Washington

Response to SAO Audit Report

**University of Washington's Procurement
Contracts: Approving, tracking and reporting**

January 7, 2022

To prevent employees from signing unauthorized contracts, as described on pages 7-10, we recommend:

Recommendation #1

Procurement Services modify and UW Medicine Supply Chain develop a tool to track unauthorized contracts and gather specific information about why they happened. In addition, when UW implements Workday (discussed on pages 13-14), the system should be configured to track unauthorized contracts.

UW Procurement Services has assembled a team to identify opportunities for improvement with the current process to track, learn, analyze and follow-up on these unauthorized purchases. The team will present a recommendation to leadership for implementation by first quarter of 2022.

Due to limitations with UW Medicine's current Enterprise Resource Planning (ERP) system, a manual process has been created if an unauthorized contract is identified as well as we have created a central repository where documentation is saved. The process includes reaching out to the person, educating them on the correct processes and documenting the communication. UW Medicine will also review UW Procurement Services recommendations and incorporate additional steps as appropriate.

UW Procurement Services and Medicine Supply Chain will work together to look for opportunities in our design and configuration efforts to track unauthorized purchases in Workday Procurement in the future state.

Recommendation #2

Analyze the causes of unauthorized contracts to identify why they happened and possible trends. The offices should then develop appropriate plans to address the causes of unauthorized contracts. This could include targeted outreach to ensure employees who are most likely to sign an unauthorized contract know the correct procedures.

Plans to improve the current process will include expanding, and documenting, the questions and responses from units upon detection of an unauthorized purchase. The additional information collected will include the following:

- What circumstances led the individual to execute a contract or commit to a purchase beyond their authority,
- Gauge a unit's understanding and awareness of the existing procurement policies and procedures, and;
- Review what UW and DES Procurement training they have received to date and make appropriate recommendations for remediation and additional training.

The information we gather will inform us on the direction we need to take to enhance or augment our general or targeted training offerings and outreach to the campus.

Recommendation #3

Require employees who are involved with unauthorized contracts to prepare and implement a corrective action plan to prevent unauthorized contracts from happening again.

As part of the process improvement effort on this topic, the current escalation path will be enhanced, taking into consideration the severity and the frequency of the behavior, which may include:

- A requirement for additional training, and
- Communication to the senior leadership of the unit to establish a corrective action plan, and/or denying or suspending access to one or more of our systems until certain requirements are met.

Additional mitigation measures will also be considered, including:

- Offering additional training and clearer guidance on the Procurement Services website, and
- Partnering with other campus units to provide guidance and resources when a contract is awarded that anticipates significant procurement of goods, services and/or equipment.

To ensure the public has access to transparent contract information, as described on pages 11-14, we recommend:

Recommendation #4

Provide more, and more easily accessible, information about procurement contract activities on the Procurement Services and UW Medicine Supply Chain's websites. This information should include a link to the DES contract transparency reporting page and a link to procurement spending reports that the offices provide to the Board of Regents.

UW Procurement Services will establish a link from its website to the DES contract reporting site for improved transparency regarding annual contracting activities. This link will also include the relevant spend for UW Medicine.

Recommendation #5

Improve its process for preparing annual reports to DES by establishing a secondary level of review for the contracts that are considered exempt from reporting to minimize the possibility of excluding contracts. The university should also reach out to DES for guidance to ensure all of the required contracts are included in the report.

UW Procurement Services and UW Medicine Supply Chain have already implemented a new process to expand the number of contracts reported to DES and will continue to make improvements as the reporting requirements evolve. The current process is highly manual, and it is anticipated new functionality can be leveraged as a result of implementing Workday Finance to further automate this reporting requirement—We will also continue to seek guidance from DES on the most updated report requirements going forward.

Appendix A: Initiative 900 and Auditing Standards

Initiative 900 requirements

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorized the State Auditor’s Office to conduct independent, comprehensive performance audits of state and local governments.

Specifically, the law directs the Auditor’s Office to “review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts.” Performance audits are to be conducted according to U.S. Government Accountability Office government auditing standards.

In addition, the law identifies nine elements that are to be considered within the scope of each performance audit. The State Auditor’s Office evaluates the relevance of all nine elements to each audit. The table below indicates which elements are addressed in the audit. Specific issues are discussed in the Results and Recommendations sections of this report.

| I-900 element | Addressed in the audit |
|---|--|
| 1. Identify cost savings | No. The audit did not quantify potential cost savings. |
| 2. Identify services that can be reduced or eliminated | No. The University of Washington (UW) has the authority to establish contracts. The audit did not assess whether UW should reduce or eliminate its contracting activities. |
| 3. Identify programs or services that can be transferred to the private sector | No. UW has the authority to establish contracts. The audit did not identify any programs or services that could be transferred to the private sector. |
| 4. Analyze gaps or overlaps in programs or services and provide recommendations to correct them | No. The audit did not identify any gaps or overlaps in contracting at UW. |
| 5. Assess feasibility of pooling information technology systems within the department | No. Though the audit did not assess whether pooling IT systems would improve transparency and accessibility of the university’s contracts, the audit made some recommendations related to UW’s new system (coming in 2023). |

| I-900 element | Addressed in the audit |
|---|---|
| 6. Analyze departmental roles and functions, and provide recommendations to change or eliminate them | No. The audit did not focus on potential changes to the contracting functions for UW’s various departments. |
| 7. Provide recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions | No. The audit did not recommend statutory or regulatory changes related to contracting. |
| 8. Analyze departmental performance data, performance measures and self-assessment systems | No. The audit focused on the contracting function of departments, not their self-assessment of their performance related to contracting. |
| 9. Identify relevant best practices | Yes. The audit identified best practices for UW to make contract information more transparent and accessible. |

Compliance with generally accepted government auditing standards

We conducted this performance audit under the authority of state law (RCW 43.09.470), approved as Initiative 900 by Washington voters in 2005, and in accordance with generally accepted government auditing standards as published in *Government Auditing Standards* (July 2018 revision) issued by the U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The mission of the Office of the Washington State Auditor

To provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective. The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic [subscription service](#). We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program. For more information about the State Auditor’s Office, visit www.sao.wa.gov.

Appendix B: Scope, Objectives and Methodology

Scope

The audit focused on how UW's procurement offices – Procurement Services and UW Medicine Supply Chain – tracked and reported new and renewed contracts for goods and services of more than \$10,000 in fiscal year 2020 (July 2019 to June 2020). The audit did not include contracts managed by other university departments, such as contracts for capital construction projects or sub-awards from federal grants. We also excluded several other types of contracts from this audit:

- Contracts managed by Housing and Food Services because the department is self-sustaining and does not receive financial assistance from UW or the state
- Contracts managed by a purchasing organization UW Medicine Supply Chain uses because those contracts were exempt from reporting to DES during the audit period
- Contracts for Harborview Medical Center because King County owns Harborview and the State Auditor's Office audits it separately

Our audit evidence came from interviews with UW employees and staff at other public universities, analysis of the information from the contract management systems that Procurement Services and UW Medicine Supply Chain use, and a review of a sample of contracts and other documents that Procurement Services and UW Medicine Supply Chain provided.

Objectives

The purpose of this audit was to examine UW's contract management practices, including how the university's procurement offices track and report contracts. The audit addressed these objectives:

1. Do UW employees execute contracts to procure goods and services for which they lack authority?
2. How can UW ensure it tracks and reports all its procurement contracts in a transparent and accessible manner?

For reporting purposes, the audit results have been organized into key findings. The messages relate to the original objectives as follows:

- Though unauthorized contracts for goods and services are rare, UW could improve how it tracks and prevents them (pages 8-13) – This finding addresses Objective 1, and the tracking process addresses part of Objective 2.
- UW could be more transparent by providing complete and accessible contract information to the public (pages 14-18) – This finding addresses Objective 2.

Methodology

We obtained the evidence used to support the findings, conclusions and recommendations in this audit report during our fieldwork period (May 2020 to September 2021). Due to the COVID-19 pandemic, we paused work on the audit from July 2020 to May 2021. This section summarizes the work we performed to address the audit objectives.

Objective 1: Do UW employees execute contracts to procure goods and services for which they lack authority?

Policies and Procedures

We reviewed university-level administrative orders and policies, as well as specific policies and procedures used by Procurement Services and UW Medicine Supply Chain, outlining which employees have the authority to enter into contracts on behalf of the university.

Interviews

We interviewed employees from Procurement Services and UW Medicine Supply Chain to better understand who has the authority to sign contracts, how often unauthorized contracts happen, the steps these offices take to address and prevent unauthorized contracts, and the negative effects these contracts pose to the university. We reviewed the list of unauthorized contracts that Procurement Services provided to identify trends in the reasons why they happen. We then interviewed UW employees outside of the two procurement offices who were involved with unauthorized contracts to understand why they happened and to recommend improvements for preventing them.

Data analysis

We selected a random sample of contracts that Procurement Services and UW Medicine Supply Chain managed during fiscal year 2020 to test whether employees sign contracts without proper authority. For the Procurement Services contracts, we developed a random sample of 54 contracts, and reviewed 58 contracts total. With an estimated error rate of 0.7 percent and tolerable error rate of 5 percent, we had greater than 90 percent confidence that the rate of unauthorized contracts in the population did not exceed 5 percent. After developing the initial sample of 54, we made an additional judgmental selection of four high dollar value contracts (more than \$1 million each), because they are higher risk and require a higher level of review for approval. For the UW Medicine Supply Chain contracts, we developed a random sample of 22 contracts using common methods of sampling for small populations. Due to the small population size of contracts from UW Medicine Supply Chain ($N < 365$), we do not intend for these results to be projected to the entire population of UW Medicine Supply Chain contracts.

Best practices

We researched the procurement practices that national procurement organizations promote, including the Institute for Public Procurement and the National Association of State Procurement Officials, to understand and identify the effects of unauthorized contracts. These organizations provide professional development training and research on best practices to procurement professionals. We also researched other public universities' practices (see page 13) to understand how they respond to unauthorized contracts.

Objective 2: How can UW ensure it tracks and reports all its procurement contracts in a transparent and accessible manner?

Interviews with public universities

We interviewed procurement professionals from seven public universities to learn how they track and report their procurement contracts. This included how other universities report their procurement contract activity to the public and other stakeholders. As the list in **Figure 1** shows, five of the universities have academic medical centers like UW Medicine, which allowed us to compare UW to universities with similarly complex operations.

Interviews with UW employees

We interviewed employees from Procurement Services and UW Medicine Supply Chain to understand how they make contract information transparent and accessible to the public. This included learning about how the two offices compile their required annual report of contracts to DES, as well as how they make procurement information available to the public outside of the required reporting process.

Data analysis

To determine if UW reports complete contract information to DES, we requested contract data from UW Medicine Supply Chain and Procurement Services to compare it to what is publicly available on the DES website. We reviewed contract data from UW Medicine Supply Chain. We also reviewed contract data that Procurement Services provided to us.

According to Procurement Services, a contract may include a master agreement, a convenience contract, or a blanket purchase order (BPO). The report from Procurement Services contained about 10,000 BPO records, but not every record represented a unique contract. Some BPO records had multiple version numbers representing a change to the record. Given that these versions were related to one agreement to purchase goods or services, we counted all versions of each BPO record as one unique contract.

Another subset of BPO records were against a master agreement or other type of existing contract. Again in this case, given that these records were related to one agreement to purchase goods or services, we counted all BPO records against the same existing contract as one unique contract. As described on page 15 of the report, we identified about 2,500 BPOs related to unique contracts in the Procurement Services data that may have met the criteria for being included in the report to DES. However, the contract data that Procurement Services provided did not have enough information for the audit team to accurately determine which contracts should be reported. During the audit period, Procurement Services could not provide a complete list of contracts that should have been reported to DES.

Figure 1 – Universities interviewed

| University | Has academic medical center |
|-------------------------------|-----------------------------|
| Florida State University | No |
| Pennsylvania State University | Yes |
| University of Colorado | Yes |
| University of Florida | Yes |
| University of Michigan | Yes |
| University of Utah | Yes |
| Washington State University | No |

Best practices

We also reviewed best practices from national procurement organizations (Institute for Public Procurement and the National Association of State Procurement Officials) to identify ways to make the information from procurement contracts more transparent and accessible to the public and other stakeholders.

Work on internal controls

As part of Objective 1, we assessed internal controls related to preventing unauthorized contracts at both Procurement Services and UW Medicine Supply Chain. We reviewed policies describing which UW employees have the authority to sign contracts and the training the university provides to employees on how to procure goods and services. We also learned about the information controls these offices use in their contract management systems, Ariba and Horizon Enterprise Materials Management (HEMM). To test these controls, we reviewed contracts to see if they were signed without proper authority. We did not find any instances of contracts that were signed without proper authority, so it indicates the internal controls are working as intended.



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