



**INTERNAL AUDIT**

## **Procurement Process Performance Audit**

**R-24-01**

**November 20, 2024**

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## Rating Matrix

Descriptor	Guide
<b>High</b>	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
<b>Medium</b>	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
<b>Low</b>	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

## Distribution List

Title	For Action <sup>1</sup>	For Information	Reviewed prior to release
Audit Committee		*	
Executive Director		*	*
Chief Financial Officer	*	*	
Director of Supply Chain	*	*	
Ethics Officer		*	

<sup>1</sup>For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

# Executive Summary

## Introduction

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The Utah Transit Authority (“UTA”) Audit Committee directed the Internal Audit department (“IA”) to conduct a performance audit over the processes of the Procurement department. The Audit Committee approved the Audit Plan that included this engagement on December 18, 2023. IA completed the audit in accordance with International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

## Background and Overview

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UTA’s Supply Chain department is a subdivision of the Finance office. Their responsibility is to procure, store, and deliver needed inventory and material to all departments within the organization. They manage purchase cards for small dollar purchases and manage large dollar requisitions. As of November 2024, the department is led by a Director of Supply Chain and then divided into groups under the following titles: Procurement Manager and Warehouse and Inventory Operations Manager. This engagement was focused on the Procurement function of Supply Chain.

## Objectives and Scope

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Internal Audit focused audit activities on reviewing the Procurement department’s compliance with federal regulations. We took our audit procedures from checklists published in the Federal Transit Administration (“FTA”) document *Procurement System Review Contractors Manual Fiscal Year 2023* (“PSR”). Specifically, IA performed the checklists on policies and procedures, on systemwide elements, and conducted surveys from PSR published questions. We reviewed any time periods as necessary.

During the audit, IA found indications that the department was under-resourced relative to their objectives and responsibilities. We worked with management to document the existence and extent of under-resourcing.

## Summary

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IA found that UTA procurement practices are in compliance with the PSR elements reviewed. We noted through that the Procurement department deviates from UTA policy on how they manage conflicts of interest identified in a procurement. UTA policy requires all employees to report conflicts of interest to the UTA Ethics Officer, but the Procurement department does not do this in the context of procurement requisitions. We recommend that the Procurement department adjust conflict of interest practices to align with UTA policy.

IA documented indications that the Procurement department is under-resourced, such as long processing times for procurements and staff working irregular hours to meet basic responsibilities.

The resource gap has a particularly high impact on the UTA Capital Services department. Capital Services has a high volume of procurement requisitions and needs timely service from the Procurement department to meet project deadlines and cost goals. The Chief Capital Services Officer addressed this constraint by using department funds to hire outsourced help for Procurement that would be dedicated to Capital Services. This is a wise use of funds by Capital Services to quickly address the problem and meet their goals, but it should not be necessary for one department to supplement another in this way. It also diverts funds Capital Services could otherwise spend on their

department's objectives. IA recommends that management converts the outsourced positions to UTA employee positions, and that management formally study the Procurement department's resource needs ahead of preparing the 2026 UTA budget.

## **Attachment A: Detail of Recommendations**

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**Finding R-24-01-01 Conflict of Interest Disclosures to UTA Ethics Officer**

**Risk Level: Medium**

### **Criteria**

In the Procurement Desk Reference (PDR), the main repository for procurement policy, states in section 3.4 that UTA designates UTA Ethics Policy 01.01 (Ethics Policy) as its procurement standards of conduct.

The Ethics Policy section 3)A states:

*Any employee who has an actual or apparent Conflict of Interest must immediately report the nature of such interest to a Senior Manager and/or Director in the employee's supervisory chain and also to the Ethics Officer.*

### **Condition**

IA identified during surveys and interviews with Procurement department staff that the current procurement processes do not include any consultation or notification with the Ethics Officer on identified conflicts of interest.

### **Cause**

Current practice by the Procurement department has not encouraged or required the involvement of the Ethics Officer.

### **Effect**

Employees, contractors, or vendors may act unethically without detection when employees do not follow conflict of interest controls.

### **Recommendation**

1. Procurement department employees should report any conflicts of interest discovered in a procurement requisition to the UTA Ethics Officer.

### **Management Response and Action Plan**

By 12/31/2024 Management will conduct a training and review the PDR section with all procurement specialists and contract buyers to reinforce the policy. Management will also add a signature line on the "Affidavit regarding conflict of interest" form for Ethics Officer signature.

**Target Completion Date:** December 31, 2024

**Criteria**

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) publishes an integrated framework to guide organizations on best practices for internal controls. Principle 4 of this framework, states:

*The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.*

COSO guidance on this principle further elaborates:

*The adequate number of resources is determined and periodically readjusted considering the relative importance of risks to be mitigated to support the achievement of the entity’s objectives.*

**Condition**

The Procurement department lacks adequate resources to meet their objectives and the needs of other departments that rely on their services.

**Cause**

Not applicable.

**Effect**

1. The Procurement department performs business critical services for UTA. All other departments rely on Procurement for sourcing and supply management, cost control, managing the risks of supply disruptions, and quality control over supplies and provider services. The Procurement department also plays a key role in ensuring that UTA is compliant with federal regulations that affect grant funding and in ensuring ethical procurement. An under-resourced Procurement department puts UTA’s objectives across the organization at risk of disruption.
2. Procurement department under resourcing has had an especially negative impact on the Capital Services department. Capital Services have a high volume of procurement requisitions and need timely service to meet project deadlines and cost goals. The Chief Capital Services Officer addressed this constraint by using department funds to hire outsourced help for Procurement that would be dedicated to Capital Services. This is a wise use of funds by Capital Services to quickly address the problem and meet their goals, but it should not be necessary for one department to supplement another department in this way. It also diverts funds Capital Services could otherwise spend on their department objectives.

The arrangement is also not ideal for the Procurement department. First, because Capital Services is paying for the outsourced help, their use must be focused on Capital Services’ requisitions. This may not always align with the most pressing immediate needs.

Additionally, outsourced help is not as cost-effective employees. The contract with the outsourced provider has a yearly cost of \$310,501 for two full-time consultants. By contrast, one of UTA’s medium tenured procurement employees had 2023 compensation of \$109,297 (including wages and benefits). UTA could hire almost three employees for the cost of two consultants.

3. Procurement department staff frequently work odd or long hours to meet their responsibilities. The auditor received the timestamp metadata of the Procurement department staff's emails. The data was not standardized enough to systematically analyze in a way that meets audit standards, but anecdotally the data showed significant staff time spent outside typical work hours of 7AM to 6 PM.
4. Staff levels have necessitated using management as procurement specialists instead of focusing on needed management activities.
5. The Procurement department's internal tracking of open requisitions show an average age of 24 days, and 18 requisitions were older than 180 days.

There are reasons besides Procurement resource levels that an open requisition may take time – for example, the requestor of procurement services may delay or otherwise stall the timeline, vendors may be slow to respond to requests, requisitions may be delayed for strategic reasons, etc. Regardless, the data shows that the average requestor of Procurement's services cannot expect a quick turnaround in typical circumstances. It is likely that under-resourcing is a contributing, if not the primary, factor.

### **Recommendation**

1. The Procurement department's 2026 budget should include headcount increases to convert the two outsourced consultant positions to full-time employees.
2. Management should formally study the Procurement department's resource needs ahead of planning for the 2026 budgets and allocated resources as appropriate to the findings of the study.

### **Management Response and Action Plan**

Prior to and during the 2026 budget planning season Procurement management will review expiring contracts and new projects with stakeholders in other departments to confirm that there is an ongoing need for more resources. If the demand for procurements is going to continue at this pace or increase we will submit to the Executive Team to convert the contractor positions to full-time positions.

**Target Completion Date:** August 31, 2025