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An Audit Report on University Purchases Subject to Local Control

November 23, 1998

Members of the Legislative Audit Committee:

The University of Houston, The University of Texas at Austin, and The University of Texas at Arlington have established basic purchasing processes to help them achieve the best value for their dollars. In fiscal year 1997, the three universities spent a combined \$575 million (local and state funds) on the purchase of goods and services. It was important to review this area because, in the past, some agencies and universities have not had proper controls over purchasing expenditures, which allowed inappropriate purchases to be made.

Therefore, it is significant to note that the three universities reviewed have established the basic purchasing processes and that these processes appear to be working effectively most of the time. We found that the departments at the universities can purchase goods and services independently and that the universities have established purchasing guidelines and limits. At one university, we noted effective procedures for the purchase of information technology.

We did note that management at all three universities should increase oversight of purchases made by departments. We found that the level of oversight used to implement controls varies among universities and among classes of purchases. Individual instances were noted where:

- Discounts for volume purchases were not negotiated.
- Departments did not monitor personal usage of freight delivery services and cellular phone calls made to personal residences.
- Contract payments were not adequately monitored.
- Duties were not adequately segregated for some procurement cardholders.

We provided specific feedback to each university on its purchasing system. Additionally, we developed a methodology that our Office and internal auditors at all universities can use to evaluate and improve purchasing systems.

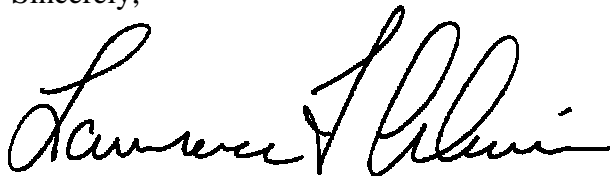
The universities concur with the need for consistent oversight and will endeavor to ensure that this oversight is provided.

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We appreciate the cooperation of the universities' staff members during our reviews. Please call Susan Riley, CPA, Audit Manager, at 479-4700 if you have any questions about this report.

Sincerely,



Lawrence F. Alwin, CPA
State Auditor

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cc: Dr. Arthur K. Smith, President, University of Houston
Dr. Larry R. Faulkner, President, The University of Texas at Austin
Dr. Robert Witt, President, The University of Texas at Arlington

Objective, Scope, and Methodology

Our objective was to determine if appropriate purchasing controls exist at universities and identify any material instances of waste, fraud, and abuse.

Our scope included categories of purchases that the General Services Commission (GSC) does not review. Our selection of universities was based on a risk assessment process. At each university, we identified purchases not controlled by GSC and reviewed internal controls over the procurement processes. We also reviewed selected processes related to contracted services, inventory, fixed assets, telecommunications, and computer expenditures.

We performed our audit work by interviewing staff members, reviewing documents, performing analyses, and testing transactions and management processes. Fieldwork was performed between June and August 1998. All work was conducted in accordance with government auditing standards.