UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

CONTRACT ADMINISTRATION
POURING RIGHTS

REPORT NO. AR2019-12

UNIVERSITY OF HOUSTON SYSTEM
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MEMORANDUM

TO: Mr. Peter K. Taaffe
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: February 7, 2019

SUBJ: Internal Audit Report – UHS Contract Administration – Pouring Rights

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

Executive Summary:

The Internal Auditing Department conducted a system-wide review of the sponsorship, beverage pouring rights, and vending services contract. The objectives were to determine whether management had adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions and whether the Board of Regents and University of Houston System have adopted the rules and policies required by the Texas Education Code, Section 51.9337. In our opinion, the University of Houston System universities have adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions and the Board of Regents and the University of Houston System have adopted all rules and policies required by the Texas Education Code, Section 51.9337. Although we noted no matters that we considered to be significant risk exposures and control issues, we noted opportunities for improvement in the following areas: contract oversight, contract monitoring, and commission settlement/reconciliation. Management is in the process of addressing these opportunities for improvement.

This audit report is scheduled to be included in the agenda materials for the February 28, 2019, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON SYSTEM
CONTRACT ADMINISTRATION – POURING RIGHTS

BACKGROUND:

We performed a review of the sponsorship, beverage pouring rights, and vending services contract for the University of Houston System universities. This review was scheduled in the annual audit plan for FY 2019.

UHS entered into a contract with the Coca-Cola Company on May 1, 2010. The contract provides the Coca-Cola Company with exclusive beverage pouring rights at System university food service locations. The Coca-Cola Company also provides vending services, marketing, sponsorship, and in-kind support to System universities.

In fiscal year 2018, UHS received sales revenue from beverage vending machines of approximately $353,000, cash from sponsorship fees, advertising, and other support of approximately $487,000, and in-kind sponsorship and marketing support valued at approximately $150,000.

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether management has adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions.

2. Determine whether the Board of Regents and the University of Houston System have adopted the rules and policies required by the Texas Education Code, Section 51.9337 (annual assessment by Chief Auditor required).

SCOPE OF WORK:

We interviewed personnel responsible for managing the sponsorship, beverage pouring rights, and vending services contract, analyzed and reviewed the contract, commission settlement documents, statutes, Board of Regents and UHS policies and procedures, and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, the University of Houston System universities have adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions and the Board of Regents and the University of Houston System have adopted all rules and policies required by the Texas Education Code, Section 51.9337. Although we noted no matters that we considered to be significant risk exposures and control issues, we noted opportunities for improvement in the following areas: contract oversight, contract monitoring, and commission settlement/reconciliation. Management is in the process of addressing these opportunities for improvement.

Appendix A lists the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, and management's responses.

Don F. Guyton
Chief Audit Executive
November 19, 2018

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Contract Oversight

System Administrative Memorandum (SAM) 03.A.05, Contract Administration, requires all contracts to have applicable administrative and legal reviews completed and signed by all parties prior to commencement of any duties/actions by the parties. Manual of Administrative Policies and Procedures (MAPP) 04.04.01A, Contract Administration, states that the effective date/start date of the contract should be no sooner than the date on which all applicable administrative and legal reviews have been completed and signed by all parties prior to commencement of any duties/actions by the parties as stipulated in the contract.

Additionally, SAM 03.A.05 requires individual(s) responsible for ensuring that the terms and conditions of the contract are met shall sign an appropriate statement acknowledging this responsibility. MAPP 04.04.01A states that the originating unit is responsible for monitoring and assuring performance in accordance with provisions of the contract and for reporting non-compliance to the College/Division Business Administrator and, as appropriate, to the appropriate Vice President. MAPP 04.04.01A further states that the individuals responsible for ensuring the terms and conditions of the contract are met shall sign an appropriate statement acknowledging this important responsibility.

During our review, we determined the following:

a) The contract, with an effective date of May 1, 2010, was signed by the Executive VC/VP of Administration and Finance on July 2, 2010.

b) The individual currently responsible for the system-wide contract for sponsorship, beverage pouring rights, and vending services performed certain procedures at UH to help determine whether the terms and conditions of the contract were met at UH, but not at the other System universities.

c) The individual(s) previously responsible for ensuring that the terms and conditions of the contract were met did not sign a statement acknowledging responsibility. In addition, the person currently responsible for ensuring the terms and conditions are met did not acknowledge the change in responsibility.

As noted in Internal Auditing audit report number AR2018-25 UHS Contract Administration - Food Services, management plans to modify SAM 03.A.05, Contract Administration, to require appropriate oversight of system-wide contracts and the acknowledgement of changes in responsibility for contract oversight by January 31, 2019. Additionally, management plans to develop procedures to help ensure that the terms and conditions are met for system-wide contracts by December 31, 2018.

Recommendation (UHS): Management should develop procedures to help ensure that the terms and conditions are met for the system-wide sponsorship, beverage pouring rights, and vending services contract. In addition, management should implement a process to help ensure that contracts and contract amendments are executed in accordance with policies and procedures, including requiring that individuals responsible for ensuring that the terms and conditions of the contract are met sign an acknowledgement statement and changes in responsibility for contract oversight are appropriately acknowledged.

Management's Response (UHS): We will develop written standardized procedures for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of beverage sponsorship and beverage vending contracts by March 31, 2019. In addition, we will implement a process to help ensure that contracts and contract amendments are executed in accordance with policies and procedures, including requiring that individuals responsible for ensuring that the terms and conditions of the contract are met sign an acknowledgement statement and changes in responsibility for contract oversight are appropriately acknowledged by July 1, 2019.

Contract Monitoring

System Administrative Memorandum (SAM) 03.A.05, Contract Administration, requires that System universities develop and maintain a contract management system to help ensure that the terms and conditions of each contract are performed in an appropriate manner. However, SAM 03.A.05 does not provide guidance on how to monitor contracts. The State of Texas Procurement and Contract Management Guide provides guidance on monitoring methods, such as desk reviews (progress reports, status reports, activity reports, financial reports, and vendor performance reports) and site visits (monitoring checklists and reports).

The system-wide sponsorship, beverage pouring rights, and vending services contract contains several terms related to the following categories: sponsorship, commissions, beverage availability and exclusive association rights, equipment and service, marketing, promotional, advertising rights, and other consideration to the System. Each of the System universities is required to comply with these terms in accordance with the contract. However, we determined that several contract terms were not being monitored for compliance by the System universities.

The System universities have implemented informal procedures to help ensure quality of services and compliance with the terms and conditions of the contract. These procedures are not standardized among the System universities. The procedures include periodic review of vendor locations, and/or comparison of commissions received to information contained in the vendor's commission statements. In addition, there were no documentation standards and, as a result, there was limited documentation retained supporting compliance with the terms of the contract.

As noted in Internal Auditing audit report numbers AR2018-25 UHS Contract Administration - Food Services and AR2018-26 UHS Contract Administration - Bookstore Services, management plans to update SAM 03.A.05, Contract Administration, to include requirements for monitoring contracts, including the use of a contract monitoring checklist and

documentation standards by January 31, 2019. In addition, management plans to develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of contracts by December 31, 2018.

Recommendation (UHS): Management should develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of the sponsorship, beverage pouring rights, and vending services contract.

Management's Response (UHS): We will develop written standardized procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of beverage sponsorship and vending contracts. This will be completed by March 31, 2019 and implemented by July 1, 2019.

Commission Settlement/Reconciliation

The sponsorship, beverage pouring rights, and vending services contract requires the Coca-Cola Company to make monthly commission payments to each System university based on a commission structure from 10% to 48% of net sales from vending machines, depending upon the product sold. Each university receives a detailed commission statement to review with the commission payment. We determined that individuals responsible for monitoring contract compliance at each university were not ensuring that the financial terms of the contract were met. We also determined that there were no written procedures regarding commission settlements or to help ensure the validity of the sales information reported by the vendor to supporting documentation.

As noted in Internal Auditing audit report numbers AR2018-25 UHS Contract Administration - Food Services and AR2018-26 UHS Contract Administration - Bookstore Services, management plans to work with the System universities to implement procedures to help ensure the accuracy of commission payments, including verifying the validity of sales amounts by reviewing supporting detailed sales documentation by December 31, 2018.

Recommendation (UHS): Management should work with the System universities to implement procedures to help ensure the accuracy of commission payments for the sponsorship, beverage pouring rights, and vending services contract. In addition, procedures should include verifying the validity of the sales amounts by reviewing supporting detailed sales documentation, such as point of sale records.

Management's Response (UHS): We will work with the System universities to implement procedures to help ensure the accuracy of commission payments for the sponsorship, beverage pouring rights, and vending services contract. In addition, procedures will be developed, to include verifying the validity of the sales amounts by reviewing supporting detailed sales

documentation, such as point of sale records. This will be completed by March 31, 2019 and implemented by July 1, 2019.

University of Houston System
Internal Auditing Department

UHS Contract Administration - Pouring Rights - AR2019-12
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level:	**High** **Medium** **Low**	
July 1, 2019	Emily Messa Associate VC/VP Administration	Develop and implement procedures to help ensure contracts are executed timely, changes in responsibility are acknowledged, and terms and conditions are met for the system-wide sponsorship, beverage pouring rights, and vending services contract.
July 1, 2019	Emily Messa Associate VC/VP Administration	Develop and implement written standardized procedures, including a contract monitoring checklist and documentation standards, for System universities to help ensure quality of services and compliance with terms and conditions of the sponsorship, beverage pouring rights, and vending services contract.
July 1, 2019	Emily Messa Associate VC/VP Administration	Work with System universities to implement procedures to help ensure the accuracy of commission payments for the sponsorship, beverage pouring rights, and vending services contract, including verifying the validity of sales amounts.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.