

# PERFORMANCE AUDIT

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## University of Pittsburgh Allegheny County, Pennsylvania

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March 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

March 2, 2015

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

Dear Governor Wolf:

This report contains the results of a performance audit of the University of Pittsburgh (University) for the period July 1, 2010 through June 30, 2013, unless otherwise noted. We conducted our audit pursuant to Section 402 of The Fiscal Code and in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Our report details our three audit objectives, scope, methodology, findings and recommendations. Our objectives were:

- To evaluate the measures the University of Pittsburgh implemented to ensure the safety and welfare of minors attending camps, conferences, workshops, and other programs (collectively referred to as camps) held on University property.
- To determine if the University maintained effective controls over the use of purchasing cards in accordance with University policy.
- To determine if the University implemented internal and external audit recommendations in a timely manner.
- To evaluate the University's policy on reporting suspected misconduct or whistle blowing applicable to University faculty, staff, students, administration, and officers.
- To determine whether the University awarded tuition waivers and scholarships in accordance with University policy and the policies of the National Collegiate Athletic Association.
- To determine if the University complied with University policies and monitored contracts for professional services.

Our audit resulted in the following findings that are detailed in the report:

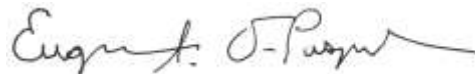
- University of Pittsburgh officials did not adequately ensure that athletic camp employees, who had direct contact with minors, had obtained the required background checks/clearances.
- The University of Pittsburgh failed to ensure that University employees who had direct contact with minors and were affiliated with youth camps/events hosted by University departments had obtained appropriate background checks/clearances.
- The University's controls were inadequate to ensure that procurement card transactions and approvals complied with University policy.
- University departments implemented Internal Audits recommendations in a timely manner.
- Due to limitations imposed by the University, we were unable to determine if AlertLine reports were properly categorized, prioritized, investigated, and resolved.
- The University is in compliance with the NCAA bylaws regarding student-athletes eligibility and financial aid.
- The University did not adequately justify a direct source contract and did not always document that prices paid for directed or sole source contracts were fair and reasonable.
- The University did not ensure payments made under one contract were made in accordance with contract terms.

The audit also resulted in one observation that is also detailed in the report:

- The University did not consistently use the Request for Proposal process to obtain competitive bids, and to ensure it contracted at the best cost.

We discussed the contents of the report with the management of the university, and all appropriate comments are reflected in the report.

Sincerely,



Eugene A. DePasquale  
Auditor General

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**Background  
Information**

The University's main campus is located in the City of Pittsburgh, and has four regional campuses: Johnstown, Greensburg, Titusville, and Bradford. More than 100 academic, research, and administrative buildings, and residence halls are located on the Pittsburgh Campus. The 42-story Cathedral of Learning is an architectural landmark, and it stands as one of the tallest academic buildings in the world.<sup>1</sup>

The Pittsburgh Campus is comprised of 16 undergraduate, graduate, and professional schools. In addition to institutional accreditation by the Middle States Association, the University of Pittsburgh holds numerous specialized accreditations among its various schools and programs in, but not limited to, such areas as business, education, engineering, law, nursing, pharmacy, psychology, and medicine.<sup>2</sup>

In the fall term of 2012, Pittsburgh enrolled 35,330 full and part-time students, including 28,769 students at the Pittsburgh Campus and 6,561 students at the regional campuses.<sup>3</sup>

### **Board of Trustees**

The University of Pittsburgh is governed by a 36 voting member Board of Trustees. The Board includes the Governor of the State, the Secretary of Education, the Chief Executive of the County of Allegheny, and the Mayor of the City of Pittsburgh, all four will be non-voting members of the Board of Trustees ex officio, and Special and Emeritus Trustees who also may not vote.<sup>4</sup>

Twelve of the voting members shall be designated Commonwealth Trustees and shall be appointed as provided by the University of Pittsburgh – Commonwealth Act. The remaining 24 voting members shall consist of the Chancellor and Chief Executive Officer and two classes: Term Trustees and Alumni Trustees.<sup>5</sup>

The Chancellor and Chief Executive Officer shall serve on the Board so long as in office. Term and Alumni Trustees shall be elected for terms of four years, and shall not be eligible for re-election to the same class of Trustees after serving two consecutive full terms, but they shall be eligible for re-election to the same class after the lapse of one year.<sup>6</sup>

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<sup>1</sup> The University of Pittsburgh Fact Book 2013.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> University of Pittsburgh Bylaws, as amended through February 22, 2013, Chapter 1, Article 1 section 1.1.

<sup>5</sup> University of Pittsburgh Bylaws, as amended through February 22, 2013, Chapter 1, Article 1 section 1.2.

<sup>6</sup> University of Pittsburgh Bylaws, as amended through February 22, 2013, Chapter 1, Article 1 section 1.3.

The Board of Trustees shall hold three or more meetings each year, including an annual meeting.

### Operating Environment

The Chancellor for the University of Pittsburgh is responsible to the Board of Trustees; the Chancellor also serves as the representative of the students, staff, faculty, and administration to the board. The Chancellor acts as a public advocate for the institution's interest and as a leader who sets its goals and governs its progress.<sup>7</sup>

Those who closely advise and assist the Chancellor include the provost, the executive vice chancellor, the senior vice chancellor for health sciences, the vice chancellors, the presidents of the regional campuses, the University's chief financial officer, the deans of the University's schools, the department chairs, and the directors of Pitt's centers and institutes.<sup>8</sup>

The University of Pittsburgh has a student to faculty ratio of 14:1. The student population at the University consists of both resident and out-of-state residents as identified in the following table:<sup>9</sup>

<b>Student Head Count</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Pennsylvania Residents	25,709	24,984	24,274
Out-of State Residents	9,872	10,346	10,740
<b>Total</b>	<b>35,581</b>	<b>35,330</b>	<b>35,014</b>

### Appropriations/Tuition

The following chart illustrates the University of Pittsburgh's appropriation related to full-time equivalent (FTE) students:

<b>Year End June 30</b>	<b>Appropriation</b>	<b>FTE Students</b>	<b>Appropriation Per FTE Student</b>
2013	\$144,308,000	32,781	\$4,402
2012	\$137,649,000	32,893	\$4,185
2011	\$184,562,000	32,936	\$5,604

<sup>7</sup> [www.pitt.edu](http://www.pitt.edu), About the Chancellor's Office.

<sup>8</sup> Ibid.

<sup>9</sup> The University of Pittsburgh Fact Book 2013.

## Performance Audit

### University of Pittsburgh

The following table provides basic statistics regarding revenue; tuition and fee rates; FTE and number of degrees conferred during the academic years ended 2011, 2012 and 2013.

<b>University of Pittsburgh Selected Statistics*</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
<b>Revenue (\$ Thousands)</b>			
Tuition/fees <sup>10</sup>	\$491,475	\$525,077	\$545,698
State Appropriation	184,562	137,649	144,308
<b>Total</b>	<b>\$676,037</b>	<b>\$662,726</b>	<b>\$690,006</b>
<b>FTE Students (Fall term)</b>			
Undergraduate Pittsburgh Campus	17,598	17,682	17,725
Undergraduate Regional Campus	6,612	6,543	6,296
<b>Undergraduate Totals</b>	<b>24,210</b>	<b>24,225</b>	<b>24,021</b>
Graduate Pittsburgh Campus	8,725	8,668	8,760
<b>Total FTE Students</b>	<b>32,935</b>	<b>32,893</b>	<b>32,781</b>
<b>Degrees Conferred</b>			
Undergraduate Pittsburgh Campus	4,212	4,294	4,345
Undergraduate <sup>11</sup> Regional Campus	1,140	1,212	1,093
<b>Undergraduate Totals</b>	<b>5,352</b>	<b>5,506</b>	<b>5,438</b>
Graduate Pittsburgh Campus <sup>12</sup>	3,429	3,443	3,401
<b>Total Degrees</b>	<b>8,781</b>	<b>8,949</b>	<b>8,839</b>

\*Table developed by the Department of the Auditor General using information from audited financial statements, University Fact Books, and information obtained from the University's Institutional Research website.

### University's Mission

The University of Pittsburgh, founded in 1787, is one of the oldest institutions of higher education in the United States. As one of the nation's distinguished comprehensive universities, the resources of the University constitute an invaluable asset for intellectual, economic, and social enrichment of Pennsylvania, while the international prestige of the University enhances the image of Pennsylvania throughout the world.

<sup>10</sup> Net tuition/fees obtained from financial statements. This is tuition/fees less tuition discounts. Tuition/Required fees for Full-time Resident Undergraduate Students of the Pittsburgh Campus: \$14,936, \$16,132 and \$16,590 for FY 2010-11, 2011-12 and 2012-13. Tuition/Required fees for Full-time Out-of-State Undergraduate Students of the Pittsburgh Campus: \$24,592, \$25,540 and \$26,280 for FY 2010-11, 2011-12 and 2012-13.

<sup>11</sup> Amounts also include associate degrees.

<sup>12</sup> Graduate includes master's degrees, doctorate – research/scholarship, and doctorate-professional practice.



The University's mission is to:

- provide high-quality undergraduate programs in the arts and science and professional fields, with emphasis upon those of special benefits to the citizens of Pennsylvania;
- offer superior graduate programs in the arts and sciences and the professions that respond to the needs of Pennsylvania, as well as to the broader needs of the nation and the world;
- engage in research, artistic, and scholarly activities that advance learning through the extension of the frontiers of knowledge and creative endeavor;
- cooperate with industrial and governmental institutions to transfer knowledge in science, technology, and health care;
- offer continuing education programs adapted to the personal enrichment, professional upgrading, and career advancement interest and needs of adult Pennsylvanians; and
- make available to local communities and public agencies the expertise of the University in ways that are consistent with the primary teaching and research functions and contribute to social, intellectual, and economic development in the Commonwealth, the nation, and the world.

The trustees, faculty, staff, students, and administration of the University are dedicated to accomplishing this mission, to which they pledge their individual and collective efforts, determined that the University shall continue to be counted among the prominent institutions of higher education throughout the world.<sup>13</sup>

In 1966, the Pennsylvania State Legislature enacted the "University of Pittsburgh-Commonwealth Act." The purpose of the act was to extend Commonwealth opportunities for higher education by establishing the University of Pittsburgh as an instrumentality of the Commonwealth to serve as State-related institution in the Commonwealth system of higher education. The act also authorized annual appropriations by the General Assembly; providing for the auditing of accounts of expenditures from the appropriations; providing public support and capital improvements; authorizing the issuance of bonds exempt from taxation within the

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<sup>13</sup> Office of the Secretary, approved by the University of Pittsburgh Board of Trustees, February 1995.

Performance Audit

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Commonwealth; and requiring the chancellor to make an annual report of operations of the University of Pittsburgh.<sup>14</sup>

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<sup>14</sup> 3<sup>rd</sup> Sp.Sess., P.L.87, No. 3.

**Objectives,  
Scope, and  
Methodology**

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Our performance audit of the University of Pittsburgh had six objectives. We selected the objectives from the following areas:

- youth camps;
- purchasing cards;
- internal audit recommendations;
- reporting suspected misconduct;
- tuition waivers and scholarships;
- contracts.

The specific audit objectives were as follows:

- One: To evaluate the measures the University of Pittsburgh implemented to ensure the safety and welfare of minors<sup>15</sup> attending camps, conferences, workshops, and other programs (collectively referred to as camps) held on University property.
- Two: To determine if the University maintained effective controls over the use of purchasing cards in accordance with University policy.
- Three: To determine if the University implemented internal and external audit recommendations in a timely manner.
- Four: To evaluate the University's policy on reporting suspected misconduct or whistle blowing applicable to University faculty, staff, students, administration, and officers.
- Five: To determine whether the University awarded tuition waivers and scholarships to eligible students in accordance with University policy and the policies of the National Collegiate Athletic Association.
- Six: To determine if the University complied with University policies and monitored contracts for professional services.

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<sup>15</sup> The definitions of a "Minor" and "Adult" are as follows, respectively: "An individual who is not an adult" and "An individual who is 18 years of age or older." 23 Pa. C.S. § 6102.

## Performance Audit

### University of Pittsburgh

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The scope of our audit includes the period for July 1, 2010, to June 30, 2013, unless indicated otherwise.

To accomplish our objectives, we obtained, reviewed, and analyzed University records as well as policies, agreements, and guidelines of the University. In the course of our audit, we interviewed various members of the University of Pittsburgh's management and staff. The audit results section of this report contains specific inquiries, observations, tests, and analyses conducted for each audit objective.

The University of Pittsburgh's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the University is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures. In conducting our audit, we obtained an understanding of the University of Pittsburgh's internal controls. These controls included information system controls that we considered to be significant within the context of our audit objectives. We assessed whether these controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

**Audit Results**

The audit results are organized into six sections. Each section is organized as follows:

- Statement of objective;
- Relevant laws, policies and agreements;
- Audit scope in terms of period covered, types of transactions reviewed, and other parameters that define the limits of our audit;
- Methodologies used to gather sufficient and appropriate evidence to meet the objective;
- Finding(s);
- Recommendation(s), where applicable;
- Response by University of Pittsburgh management, where applicable;
- Our evaluation of University of Pittsburgh management's response, where applicable.

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**Audit Results  
for Objective  
One**

*Youth Camps*

**Objective**

Objective one was to evaluate the measures the University of Pittsburgh implemented to ensure the safety and welfare of minors<sup>16</sup> attending camps, conferences, workshops, and other programs (collectively referred to as camps) held on University property.

**Relevant Laws, Policies, Procedures, and Agreements<sup>17</sup>**

The Pennsylvania General Assembly has enacted various laws that are intended to protect minors by requiring individuals working, or seeking to work, directly with children to secure certain criminal background checks and child abuse clearances (collectively, referred to as background checks) prior to employment. For example:

The Public School Code of 1949<sup>18</sup> which includes the following:

- Act 34 of 1985<sup>19</sup> - This act requires a Pennsylvania State Police Criminal Background Check that dates no more than one year earlier than the date of the employment application. In this report, we refer to this requirement as “Act 34 criminal background check.”
- Act 114 of 2006<sup>20</sup> - This act requires a request for a federal criminal history record and fingerprints be sent to the Federal Bureau of Investigation (FBI) and be dated no more than one year earlier than the date of the employment application. In this report, we refer to this requirement as “Act 114 federal criminal background check.”
- Act 114<sup>21</sup> - The act also specifies that all applicants for employment including independent contractors and their employees who have direct contact with minors must undergo background checks dated no more than one year earlier than the date of the employment application.

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<sup>16</sup> The definitions of a “Minor” and “Adult” are as follows, respectively: “An individual who is not an adult” and “An individual who is 18 years of age or older.” 23 Pa. C.S. § 6102.

<sup>17</sup> Please note that both pending/enacted legislation that was part of a larger child protection package will impact on our interpretation of the CPSL pertaining to background checks beginning on December 31, 2014.

<sup>18</sup> 24 P.S. § 1-101 *et seq.*

<sup>19</sup> 24 P.S. § 1-111, as amended; see in particular 24 P.S. § 1-111(b).

<sup>20</sup> 24 P.S. § 1-111 (c.1).

<sup>21</sup> 24 P.S. § 1-111 (a.1).

The Child Protective Services Law<sup>22</sup> (CPSL) - includes the following:

- Act 151 of 1994<sup>23</sup> - This act requires a Pennsylvania child abuse clearance to be obtained prior to the school employee beginning work with minors. In this report, we refer to this requirement as “Act 151 child abuse clearance.”<sup>24</sup>

Section 8.1 (relating to Definitions) of the state Board of Education’s regulations, 22 Pa. Code § 8.1, includes the following:

- “*Criminal history background check* – A report of criminal history record information from, or a statement that no information is on file with, the State Police; or, for nonresidents of this Commonwealth, a report of Federal criminal history record information from, or a statement that no information is on file with, the Federal Bureau of Investigation.”<sup>25</sup>
- “*Direct contact with children* – The possibility of care, supervision, guidance or control of children by a paid employee or contractor of, or an employee of a person under contract with, a school entity, and routine interaction with children by a paid employee of a school entity or a person under contract with a school entity.”<sup>26</sup>

The above requirements are not directly applicable to University settings at this time<sup>27</sup> but the clearances mentioned above should as a matter of policy be obtained and reviewed for all adults who have direct contact with minors at youth camps on campus.

According to University officials, prior to January 3, 2013, the University had no policy in place to require University departments that sponsored youth camps or events to obtain clearances for its employees, students, or volunteers who had direct contact with minors. Additionally, there were no policies requiring University coaches, acting in any capacity including as independent contractors, who hosted athletic camps on campus using University facilities, to obtain any background checks from their

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<sup>22</sup> 23 Pa.C.S. § 6301 *et seq.*

<sup>23</sup> 23 Pa.C.S. § 6355.

<sup>24</sup> 24 P.S. § 1-111 does not currently require background checks for non-paid volunteers. However, it has been a common practice among schools, both public and private, to adopt related policies requiring background checks for individuals.

<sup>25</sup> 22 Pa. Code § 8.1.

<sup>26</sup> *Ibid.*

<sup>27</sup> Legal provisions that were part of a larger child protection package will be applicable to University settings starting on December 31, 2014.

employees or volunteers. During this time, the University did not consistently record and maintain documentation on any of these events that were held on University property.

University officials also stated that on January 1, 2012, the University started the unwritten practice of requiring all employees who may have direct contact with minors to obtain all three background checks.<sup>28</sup> However, volunteers and students assisting University employees or working at the camp were not included in this informal practice. The University at that time had not established a formal written policy to require background checks.

Beginning with the 2012 summer athletic camps, according to University officials, the University implemented a practice of entering into formal, written license agreements (Special Event Contracts) with head coaches who used University facilities in the operation of their youth camps. With the implementation of this contract, the coaches were considered by the University to be independent contractors and therefore operated their camps independently of the University and without any oversight from the University's administration. We will refer to the coaches conducting these camps as contractors throughout this section of the report.

According to University officials, all summer youth athletic camps held on campus during our audit period were conducted by coaches either with or without a special event contract with the University.

The special event contracts were agreements between the University and the coach (i.e., contractor) and required the contractor to obtain background checks<sup>29</sup> from each of its employees and volunteers who participated in the camps. According to the contract, the contractor's employees' background checks were required to be completed prior to entry onto University property. Again, according to the contract, the contractor was required to notify the University, if the screening showed any misdemeanor or felony convictions and the contractor intended to permit the individual to enter the University facilities. The University reserved the right to refuse the individual's entry to the facilities. According to the contract, the contractor was also required to report any new arrests or convictions by its personnel to the University and to comply with all applicable laws in reporting suspected child abuse.

Finally, a clause in the contract required the contractor to indemnify, defend, and hold harmless the University against any and every claim,

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<sup>28</sup> The three clearances required were Act 34, Act 114, and Act 151.

<sup>29</sup> The required background checks are: FBI Fingerprint Criminal History Check, a Pennsylvania State Police Criminal Record Check, and a Pennsylvania Department of Public Welfare Child Abuse Clearance.



damage, liability, injury, demand, suit, judgment, and action, cause of action, expense, and/or loss arising out of or in connection with the contract.

In addition to the summer camps, employees of various University departments also hosted academic camps and events for minors on campus (i.e., community leisure learn programs, science programs, pharmacy camp, etc.). These camps were hosted by various departments and staffed by University employees, student workers, and volunteers.

According to University officials, the University did not assign the responsibility of overseeing these camps or events hosted by various departments to any one central department or staff person. Therefore, the University was not able to provide a complete listing of the departments that hosted academic camps or events, the number of camps or events that were held, and the employees, students, or volunteers that were associated with each camp.

On January 3, 2013, the University developed and implemented the following policy related to criminal background investigations:

University of Pittsburgh Policy 06-04-01, "Protection of Children from Abuse." This policy requires that an FBI Criminal Background Check, Pennsylvania Child Abuse Clearance, and Pennsylvania State Police Criminal Background Check be conducted before any adult may be hired, appointed, employed, assigned, reassigned, or otherwise placed or permitted by the University to be in a position that involves the significant likelihood of regular<sup>30</sup> contact with children.

According to University officials after the above policy was implemented any adult employee, volunteer, and student who had the significant likelihood of having direct contact with minors was required to get his or her clearances in compliance with the above policy.

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<sup>30</sup> University of Pittsburgh Policy 06-04-01 – "This term should be interpreted broadly in order to protect children. Regular contact with a child may occur in a variety of forms, including through care, guidance, supervision, training, mentoring etc... and may include a level of contact that is not frequent, but that involves periodic contact, or occasional direct contact where that contact has the potential to be in a private setting."

### **Scope and Methodology to Meet Our Objective**

Our objective was to evaluate the measures the University has implemented to ensure the safety and welfare of youths attending camps, conferences, workshops, and other programs (camps) held on University property during the audit period July 1, 2010, through June 30, 2013.

To accomplish this objective, we performed the following:

We reviewed the laws and legal requirements discussed above to gain an understanding of the criminal background checks the University required for University employees, students, and volunteers who worked directly with minors at these camps.

We reviewed the applicable University of Pittsburgh policy related to criminal background investigations to gain an understanding of the University's background investigation requirements.

We conducted interviews with University of Pittsburgh officials. These included the Controller, Athletic Compliance Officer, and the Director of Physical Activity and Weight Management Research.

We reviewed contracts and background checks for athletic camps conducted by the University coaches beginning January 1, 2012, because according to University officials prior to January 1, 2012, clearances were not required by the University and therefore they were not obtained.

Starting in 2012, the University required coaches to sign the special events contract prior to holding their athletic camps. University coaches conducted 61 camps that included minors as participants during the period January 1, 2012, through June 30, 2013.

To determine whether the "Special Event Contract" agreement required the coaches to provide the University with the names, and the three background checks (Act 34, Act 114, and Act 151), for all adult employees and volunteers having direct contact with minors at these camps and whether these checks were provided, we requested the agreements for eight camps that were held on University property between April 1, 2012, and June 30, 2013.

We also requested the eight coaches involved in the eight contracts to provide the background checks of the employees and volunteers who worked their camps. However, one coach left employment with the University prior to our request and we were told that he took his employees' background checks with him. One coach did not respond to

our request. Six of the eight coaches provided the background checks for 130 employees, student workers, and volunteers listed by the coaches as working in their camps.

To determine whether individuals who had direct contact with minors at academic camps and events operated by University departments had obtained the three background checks (Act 34, Act 114, and Act 151), we reviewed department records and verified the University obtained the three background checks for these individuals. As previously discussed, the University was unable to provide us with a complete listing of department sponsored academic camps or events attended by minors. However, University officials did indicate that the University's Department of Health and Physical Activity conducts camps for minors in the fall, spring, and summer each year.

We selected three of those camps to determine if the required clearances were obtained. Through our review of the websites of various University departments, we found two camps that were held on University property. One was by the School of Pharmacy in the summer of 2011 and the other by the School of Engineering in the summer of 2013.

We reviewed the background checks and clearances on file for the 87 employees, student workers, non-payroll workers, or volunteers listed by departments for these five academic camps/events.

We also reviewed various University athletic websites and camp brochures to determine if either contained a disclosure informing the potential camp participant, parent, or guardian that the camp was not a University sponsored event.

**Finding 1**

**University of Pittsburgh officials did not adequately ensure that athletic camp employees, who had direct contact with minors, had obtained the required background checks/clearances.**

Our audit found that prior to January 2012, the University exercised no oversight and did not have policies in place to require coaches, who operated youth athletic camps on University property, to obtain criminal background checks from their employees and volunteers who would have direct contact with minors at the athletic camps. The coaches who conducted the camps were not required to sign contracts with the University for the use of the University's facilities. The University placed the oversight and policing of the summer youth athletic camps on the coaches although the camps were conducted on University property using University facilities.

Beginning in summer 2012, the University entered into agreements (Special Event Contracts) with its coaches who used University facilities in the operation of youth athletic camps. The coaches were responsible to supply their own employees and volunteers as camp instructors. Coaches hosted 61 youth athletic camps from January 1, 2012, through June 30, 2013.

Although the agreement required the contractor (coaches) to obtain background checks for their employees and volunteers, the University did not ensure that the background checks were obtained by the contractor (coaches). The University did not verify that background checks for youth sports camp employees and volunteers were obtained by contractors. The University did not require the contractors to provide documentation that all adult employees and volunteers of the contractor, who would have direct contact with minors at the camps, had obtained the required background checks. The University essentially placed all responsibility for monitoring compliance with the background check requirements of the Special Event Contract with the contractor.

Our review of eight Special Event Contracts found that all eight contracts required the contractor to obtain Act 34 criminal background checks, Act 151 child abuse clearances, and Act 114 federal criminal background checks for "its directors, officers, partners, principals, employees, contractors, volunteers and other agents who will or may be present at anytime in, or around the ... property of the University ... ."<sup>31</sup> The agreement also required the coaches to inform the University if any such

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<sup>31</sup> University of Pittsburgh – Department of Athletics, Special Event – Contract, clause 23.

individual's screening showed a felony or misdemeanor conviction, and whether the contractor intended to permit the individual to enter University property to participate in the camp.

The University did not require the coaches to submit copies of the background checks to the University. University officials explained that, because the coaches operate the camps as independent contractors there was no obligation to provide the requested information. Therefore, we requested that the coaches from the eight camps provide us with the background checks that were required by the Special Events Contract. Only six of the eight coaches provided us with a listing of employees and volunteers who participated in the camp and the required clearances.<sup>32</sup>

One of the coaches who did not provide the background checks had left employment with the University. According to the University, the background checks obtained by the coach were the coach's property and therefore the University did not require the coach to provide the background checks upon his separation from employment.

Further, we were not able to verify if the lists of employees and volunteers provided by the six coaches were accurate and complete because the University did not maintain any of the original sources to which it could compare or trace employee or volunteer names.

The table below illustrates the results of our review of athletic camp activity during the audit period. Our review of the background checks based on the unaudited listing of employees and volunteers provided by the six coaches indicated the following missing background checks.

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<sup>32</sup> Due to the timing of the camps we were unable to verify the accuracy of the listing of employees and volunteers provided by the coaches.

Performance Audit

University of Pittsburgh

	Year	Number of adult staff/volunteers required to obtain background checks	Staff with Missing Act 34 criminal background checks	Staff with Missing Act 151 child abuse clearance	Staff with missing Act Missing 114 federal criminal background checks
Camp 1	2012	32	0	2	0
Camp 2	2012	2	0	0	0
Camp 3	2013	21	2	3	2
Camp 4	2013	60	26	28	26
Camp 5	2013	6	0	2	0
Camp 6	2013	9	0	0	0
<b>Total</b>		<b>130</b>	<b>28</b>	<b>35</b>	<b>28</b>

Finally, we reviewed summer camp brochures that promote the summer camps that were offered by the coaches.

Our review of the special events contract, signed by the contractor states that:

...on all its related websites, brochures and other methods of communication, Licensee shall state expressly that its operations and activities are not owned or operated by the University.<sup>33</sup>

The camp brochures we reviewed that were available through the University’s website had no disclaimer that stated the camps were not sponsored by the University. In addition, parents registering their child for athletic camps could be under the impression that the camps were sponsored by the University, especially when the University’s logo was on the camps’ brochures and websites. Therefore, we determined that the University was not enforcing this contract requirement.

University officials responded in writing to our concerns by stating that during 2012 and 2013, the University complied with all existing requirements. No legal obligation existed during that period which required the University to independently confirm that licensees in Special Event Contracts complied fully with their contractual obligations (e.g., by collecting and reviewing background checks, themselves).

However, on May 19, 2014, University officials did , in light of our current audit and recent audits conducted at state-owned institutions and the

<sup>33</sup> Special Event – Contract, paragraph 12.

University's commitment to the protection of minors, make the University's existing University Policy 06-04-01 on Protection of Children from Abuse applicable to "any of the Activities that are owned or operated by the University itself, and all such Activities occurring on our campuses that are owned or operated by someone other than the University." As a result, University staff will, among other things, collect, review and retain copies of all background checks.

**Recommendations  
for Finding No. 1**

1. The University should ensure that it obtains the required clearances for adult employees, including University students, employees, non-payroll workers, and volunteers who have direct contact with minors through their work at youth camps held on University property.
2. The University should develop and maintain a process to ensure that it exercises adequate oversight of all youth camps, including those hosted by University coaches operating personal business and outside groups.
3. The University should maintain a central listing of all camps/events and it should conduct reviews to ensure that all required background checks were obtained and reviewed prior to the start of any camp and that any individual whose record indicates they may be a risk to minors were excluded.
4. The University should retain the background checks in compliance with University Policy 06-04-01, which requires such records to be kept for a minimum of three years after submission or five years after separation from affiliation with the University.
5. The University should ensure that operators of camps held on University property or that use University facilities refrain from using pictures, logos or other representations of, or relating to, the University and those associated with the University without obtaining the University's prior written authorization.

**Management  
Response**

*The University is deeply committed to promoting a safe environment for minors who participate in programs and activities on campus. Engaging minors is consistent with the University of Pittsburgh's mission, identity and role in the community. Through a range of academic, athletic, enrichment, and other programs, the University welcomes and provides opportunities for minors on its campus, while also seeking to promote their safety and well-being.*

*Consistent with this commitment, over the last several years, the University has taken a number of important steps, and adopted safeguards, all intended to better protect minor children when they are on University premises participating in programs and activities. As the Auditor General expressly acknowledged, the steps that the University took were, in large part, above and beyond that which was required by law. Further, they went beyond the historic practices in higher education. As Pennsylvania residents well know, when the tragic events surrounding Jerry Sandusky unfolded at the end of 2011, protecting minors when on campus deservedly received increased focus. The University then took additional steps in an effort to better protect minors on campus.*

*First, by mid-February 2012, the University had posted a Q&A page entitled, "Protecting Children from Abuse" on its website. That document was intended for University administrators and employees and addressed topics such as background checks, training and reporting suspected child abuse. The document stated that, at minimum, employees with "a significant likelihood of regular contact with children," must have (1) a Pennsylvania State Police criminal record check; (2) a Pennsylvania Department of Public Welfare (now Department of Human Services) child abuse clearance; and (3) an FBI fingerprint criminal liability clearance (collectively, the "Clearances").*

*During the audit period of July 1, 2010 through June 30, 2013, some head coaches of the University's intercollegiate athletics teams, either individually or through private business entities, conducted youth athletics camps on the University's campus. Those camps were conducted as the personal business activities of the coaches, and the University did not share in any camp revenues. By the summer of 2012, the University was requiring those who wished to use University facilities in the operation of youth camps - including its head coaches operating youth athletics camps - to sign a written license agreement form that, among other things, required the applicable licensee to obtain Clearances on each of the licensees' camp workers and volunteers.*

*By September 2012, the University had obtained Clearances for all its full-time employees then employed within its Pittsburgh campus Department of Athletics, and has continued to obtain Clearances for individuals newly hired into that department on a full-time basis. Though most of these employees either have no contact with minors or do not regularly care for or supervise children in the context of their day-to-day University employment duties, the University determined it would nonetheless require those Clearances because of the possibility of contact with minors. As a result, the University has collected and reviewed Clearances for any and all full-time employees of the Athletic Department*



*who also worked/volunteered at coach-operated youth athletics camps since that time.*

*Since 2012, all full-time employees employed within the Athletic Department have been required to successfully complete a specific online training course on protecting children from abuse.*

*In January 2013, the University implemented a formal Policy and Procedure on the subject, "Protection of Children from Abuse". Similar to the Q&A distributed in February 2012, the document addresses topics such as background checks, training and reporting suspected child abuse.*

*During 2014, the University became aware the Auditor General had in recent performance audit reports involving other institutions of higher education, suggested Clearances should, as a matter of policy, be reviewed by the institution for all adults who have direct contact with minors at youth camps on campus – whether those youth camps are operated directly by the institution or by licensees of the institutions' facilities. In light of the University's continued commitment to the protection of minors on campus, and because the University is always willing to consider and learn from evolving best practices, a memorandum was issued May 19, 2014 to the University's Deans, Directors and Department Heads. That memorandum underscored the University's desire to protect the children who visit campus and expanded upon the University's expectations and requirements for camps, clinics, programs and similar activities involving direct contact with minors. In particular, University responsibility centers were directed to inform the University's Provost and Senior Vice Chancellor of any and all such youth activities conducted, or planned, during a two year period. Further, responsibility centers were informed that, for any such activities, whether owned and operated by the University or by others, they must review the Clearances of all applicable workers and volunteers, lists of applicable workers and volunteers, and exclude any such individual whose record indicated they may be a risk to minors. As a result, among other things, for those coach-operated private youth athletics camps conducted on the University's campus beginning with the summer of 2014, the Department of Athletics (a) collected, in advance, rosters of camp workers/volunteers and, for each, copies of Clearances; (b) reviewed and retained copies of rosters and Clearances; (c) excluded from such activities any such individual whose record indicated he/she may be a risk to minors; and (d) documented, in writing, the steps taken to complete those actions.*

*It is apparent that treatment of minors on college campuses throughout the Commonwealth has evolved rapidly over the past several years. Indeed, consistent with this evolution, the Auditor General has begun*

*auditing universities in the Commonwealth on their practices relating to minors on campus, with none of those audits resulting with positive outcomes.*

*The University welcomes the Auditor General's recent focus on protecting minors and takes the findings and recommendations relating to minors on campus very seriously. In light of the Audit, the University will review its policies, procedures and processes to provide protections for minors consistent with the Auditor General's recommendations. Moreover, effective December 31, 2014, Pennsylvania law concerning the protection of minors in higher education will change due to the enactment of new Child Protection legislation. The University is currently reviewing that new law, working towards compliance, and looking forward to implementing increasingly effective protective measures for minors. Such efforts will result in the University taking actions to update and expand its child protection efforts consistent with the recommendations in the Performance Audit and newly enacted legal requirements.*

**Auditor's  
Conclusion**

We are pleased that the University of Pittsburgh management agrees with our recommendations and that management has already taken action to implement them. In addition, we are very glad to learn that the University is taking appropriate steps to ensure that any of the recently enacted changes to the Child Protective Services Law that may impact on state-owned universities, effective December 31, 2014, including Act 153 of 2014, are fully complied with. During our next audit, we will review the new and improved policy and evaluate whether our recommendations and the latest legislative changes have been implemented.

**Finding 2**

**The University of Pittsburgh failed to ensure that University employees who had direct contact with minors and were affiliated with youth camps/events hosted by University departments had obtained appropriate background checks/clearances.**

The University did not require employees who conducted educational related camps or events hosted by University departments with attending minors to obtain background checks prior to January 2012. According to University officials, beginning on January 3, 2012, the University started the practice of requiring departments to obtain clearances for University employees who had a significant likelihood of direct contact with minors. However, volunteers and University students who assisted employees or worked at a camp were not included in this practice.

On January 3, 2013, the University implemented a policy requiring that an FBI Criminal Background Check, Pennsylvania Child Abuse Clearance, and Pennsylvania State Police Criminal Background Check be conducted before any adult may be hired, appointed, employed, assigned, reassigned, or otherwise placed or permitted, by the University to be in a position that involves the significant likelihood of regular contact with children.

During our audit period, University faculty and staff from various departments had approval from the University's administration to conduct educational camps or events for minors on campus. These events were held without the oversight of the University's central administration. The departments staff these events with full-time employees and student workers as well as volunteers to serve as instructors and counselors. The departments that hosted the camps or events were responsible for ensuring that the required background checks were obtained for employees and volunteers.

The University was not able to provide us with a complete listing of University departments that hosted educational camps or events, the number of camps or events that were held, and the names of employees, students, or volunteers who were associated with each camp. Interviews with University administration disclosed that the University did not assign the responsibility of overseeing these events to any one central department or staff person. Each department was responsible for operating the educational camps and events that it was conducting and also determining which employees, University students, or volunteers were required to obtain the required clearances.

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Through researching the Internet and discussions with University officials we were able to identify five educational camps that occurred during our audit period. We reviewed three camps hosted by the University’s Health and Physical Activity Department. Additionally, we reviewed camps held by the School of Pharmacy and School of Engineering. The departments provided us with a listing of employees, students, or volunteers who had direct contact with minors at the camps or events. We were not able to verify the accuracy and completeness of the listing of employees and volunteers provided by the departments due to the University failing to verify the accuracy of the listing at the time of the event. We had no way to verify at the time of our audit whether the employees and volunteers listed by the department as working or volunteering at the educational camp or event, actually did.

The table below shows the extent to which the University’s departments obtained the background checks for those staff, students, or volunteers who had direct contact with attending minors at the educational camps:

<b>Department</b>	<b>Date of Educational Camp</b>	<b>Number of staff/volunteers</b>	<b>Staff with missing Act 34 criminal background checks</b>	<b>Staff with missing Act 151 child abuse clearance</b>	<b>Staff with missing Act 114 federal criminal background checks</b>
Health and Physical Activity	Summer 2010	16	16	16	16
Pharmacy	Summer 2011	7	1	0	7
Health and Physical Activity	Fall 2011	21	6	6	9
Health and Physical Activity	Spring 2013	32	0	0	1
Engineering	Summer 2013	11	8	7	7
<b>Total</b>		<b>87</b>	<b>31</b>	<b>29</b>	<b>40</b>

The Director of the Health and Physical Activity Department indicated that even though background checks were not required, the department did begin collecting the background checks for the employees, students, and volunteers for the camp held in the fall of 2011. The director further stated that, the background checks may have been discarded and replaced with current employees, students, and volunteers checks.

Only the most recent<sup>34</sup> clearances for current employees were kept on file by the Health and Physical Activity Department. The program administrator for the engineering camp indicated that she inadvertently destroyed a camp file in which clearances were stored. Although University Policy 06-04-01 required copies of the clearances to be maintained and preserved by the Office of Human Resources, they were not.

According to University Procedure 06-04-01, Protection of Children from Abuse, effective January 3, 2013, requires clearances to be maintained and preserved for three years after submission or five years after separation from affiliation with the University, whichever is longer.

On May 19, 2014, the Provost and Senior Vice Chancellor and Executive Vice Chancellor sent a memo to Deans, Directors, and Department Heads. The memo requested that each department provide a listing of camps or activities their departments were involved in or which they may be involved in from January 1, 2013, to January 1, 2015, to aid in gathering information about minors on campus as the University continues to assess appropriate safeguards. The memo also stated that for any activities that are owned or operated by the University itself, the department is responsible for determining that each and every person who has direct contact with minors whether or not paid and whether or not a University employee has submitted the required background checks.

**Recommendations  
for Finding No. 2**

1. The University should ensure that it obtains the required background checks for employees, student employees, non-payroll workers, and volunteers who have direct contact with children through their work at youth camps/activities held on University property.
2. The University should develop and maintain a process to ensure that it maintains adequate oversight of all youth camps/events hosted by University departments. The process should include maintaining a central listing of all camps/events and conducting reviews to ensure all required background checks were conducted. Again, the background checks are not to be discarded except according to the University's Policy 06-04-01, which requires such records to be kept for a minimum of three years after submission or five years after separation from affiliation with the University.

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<sup>34</sup> The department replaced old background checks with new background checks that were obtained by the staff/volunteers.

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3. The University should ensure that it reviews policy 06-04-01 on a regular basis to ensure that its policy is in compliance with all current laws and regulations.

**Management  
Response**

See the University of Pittsburgh's response to Finding 1.

**Auditor's  
Conclusion**

We are again pleased that the University of Pittsburgh management agrees with our recommendations and that management has already taken action to implement them. In addition, we are very glad to learn that the University is taking appropriate steps to ensure that any of the recently enacted changes to the Child Protective Services Law that may impact on state-owned universities, effective December 31, 2014, including Act 153 of 2014, are fully complied with. During our next audit, we will review the new and improved policy and evaluate whether our recommendations and the latest legislative changes have been implemented.

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**Audit Results for  
Objective Two**

**Objective**

*Procurement  
Cards*

Objective two was to determine if the University maintained effective controls to ensure compliance with the University's procurement card policy.

**Relevant, Policies, and Agreements**

The following pertinent University of Pittsburgh policies related to procurement cards are summarized below:

- University of Pittsburgh Policy 05-02-12, Procurement Card, effective date June 1, 2009<sup>35</sup> Revised. This policy explains the purpose and function of the University's procurement cards. The policy indicates the types of items that are permitted to be purchased with the procurement cards and those items that are prohibited (gift cards, fuel, vehicle rentals, etc.). Cardholders are required to obtain receipts for purchases and purchases may not be split into multiple transactions to avoid pre-established limits.
- Also according to 05-02-12, monthly reconciliation of the receipts to the statement is the responsibility of the cardholder and/or department administrator. Department administrators are responsible for the maintenance of these records, which must be maintained for seven years or the length of the grant (plus three years) if research funds are being used.
- University of Pittsburgh Policy 05-02-15, Required Use of Contracted Suppliers, effective date August 4, 2004. This policy requires all University units to use University contracted suppliers, when available, to purchase goods and services.

The University procurement card is an institutional purchasing credit card designed to simplify and decentralize the process of procuring goods for University departments. The procurement cards were implemented as part of an effort to reduce the cost to process the large volume of small dollar purchasing transactions, reduce delivery time, and eliminate purchase requisitions and order forms.<sup>36</sup>

Our review of transactions from July 1, 2010, through June 30, 2013 found the average dollar value of a procurement card transaction was \$271. The University has approximately 1,100 outstanding purchasing

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<sup>35</sup> This policy was also revised on September 30, 2013, and January 13, 2014.

<sup>36</sup> University of Pittsburgh Policy 05-02-12, Procurement Card, June 1, 2009, revised, Section I. Scope.

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cards during any given year. The number of active cards was dependent on the number of new users, and the termination of existing purchasing cards. The following table shows the number of procurement cards with activity, the number of transactions, and the total dollar value of those transactions.

<b>Fiscal Year</b>	<b>Number of procurement cards with activity</b>	<b>Number of transactions</b>	<b>Dollar value of transactions</b>
2010-11	1,108	43,359	\$12,125,880
2011-12	1,187	46,337	\$12,232,752
2012-13	1,157	47,496	\$12,789,415
<b>Totals</b>		<b>137,192</b>	<b>\$37,148,047</b>

According to the University's Procurement Card Policy, department administrators request procurement cards for individuals within their department and the administrator presets transaction limits, daily limits, and monthly limits for each cardholder. The cardholder, department administrator, and procurement card program administrator sign the application form indicating those limits. The purchasing and payables director signature is required if the monthly card limit exceeds \$25,000 and the signature of the associate vice chancellor of financial operations is required if the monthly card limit exceeds \$50,000. Single transaction limits range from \$250 per transaction to \$5,000 based on the preset limits of the card.

University officials stated that cardholders receive on-line training on the use of the procurement card. The training indicates cardholders are required to maintain receipts from purchases and to reconcile the receipts to the card statements monthly. The training also includes guidance to cardholders on what may or may not be purchased using the procurement card. Department supervisors also receive procurement card administration training. The training indicates department supervisors are responsible for conducting a monthly reconciliation of the procurement card statement and supporting documentation to ensure accurate budgeting and proper procurement card usage. Supervisors are also required to sign and date the statements to indicate their review.

The University's primary control for ensuring compliance with procurement card policies is an independent review of the purchases by the cardholder's supervisor or department administrator.

In addition to the monthly review conducted by the cardholder's supervisor, the University's payment processing and compliance



department and internal audit department also conduct audits of the procurement cards.

The payment processing and compliance department conducts 12 random spot checks on twelve various departments every year to test compliance with procurement card management procedures.<sup>37</sup> The department also conducts special audits of card transactions during specific times of the year, such as Christmas.

The internal audit department also monitors the proper utilization of procurement cards as part of its overall review of a University department. The internal audit department also has software that it periodically uses to identify unusual transactions such as items purchased on nights or weekends. The University through communication with the issuing bank also blocks the purchases of items coded to certain merchant category codes, such as weapons or alcohol, in order to prevent unauthorized purchases.

### **Scope and Methodology to Meet Our Objective**

Our objective was to determine if the University maintained effective internal controls to ensure procurement cards were used in compliance with University policy during the audit period July 1, 2010, through June 30, 2013.

To accomplish our objective on procurement cards, we reviewed the University's procurement card policy to gain an understanding of the policy overall and, in particular, those portions of the policy that were pertinent to our audit objective. Additionally, we reviewed training materials the University provided to cardholders and supervisors that specify the responsibilities of both the cardholder and the cardholder's supervisor.

We conducted interviews with the Associate Vice Chancellor for Financial Operations, Controller, and Director of Internal Audit to obtain an understanding of the procedures the University has implemented to ensure compliance with procurement card policy.

We obtained the University's Procurement Card Spend reports by cardholder for fiscal years ended June 30, 2011, 2012, and 2013, to

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<sup>37</sup> According to university officials, the payment processing and compliance department's goal was to select cards from at least twelve departments annually, focusing on individual cards with higher risk factors such as spending limits and activity levels for the previous three months as the selections were generally conducted quarterly. There are also some departments or cards that are regularly scheduled.

determine the number of procurement cards in use, the number of transactions, and the dollar value of the transactions.

We selected 25 of 510 procurement cards in which the cardholder spent in excess of \$5,000 from July 1, 2012, through June 30, 2013. We then selected 208 transactions from those 25 cards and obtained the credit card monthly statements, receipts, and procurement card logs that documented the 208 transactions to determine if the transactions were made and approved in compliance with University procurement card policy.<sup>38</sup> We reviewed the transactions to determine if:

- Procurement card statements were approved by the cardholder's supervisor.
- Receipts were maintained for the purchases.
- The cardholder did not split the purchases into multiple transactions to avoid the pre-established spending limits.
- The cardholder did not purchase prohibited items according to University procurement card policy.
- The items purchased were on University contract. (University policy 05-02-15 requires all University units to utilize contracted vendors when available.)
- The purchases were for University business and not for personal use.

We obtained and reviewed 36 audits of procurement cards conducted by the payment processing and compliance department between July 1, 2010, and June 30, 2013. Additionally, we reviewed the holiday audits conducted by the payment processing and compliance department during 2010 and 2011. We also reviewed the internal audits from audits of three departments that had findings related to the misuse of procurement cards.

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<sup>38</sup> The 25 purchase cards and 208 transactions selected were from July 1, 2012, through June 30, 2013. University cardholders maintain their own supporting documentation.

**Finding 3****The University's controls were inadequate to ensure that procurement card transactions and approvals complied with University policy.**

Our review of the 25 cardholders and 208 procurement card purchases disclosed 59 purchases or 28 percent of the transactions we reviewed violated the University's procurement card policies. The purchases included the following:

<b># of Cardholder(s)</b>	<b>Purchases</b>	<b>Value</b>
8	18	\$10,279
5	24	\$28,711
1	6	\$ 2,642
3	11	\$ 3,825
<b>Totals 16</b>	<b>59</b>	<b>\$45,457</b>

- Eight cardholders tested made a total of 18 purchases of items (i.e., computer equipment, printer ink and toner, camcorders) valued at \$10,279 from suppliers that were not University-wide contracted suppliers when the items were available on University contracts.
- Five cardholders split 24 purchases valued at \$28,711 into multiple transactions to avoid the pre-established spending authority of the cardholder. One of the five cardholders split a \$13,379 purchase of goods into multiple transactions to evade a \$2,000 single transaction limit. The split also evaded University policy that requires a minimum of three bids from qualified suppliers for all purchases over \$5,000. After a review by the internal audit department discovered the split purchases, the University revoked the cardholder's authorization to use the procurement card.
- One cardholder made six purchases for personal use totaling \$2,642 from December 12, 2012, through February 14, 2013. The cardholder was terminated from employment upon discovery of the fraud by her department for the unauthorized purchases. None of the six purchases included receipts. The fraud occurred and was resolved prior to our audit.
- Three cardholders did not maintain receipts for eleven purchases valued at \$3,825. In one instance a cardholder used the procurement card to buy items for a holiday party for the cardholder's department. Procurement card policy prohibits using the card for entertainment expenses.

Several cardholders indicated the reason they purchased items from vendors that were not University-wide suppliers was because the prices they received were better than what was offered on contract. However, the University's procurement website<sup>39</sup> indicates that when better pricing is found from an alternate supplier, the cardholder is instructed to contact the University-wide contracted supplier's account manager to ask about meeting or beating the alternate supplier's price. The University could not provide documentation that cardholders contacted the contracted supplier to inquire about meeting or beating the alternate vendor's price. Additionally, the University could not provide documentation indicating the prices were less expensive.

We found that there was no independent review of these transactions by the immediate supervisor and reconciliation of the cardholders account activity for two of the 25 cardholders we reviewed including the cardholder who used her card to make six personal purchases and the cardholder who split a \$13,379 purchase into multiple transactions. Further our review disclosed that the cardholder who used her card for six personal purchases made an additional 57 purchases for personal use totaling \$16,593 from July 8, 2011, through February 14, 2013.

In February 2013, the improper purchases were discovered during an "audit" of the employee's procurement card log by the cardholder's department administrator. There was no independent monthly reconciliation of the procurement card monthly statement by the cardholder's supervisor. This enabled the cardholder to continue to make purchases for personal use for 20 months without being detected.

Audits conducted by the University's payment processing and compliance department and internal audit department also attempt to ensure unauthorized purchases are not made. Many of the same concerns that were revealed during our testing and review of card transactions were also identified and reported in those audits. For example, the audit by the payment processing and compliance department of 36 monthly statements disclosed that three of 36 monthly statements had no independent review by the cardholder's supervisor. An audit of three University departments by the internal audit department disclosed that there was no independent review of purchases for six of the 15 cards they reviewed during the audit.

The University's internal audit reports do disclose unauthorized purchases they have discovered during audits of the procurement cards. The unauthorized purchases of one cardholder became public in a March 17,

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<sup>39</sup> <http://cfo.pitt.edu/pexpress/purchases/contractedSuppliers.php>.

2014, article in the *Pittsburgh Tribune Review* that disclosed a University employee was arrested for making 114 unauthorized purchases totaling \$31,572 with her procurement card between August 2012 and January 2014.

The above violations of the University's procurement card usage policy occurred for 18 months and 20 months without being detected by the University's internal controls. This indicates the need for the University to ensure that supervisors and department administrators properly and timely perform independent reviews of all procurement card purchases made by employees in their departments. Employees who are aware that their supervisor does not review the procurement card purchases may be tempted to make unauthorized purchases for personal use.

The University's procurement card policy explicitly states that an independent review of the procurement card is to be conducted. University of Pittsburgh Policy 05-02-12, Procurement Card, states:

Monthly reconciliation of the receipts to the statement is the responsibility of the cardholder and/or department administrator.

A review of the procurement card administration training provided to supervisors and department administrators indicated that it is the responsibility of the supervisor to do a monthly review of the procurement card statement and backup documentation to ensure accurate budgeting and proper procurement card usage. If a proper monthly reconciliation by the cardholder and a review by the supervisor is not performed procurement card transactions and approval will not comply with University Policy and cause certain unauthorized personal purchases to go undetected.

**Recommendations  
for Finding No. 3**

1. The University should improve internal controls over the use of procurement cards so that theft and other noncompliance with procurement card use is prevented or detected in a timely manner.
2. The University should evaluate its monitoring criteria to determine if its monitoring criteria should be modified or expanded.
3. The University should consider training supervisors and department administrators to conduct monthly reviews of procurement card statements and supporting documentation to identify noncompliance with policy including purchased made for personal use and split purchases.

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**Management  
Response**

*The University's procurement policies strongly encourage use of standard purchasing practices such as issuing purchase orders for each purchase and purchasing from University-wide contracted suppliers. However, the University's policies also contemplate the need for emergency purchases, travel-related purchases for which purchase orders are not accepted, or other unusual purchases such as one-time low-risk supplier inventory clearance sales. The University has implemented a procurement card program as an alternative to process these types of purchases.*

*Overall, procurement card purchases comprise less than 1% of the University's total annual expenses, with an average procurement card purchase value of only \$271. Despite this fact, we are still very concerned with controls over procurement card spending to ensure the lowest total cost of goods purchased and to prevent fraud. Our concern, as noted by the Auditor General, is evidenced by the fact that since program inception, the Payment Processing Department, which manages the procurement card program, has conducted regular "spot" audits and special audits at high risk times of the year such as the holidays. In addition, the University's Internal Audit Department has also conducted procurement card audits. Many of the issues identified by the Auditor General were previously identified by the University, and corrective actions were taken as soon as the issues were discovered.*

*Historically, the procurement card transaction data passed from individual suppliers to VISA and then to the University did not provide enough detail on the purchased items. This meant that the University's spot and special audits were costly, and involved a time-consuming and labor-intensive examination of paper receipts. As a result, despite our best efforts, we agree with the Auditor General that our audit coverage has not been as broad as desired and that some policy violations were not discovered immediately.*

*Recently, rapid advances in supplier point-of-sale technology have dramatically improved the quality of procurement card transaction data sent to the University from its card provider. The improved, more detailed data has made it possible for the University to develop an easy-to-use online transaction review application for procurement card holders and their supervisors / designated reviewers. Transaction details may now be reviewed as soon as three days after the purchase, rather than waiting for a monthly statement. The improved application, developed in 2014, displays detailed item descriptions when provided by the supplier, and forces supervisors to positively confirm via "check boxes" that each item purchased has a business purpose and complies with University policies.*

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*In addition, the Payment Processing Department will now be able to track departments online that are not reviewing their transactions in a timely manner for immediate follow-up, and possible procurement card termination. Payment Processing can also use the improved data and audit tools to target questionable individual purchases.*

*The University is currently implementing this new application. At the same time, we are re-training procurement card holders, their supervisors and designated reviewers about their responsibilities for oversight of procurement cards in their departments.*

### **Auditor's Conclusion**

We are pleased that the University of Pittsburgh management agrees with our recommendations and that management has already taken action to implement them. During our next audit we will review the new policy and evaluate whether the recommendations have been implemented.

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**Audit Results for  
Objective Three**

**Objective**

*Internal Audit  
Recommendations*

Objective three was to determine if University departments implemented the recommendations of the University's Internal Audit department in a timely manner.

**Laws, Regulations, Policies, and Agreements**

The mission of the Internal Audit Department (Internal Audit) of the University is to provide independent, objective assurance, and consulting services designed to add value and improve the University's operations. Internal Audit helps the University to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit assists University Management and the Audit Committee of the Board of Trustees in identifying, avoiding, and mitigating risks.<sup>40</sup>

Internal Audit, which consists of eleven employees, is independent in its actions. The personnel of Internal Audit report to the Director of Internal Audit, who in turn is accountable functionally to the Audit Committee of the Board of Trustees and administratively to the University's Chancellor.<sup>41</sup>

According to the Director of Internal Audit, each year Internal Audit sends letters to approximately sixty members of the University, including Trustees, Deans, Regional Campus Presidents, the Chancellor, and Vice Chancellors to ask about possible concerns and to request recommendations for the upcoming audit cycle. Internal Audit also uses an audit risk model to identify risks related to each of the 49 University responsibility centers. . Internal Audit staff utilizes: employee feedback, the risk base model scores,<sup>42</sup> as well as current audit trends from similar universities to evaluate what audits and objectives should be selected for the audit cycle.

According to Internal Audit's website, the typical internal audit process is comprised of four stages: planning, fieldwork, reporting, and follow-up. Approximately six months after Internal Audit issues a final report to the department under audit, it performs a follow-up review to verify that the

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<sup>40</sup> <http://www.cfo.pitt.edu/intaudit/charter.php>.

<sup>41</sup> Ibid.

<sup>42</sup> Risk base model score of five means the department is a high risk department and is audited every year. A risk score of one means the department is a low risk and will be audited every five years. A risk score of three means the department is a medium risk department and will be audited every other year.



recommendations included in the final report have been implemented.<sup>43</sup> If Internal Audit verifies recommendations have been implemented the audit is closed. If Internal Audit is not satisfied the recommendations have been implemented the audit is not closed. According to the Director of Internal Audit, all audit reports are sent to the Chancellor and Chief Financial Officer. Reports also go to the Provost, and the senior administrator of the department being audited. The Controller also receives audit reports.

### **Scope and Methodology to Meet Our Objective**

This objective pertains to reports issued by Internal Audit from July 1, 2010, through June 30, 2013. Internal Audit issued 79 audit reports during our audit period that included findings and recommendations.

To accomplish our internal audit objective, we obtained information from Internal Audit's website<sup>44</sup> including the department's mission statement, the audit process, and the Internal Audit charter.

We interviewed the Director of Internal Audit to gain an understanding of the audit process including planning the audits, conducting audits, and following-up on the audit recommendations.

We selected and reviewed eight of the 79 audit reports. The eight audits contained 59 findings. We performed a detailed review of eight of the 59 findings and recommendations, and the implementation status of the recommendations by the appropriate department. We also verified whether Internal Audit followed-up to verify that the recommendations included in the eight audits were implemented.

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<sup>43</sup> <http://www.cfo.pitt.edu/intaudit/auditProcess.php>.

<sup>44</sup> [www.cfo.pitt.edu/intaudit/](http://www.cfo.pitt.edu/intaudit/).

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**Finding 4      University departments implemented Internal Audit recommendations in a timely manner.**

We reviewed eight internal audit reports issued during the period July 1, 2010, through June 30, 2013. The eight reports contained 59 findings and recommendations. We determined that the appropriate department provided written responses that indicated how and when it would implement Internal Audit recommendations. We found Internal Audit conducted follow-up reviews after six months to determine whether the recommendations were implemented for all eight audits. The reports showed 53 recommendations were implemented and six of the recommendations were still in progress of being implemented by the department when Internal Audit conducted its follow-up review.

We selected eight recommendations from the 59 findings and we determined whether the recommendations were implemented by the appropriate departments. These eight recommendations related to audits of five departments: Athletic Ticket Office, School of Law, Panther Central, Pitt News, and the Parking Office. We determined by visiting the departments and performing testing on the recommendations selected that the departments had implemented the eight recommendations contained in the internal audit reports. The following table shows the recommendation and how it was implemented:

<b>Department</b>	<b>Recommendation</b>	<b>Implementation of Recommendation</b>
School of Law Library	1. Become a delegated purchasing unit.	We verified the Purchasing Department issued a letter for law library to become a delegated purchasing unit.
School of Law Library	2. Update conflict of interest report annually.	We verified the Conflict of Interest forms were on file for the current year with the department.
Athletic Ticket Office	3. Develop and maintain formal standard operating procedures.	We verified the Ticket Office developed and maintains a formal procedures manual for selling tickets for different athletic events.

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University of Pittsburgh

<b>Department</b>	<b>Recommendation</b>	<b>Implementation of Recommendation</b>
Athletic Ticket Office	4. Monitor monthly payroll deductions for sporting events.	We verified the Monthly payroll deductions are being monitored by the Ticket office on a monthly basis.
Parking Office	5. Comply with the University bidding policy.	We verified that the new contract with the parking vendor was competitively bid according to University policy.
Parking Office	6. Vendor obtains the minimum insurance coverage as recommended by Risk Management.	We verified the vendor did have the required insurance coverage on file with the Parking Office.
Panther Central	7. Comply with University policy 05-06-02 by establishing a viable back-up process to handle the daily reconciling and deposits in the absence of the Financial Coordinator.	We verified that Panther Central now has a person in addition to the financial coordinator to reconcile and make timely deposits of cash.
Pitt News	8. Students are restricted from removing holds on customer accounts unless proper approval is obtained.	We verified that the students are restricted from removing holds on customer accounts. Students no longer have access to this program.

Based on the results of our review and testing, it appears that relevant University departments implemented Internal Audit recommendations in a timely manner and that Internal Audit verified that these departments implemented the recommendations.

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**Audit Results  
for Objective  
Four**

**Objective**

Objective four was to evaluate the University's policy on reporting suspected misconduct or whistle blowing applicable to University faculty, staff, students, administration, and officers.

*Internal  
reporting/whistle  
blowing*

**Relevant Policies and Agreements**

In June 2004, the University began contracting with an independent third party vendor to enable employees to report irregularities or troublesome workplace issues through an internal reporting system referred to as AlertLine.

Reports can also be submitted on-line through the Internal Audit Department's website. Communication specialists, employed by AlertLine, record and process reports received from University employees and students. Procedures provided by the vendor to the University outline the distribution of calls received on the line to University personnel. According to the AlertLine brochure, the contractor's communication specialists ensure that the report is routed to the appropriate University official for follow-up, investigation, and resolution. Employees receive a confidential identification number when they submit a report and instructions on how to follow-up with the contractor regarding resolution of the report.

The University of Pittsburgh's staff handbook, *General Policies and Guidelines*; AlertLine states:

AlertLine is available to all full-time and part-time faculty, staff, research associates at the Oakland and regional campuses and other off-campus work locations. Caller can remain anonymous. The line answers 24 hours a day, seven days a week, and can be accessed from any telephone in North America, including pay telephones.

The staff handbook also states:

... AlertLine is not intended to replace existing compliance hotlines or established grievance procedures. Note that calling the AlertLine does not constitute providing legal notice to the University of Pittsburgh. If you believe the concern is life threatening, call your University police or security department.

The following issues can be reported through AlertLine<sup>45</sup>:

- Financial improprieties, including fraud, theft, falsification of records, and improper use of University assets;
- Human resource matters, including perceived harassment, discrimination, misconduct, and other workplace issues;
- Research compliance concerns, including conflicts of interest, improper charging of grants, violations of human subject research regulations, and violations of other research compliance rules; and
- Other legal/regulatory matters, such as the protection of children while on campus.

An AlertLine communication specialist assigns each report a category and priority. The category determines the office/who at the University will receive the report and the priority determines the urgency of the action or response needed. The offices include Internal Audits, Human Resources, Research Conduct and Compliance Office, Office of General Counsel, or Campus Police depending on the nature of the report. The following are the designations in order of priority and examples of the type of call that will receive that particular priority code<sup>46</sup>:

Priority A- Reports that require immediate review and/or action due to an allegation of immediate threat to person, property, or environment. A verbal notification is made immediately to the Campus Police Department. Examples include theft in progress, threats of physical harm, or weapons on University property.

Priority B- Reports of time-sensitive information that require prompt review and/or action. Examples include ongoing drug abuse, safety issues, or theft as long as these are not occurring at the

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<sup>45</sup> This includes information obtained from AlertLine brochure and poster distributed to University employees and departments.

<sup>46</sup> This includes the priority code description and examples provided by the third party contractor.

time of the call, and issues with serious legal ramifications such as sexual harassment.

Priority C - Reports that may not require immediate action by the University. Examples include complaints about company policies, unfair reprimands, scheduling, or requests for guidance.

According to the Director of Internal Audits, the University's Internal Audit Department tracks the progress of each investigation and ensures the resolutions are timely. The director further stated that normally, Priority B calls should be resolved within ten days and Priority C calls within 14 days. The Director of Internal Audits also reports quarterly to the University's Audit Committee about all reports and concerns received through the AlertLine.

### **Scope and Methodology to Meet Our Objective**

This objective related to calls received through the AlertLine from July 1, 2010, through June 30, 2013. The third party vendor provided a report that indicated there were 53 calls to the AlertLine during this period.

To accomplish our objective we reviewed AlertLine guidelines and materials distributed to staff and University departments including brochures, posters for department bulletin boards, advertisements in the University newspaper, and Internal Audits' website.<sup>47</sup>

We reviewed the contract between the University and vendor that operates the AlertLine to determine the specific services to be provided and costs of associated with the services.

We conducted interviews with University officials including the Director of Internal Audit in order to gain an understanding of the University's AlertLine. We received and reviewed correspondence from the University's General Counsel regarding our ability to review the AlertLine reports and subsequent investigations and resolutions.

We also reviewed the meeting minutes of the Audit Committee of the Board of Trustees from July 1, 2010, through June 30, 2013, to determine if AlertLine concerns are reported to the Audit Committee.

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<sup>47</sup> The website [www.cfo.pitt.edu/intaudit/](http://www.cfo.pitt.edu/intaudit/) contains a tab entitled, *Reporting a Concern* that allows employees to access the AlertLine website to file a report and also contains a copy of the AlertLine Brochure.

**Finding 5**

**Due to limitations imposed by the University, we were unable to determine if AlertLine reports were properly categorized, prioritized, investigated, and resolved.**

The meeting minutes of the Audit Committee of the Board of Trustees for the period July 1, 2010, through June 30, 2013, indicated that the Board's Audit Committee was informed of 53 AlertLine reports.

We were not permitted to review the investigations and resolutions for any of the 53 calls to the AlertLine. On April 8, 2014, the University's Office of General Counsel issued the following letter in regards to the Auditor General reviewing the calls:

*Going back to its inception in 2004, AlertLine has provided University of Pittsburgh employees with the means to report irregular or troublesome workplace issues so that these issues can be investigated and resolved. Employees filing a report using AlertLine are given the option to remain anonymous.*

*Given that many AlertLine callers have chosen to remain anonymous and the sensitive nature of some of the calls, the content of the calls is only shared with internal investigators, appropriate members of the Senior Administration and with the Audit Committee and Risk and Compliance Committee of the Board of Trustees.*

*It was never contemplated or communicated to employees that the confidential information contained in their anonymous calls would be shared with outsiders in circumstances such as this. The University believes it would be a violation of the trust with the callers if the content of the AlertLine calls were to be shared at this time. As such the University does not believe it would be appropriate to share this information with the Office of the Auditor General.*

Due to this scope limitation we were prohibited in our ability to review the effectiveness of the AlertLine. As a result, we were unable to determine whether reports made to the AlertLine service, which can involve extremely serious allegations, were properly categorized and prioritized, and if reports were timely investigated and resolved.

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**Audit Results  
for Objective  
Five**

*NCAA  
Compliance*

**Objective**

Objective five was to determine whether the University awarded tuition waivers and scholarships to eligible students in accordance with University policy and the policies of the National Collegiate Athletic Association.

**Relevant Regulations, Policies, and Agreements**

The University of Pittsburgh is a member of the National Collegiate Athletic Association (NCAA). The NCAA describes its purpose to safeguard the well-being of student – athletes; to promote competition in a fair, safe, equitable and sportsmanlike manner; and to integrate intercollegiate athletics into higher education so that the educational experience of the student-athlete is paramount.<sup>48</sup>

The NCAA, through its member institutions, conferences, and national office staff, share a belief in and commitment to:<sup>49</sup>

- The collegiate model of athletics in which students participate as an avocation, balancing their academic, social and athletic experiences.
- The highest levels of integrity and sportsmanship.
- The pursuit of excellence in both academics and athletics.
- The supporting role that intercollegiate athletics plays in higher education mission and in enhancing the sense of community and strengthening the identity of member institutions.
- An inclusive culture that fosters equitable participation for student-athletes and career opportunities for coaches and administrators from diverse backgrounds.
- Respect for institutional autonomy and philosophical differences.
- Presidential leadership of intercollegiate athletics at the campus, conference and national levels.

The *NCAA Division I Manual*, effective August 1, 2011, contains the governing bylaws for student-athletes who attend the University of Pittsburgh. The University follows these bylaws in order to be compliant with the NCAA which is the governing body for student-athletes.<sup>50</sup> We

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<sup>48</sup> [www.ncaa.org/about/ncaa-core-purpose-and-values](http://www.ncaa.org/about/ncaa-core-purpose-and-values).

<sup>49</sup> Ibid.

<sup>50</sup> The University of Pittsburgh has no separate policies regarding student-athletes other than the NCAA bylaws.



concentrated our efforts in the following two areas of the *NCAA Division I Manual*: eligibility and financial aid.

The following relevant bylaws from the NCAA manual are the criteria we reviewed:

**14.3.1.1.2 Initial-Eligibility Index.**

Freshman may establish eligibility using the following eligibility index; ex: Core GPA<sup>51</sup> 3.525 needs a score of 410 on SAT, or 38 on the ACT<sup>52</sup>.

**14.4.3.1.7 Designation of Degree Program.**

A student-athlete shall designate a program of studies leading toward a specific baccalaureate degree at the certifying institution prior to participating in competition that occurs during or immediately before the third year of enrollment and thereafter shall make progress toward that specific degree.

**14.4.3.2 Fulfillment of Percentage of Degree Requirements.**

A student-athlete who is entering his or her third year of collegiate enrollment shall have completed successfully at least 40% of the course requirements in the student's specific degree program.

**14.4.3.3 Fulfillment of Minimum Grade-Point Average Requirements.**

A student-athlete who is entering his or her second year of collegiate enrollment shall present a cumulative minimum grade-point average (based on a maximum 4.00) that equals at least 90 percent of the institution's overall cumulative grade-point average required for graduation.

**15.2.1 Tuition and Fees.**

An institution may provide a student-athlete financial aid that includes the actual cost of tuition and required institutional fees.

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<sup>51</sup> Core Grade Point Average (GPA) is based on 16 academic courses (math, English, science and social science) from a college freshman's high school career.

<sup>52</sup> American College Testing (ACT).

**15.2.2 Room and Board.**

An institution may provide a student-athlete financial aid that includes the cost of room and board, based on the official allowance for a room as listed in the institution's official publication (e.g., catalog) and a board allowance that consists of three meals per day, even if the institution's maximum permissible award allowance for all students represents a lesser cost figure.

**Scope and Methodology to Meet Our Objective**

We focused our audit on the eligibility and financial aid awarded to student-athletes for the period July 1, 2010, through June 30, 2013.

To accomplish our audit objective, we obtained and reviewed a copy of the 2011-12 *NCAA Division I Manual*, which consisted of a Constitution, Operating Bylaws, and Administrative Bylaws. We focused our attention on Bylaw Article 14 Eligibility: Academic and General Requirements; and Bylaw Article 15 Financial Aid.

We interviewed the University's Athletics Compliance Officer to gain an understanding of the University's efforts to comply with the eligibility and financial aid requirements of the NCAA.

We selected a test group of 30 student-athletes enrolled at the University from the period July 1, 2010, through June 30, 2013. We reviewed each student-athlete's file to determine whether they met the eligibility requirements of the NCAA, specifically the policies noted above.

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**Finding 6**

**The University is in compliance with the NCAA bylaws regarding student-athletes eligibility and financial aid.**

Our audit testing of eligibility found that the University properly declared all 30 student-athletes eligible to participate in their sport during the audit period by the appropriate dean's office, the Registrar's Office, and the academic support services for student-athletes. The University conducted a comprehensive annual review of each student-athlete to determine if the student-athlete was eligible to play a sport before the athlete participated in his or her sport.

We found that all 26 of the 30 student-athletes met the minimum GPA<sup>53</sup> permitted by the NCAA bylaw section 14.4.3.3. The other four student-athletes were freshman during the 2012-13 academic year and were not required to meet the minimum GPA.

From July 1, 2010 through June 30, 2013, nine of our 30 student-athletes were freshmen at one time. We found all nine were cleared to participate in their sport by the NCAA Eligibility Center<sup>54</sup> and they met the minimum GPA and SAT or ACT scores required by the NCAA bylaw 14.3.1.1.2 Initial-Eligibility Index.

Twenty of the 30 student-athletes designated a program of studies by their third year of enrollment in compliance with NCAA bylaw 14.4.3.1.7. The other ten student-athletes were not required to designate a program of studies because they were not in their third year of enrollment at the university.

We found that during the 2012 -13 academic year, 19 of the 30 student-athletes were beyond their sophomore year and they were in compliance with NCAA bylaw 14.4.3.2, which required them to have completed 40 percent of their specific degree requirements. The remaining 11 student-athletes were freshmen or sophomores and this requirement was not yet applicable to them.

To ensure compliance with the bylaws, the University reviewed and approved all 30 student-athletes academic records every spring. The reviews were conducted by the student's appropriate dean's office and the Registrar's Office. The final review and sign off for eligibility was

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<sup>53</sup> The University of Pittsburgh uses the lowest GPA required for graduation as per the NCAA bylaws. For example, a sophomore student-athlete entering his third and fourth semester must have a GPA of 1.8.

<sup>54</sup> High school graduates entering college are required to register with the NCAA Eligibility Center to be eligible to play college sports. The NCAA clearinghouse verifies the high school graduate has the required core classes from high school and the required SAT and/or ACT score to be eligible.

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performed by the Office of Academic Support Services for student-athletes. We found all 30 student-athletes were ruled eligible by the offices noted above.

We also reviewed the financial aid given to the 30 student-athletes, specifically tuition, room, and board. We determined that all 30 student-athletes in our test group received the appropriate financial aid which they were entitled to under the NCAA bylaws 15.2.1 tuition and fees and 15.2.2 room and board.

**Audit Results  
for Objective  
Six**

**Objective**

Objective six was to determine if the University complied with University policy and monitored contracts for professional services.

*Service Purchase  
Contracts*

**Relevant Policies, and Agreements**

The University contracts with vendors to provide professional services, such as food service operations, information technology services, legal services, and student recruitment that are not performed by its internal staff. University records indicate it spent approximately \$264 million for professional services during the following three fiscal years:<sup>55</sup>:

<b>Fiscal Year</b>	<b>Amount</b>
2010-11	\$ 89,206,801
2011-12	\$ 87,945,278
2012-13	\$ 86,615,947
<b>Total</b>	<b>\$ 263,768,026</b>

Article 4.1 of the University’s bylaws provides the authority for contracts to be signed on behalf of the University. The Article states:

The Board[of Trustees] may authorize any person to sign contracts and other instruments on behalf of the University and any such person, if authorized to do so by the Board, may delegate all or part of such authority to any other person or persons by instrument in writing. Nonetheless, any instrument executed on behalf of the University by its Chairperson, Chancellor and Chief Executive Officer, Provost, Executive Vice Chancellor, any Senior Vice Chancellor, Chief Financial Officer, General Counselor, Treasurer, or any Assistant Treasurer, and attested by its Secretary or any Associate or Assistant Secretary shall be binding upon the Corporation.<sup>56</sup>

This authority is also reiterated in University of Pittsburgh Policy 01-03-03, Execution of Instruments, effective date of July 23, 2001, revised.

Several of the University of Pittsburgh’s policies are pertinent to contracting for professional services. They include the following:

<sup>55</sup> Amounts were obtained from the Joint State Government Commission, Information Disclosure of the State-Related Universities report.

<sup>56</sup> University of Pittsburgh, Bylaws as amended through February 22, 2013.

University of Pittsburgh Policy 05-02-05, Department Purchasing Authority and Responsibility, effective date April 7, 2006 revised:

This policy establishes the purchasing authority for departments and their associated responsibilities. It also describes purchases that are prohibited. Unless delegated in writing by the Board of Trustees, purchasing authority for all other departments is limited to \$5,000 per purchase for goods and services. All purchase transactions that exceed \$5,000 must be approved by the Purchasing Department or regional campus Purchasing Department.

University of Pittsburgh Policy 05-02-16, Competitive Bidding, effective April 7, 2006 revised:

This policy establishes competitive bidding requirements for all University of Pittsburgh responsibility centers. This policy requires suppliers of goods and services in excess of \$5,000 to be selected through competitive bidding with the exception of directed or sole source purchases. The department must obtain a minimum of three bids from a qualified supplier or a documented attempt to obtain three bids. The bids must be conducted with the assistance of the purchasing department if the purchase is in excess of \$50,000.

Competitive bids and price quotations should be conducted in a manner that provides, to the maximum extent possible, open and free competition. This is accomplished by adhering to formal competitive bidding procedures, soliciting requests for quotations and proposals, and negotiating pricing agreements.

University Policy 05-02-17, Directed or Sole Source Purchase Justification, effective date August 4, 2004:

The University recognizes that special circumstances may not support the use of competitive bidding. In these situations, directed or sole source purchases may be an acceptable alternative.

Directed or sole source purchases are an exception to University Competitive Bidding Policy, and must always be in writing. The purchasing department will approve a directed or sole source purchases on a case-by-case basis.

For directed and sole source purchases, University departments are responsible for evaluating alternative sources of supply and documenting the reasons that the purchase will be directed to a particular supplier or service provider when alternative sources are available. University departments are also responsible for verifying that prices paid for directed or sole source purchases are fair and reasonable.

University Policy 05-02-02, Conflict of Interest and Procurement Relationships, effective date March 12, 2003:

This policy requires as a condition of employment, all individuals authorized to commit University funds or purchase goods and services are required to sign a Conflict of Interest Certification.

University Policy 05-02-10, Payment of Invoices, effective date September 18, 1991:

This policy requires the Invoice Audit Department is responsible for processing all invoices. Approval of the requisitioning department is obtained by Invoice Audit prior to payment of invoices in excess of \$2,000.

The University's Chief Financial Officer has delegated certain University departments<sup>57</sup> as purchasing units. Identified employees of these departments are permitted to execute specific service purchase contracts of \$100,000 or less without the approval of the purchasing department. However, service purchase contracts in excess of \$100,000 must be approved by the Chief Financial Officer or another officer of the University.<sup>58</sup>

According to the University of Pittsburgh Competitive Bidding Guidelines, the competitive sealed proposals process is a contracting method that requires the submission of competitive proposals, the opening of the proposals, and the contract award. The document used in competitive sealed proposals is the Request For Proposal (RFP). RFPs provide prospective interested parties with the information they need to prepare proposals to submit to the University. Timely submitted sealed proposals in the required format received by the University are evaluated by an

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<sup>57</sup> Delegated purchasing departments or units – there are 28 purchasing units throughout the University; ex: Johnstown regional campus, University Press, Law School Library, and Health Sciences Library System.

<sup>58</sup> Contract Authority Summary.

evaluation committee<sup>59</sup> using evaluation factors and weights which were explained in the RFP. The party with the highest score is normally recommended for contract award.

### **Scope and Methodology to Meet Our Objective**

This objective related to whether the University complied with University policy and if it monitored contracts for professional services.

To accomplish our objective we reviewed applicable University purchasing policies and the University of Pittsburgh bylaws to gain an understanding of the applicable contracting requirements.

We conducted interviews with the Associate Vice Chancellor for Financial Operations and Controller to obtain an understanding of the University's contracting process for professional services and its process to monitor invoice payments on the contracts. Additionally, we obtained written responses from the Associate Vice Chancellor, Housing and Food Services; Director of Parking, Transportation and Services; Director of Information Technology, Health Sciences; Associate Vice Chancellor, Financial Information Services; Chief Enrollment Officer; and the Associate Vice Chancellor, Student Financial Services regarding specific contracts.

The University provided us with a list of 152 professional service contracts that were for services in excess of \$100,000 and were in effect from July 1, 2010, through June 30, 2013.

We selected 19 of the 152 professional services contracts and we reviewed them to determine if they were awarded in accordance with University procurement policies. Specifically we:

- Reviewed the directed or sole source justification forms in the purchasing file that documented the reasons competitive bidding was not utilized;
- Reviewed the bidding documentation for contracts that were awarded through competitive bidding; and we
- Determined if the contracts were approved by an authorized University official.

We selected 60 payments made by the University to the 19 contractors to ensure the amount on the invoice agreed to the contract terms and/or fee schedule in the contract. Additionally, we determined that the invoices

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<sup>59</sup> University officials who possess the technical and managerial expertise in the appropriate field, as well as those with experience.



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### University of Pittsburgh

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were approved for payment by the requisitioning department's contract monitor.

We also requested and obtained Conflict of Interest Certifications for each person who initiated the 19 contracts. Conflict of Interest forms are completed annually by University personnel who are authorized to make purchases. We reviewed those forms to determine if the form was completed by the appropriate personnel and if it indicated the existence of an actual or potential conflict of interest.

We obtained and reviewed a listing from the University that identified 83 of the 152<sup>60</sup> contracts by the method of procurement (Sole Source, Direct Source, and Competitive Bid) for each contract. We then evaluated the number of each type of contract issued.

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<sup>60</sup> The University's automated system was only able to provide the type of contract issued (Sole Source, Direct Source, and Competitive bid for 83 of the 152 contracts that were in effect from July 1, 2010, through June 30, 2013.

**Finding 7**

**The University did not adequately justify a direct source contract and did not always document that prices paid for directed or sole source contracts were fair and reasonable.**

Our examination of 19 of the 152 professional service contracts that were in effect from July 1, 2010, through June 30, 2013<sup>61</sup>, disclosed the University completed the appropriate forms and obtained the proper approvals for 17 of the 19 the contracts. For two directed source contracts that totaled over \$1.6 million, the University did not document that the prices paid were fair and reasonable. We also found that for one of those two contracts the direct source justification form referenced a previous project rather than the current project.

Of the 19 contracts we reviewed, three were competitively bid, six were sole source contracts, seven were directed service contracts, and three were for specialized services procured through the chief counsel's office under special circumstances. The results of our review of the 19 contracts to determine the University's compliance with applicable contracting policy are summarized in the following chart.

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<sup>61</sup> The University made payments to these 19 vendors of approximately \$101 million during the period July 1, 2010 to June 30, 2013. The food service agreement represented \$87.6 million of the total.

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University of Pittsburgh

Summary of Contract Testing									
Contract	Type	A	B	C	D	E	F	G	Comments
1	SS	N/A	Y	Y	Y	N/A	Y	Y	
2	DS	N	Y	Y	N/A	Y	Y	Y	1
3	CB	Y	Y	Y	N/A	N/A	Y	Y	
4	DS	N	Y	Y	N/A	Y	Y	Y	1
5	DS	N	Y	Y	N/A	Y	N	Y	1
6	CB	Y	Y	Y	N/A	N/A	Y	Y	
7	SS	N/A	Y	Y	Y	N/A	Y	Y	
8	SC	N	N/A	N/A	N/A	N/A	Y	Y	1
9	DS	N/A	Y	Y	N/A	Y	Y	Y	
10	SS	N/A	Y	Y	Y	N/A	Y	Y	
11	SS	N/A	Y	Y	Y	N/A	Y	Y	
12	SC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
13	DS	N/A	Y	Y	N/A	Y	Y	Y	
14	CB	Y	Y	Y	N/A	N/A	Y	Y	
15	DS	N/A	Y	Y	N/A	Y	Y	Y	
16	SC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
17	SS	N/A	Y	Y	Y	N/A	Y	Y	
18	SS	N/A	Y	Y	Y	N/A	Y	Y	
19	DS	N	Y	Y	N/A	N	N	Y	1, 2

**LEGEND:**

**SS- Sole Source (6); DS – Direct Source (7); CB – Competitive Bid (3); Special Circumstances (Direct Source) (3)**

N/A – Not Applicable under University policy based on the type of contract

Y – Yes, the University complied with the policy

N – No the University did not comply with policy

A – Properly Advertised and Bid

B – Approved by Chief Financial Officer

C- Approved by Purchasing Department

D – Sole Source Justification Approved

E – Direct Source Justification Approved

F- Documented Fair and Reasonable Price

G- Conflict of Interest Forms Completed

**Notes:**

Contract no. 8 – Contract was approved by another officer of the University and did not have to be approved by purchasing according to the limits of authority.

Contract no. 12 – Expert witness for trial selected by outside counsel for the University.

Contract no. 16 – Approved by University general counsel in 2004.

The **No** answers under advertised and bid are examples in the observation in this report found on page 55.

1. See observation on page 55.
2. Explained further in this finding.

The justification form in the purchasing file for contract 19 in the above chart did not agree with the contract. The University entered into a directed source contract with a technology firm to provide services related to the School of Medicine software modernization project. The directed/sole source justification form for the project indicated that the University used this vendor for specific training for programmers and that the University wanted newer programmers to have the quality training this vendor provided. The justification referenced the training but not the modernization project. University officials responded in writing to our questions that rather than create a new Directed Source Form, they relied on the older Form, because their object-oriented development methodologies would be utilized on the modernization project, consistent with the training their programmers receive. The response acknowledged it would have been clearer to submit a new directed/sole source form to document the justification. The purchasing file for this contract also did not include any documentation that the prices for the services were fair and reasonable. In response to our questions, University officials indicated that the hourly rates were well within standards for similar consulting work.

The University entered into a directed source contract (#5 in the chart) to provide student recruiting and enrollment management services. The directed/sole source justification form for this contract indicated why the vendor was selected; however, neither the purchasing file nor the justification form included documentation that the University determined the price of the contract to be fair and reasonable prior to entering into the contract as required by policy. The University's written response to our questions indicated the Chief Enrollment Officer understood the pricing for the services was fair and reasonable based on very recent experience contracting for service with the vendor.

The University's purchasing department did not ensure that the forms related to these two contracts were properly completed. The purchasing department cannot make informed decisions if the departments do not provide all required information. Failure to follow University policies could result in the University paying more for services than may be necessary.

The Chief Financial Officer or another officer of the University with the authority to approve contracts and the Department Manager of the Purchasing Department approved all 19 contracts we reviewed.<sup>62</sup> We reviewed the directed or sole source justification forms. The requesting department completed the forms for each of the contracts. All forms

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<sup>62</sup> The CFO and Purchasing Manager either signed the contract or the Contract/Purchase Order Summary Form indicating their approval.

included the justifications for selecting the vendor and they included the approvals of the Dean, Chairperson, or Director of the requesting department as well as the approval of the purchasing department.

Regarding the three competitively bid contracts, the University issued a request for proposal and received bids from at least three vendors for each of the contracts. Vendor's proposals were evaluated and scored by University officials based on the vendor's responses to the requirements of the request for proposal. In each case the University awarded the contract to the vendor with the highest score.

Finally, we reviewed the Conflict of Interest Certifications for each person who initiated the 19 contracts. Each person completed the certification as required. No potential conflicts of Interest were disclosed.

**Recommendation  
for Finding 7**

1. The purchasing department should ensure University departments are adhering to policy when completing the directed or sole source justification forms. Additionally, the purchasing files should contain documentation that support that the prices received for the directed or sole source contracts were fair and reasonable.

**Management  
Response**

*Adequate justification for directed source contracts*

*We agree that the Directed Source Justification for the School of Medicine software modernization contract could have been clearer, and that a justification for previous work should not have been used. Moving forward, we will work toward achieving clear, pertinent explanations for each Directed Source Justification.*

*A clear and pertinent Directed Source Justification was submitted in 2011 for the student recruiting and enrollment management services contract. We agree with the Auditor General that under normal circumstances, this service should have been competitively bid. However, after evaluation and discussion of the situation, the Purchasing Services Department, reporting to the Chief Financial Officer, accepted the directed source justification due to exigent circumstances that included key personnel turnover and looming enrollment deadlines. The Chief Enrollment Officer, who submitted the directed source justification, also agreed to a shorter-term contract of three versus five years and competitive bidding upon contract expiration. A formal competitive bid process is underway in 2014.*

*Reasonableness of pricing*

*University policy #05-02-17, Directed and Sole Source Purchase Justification, states that for these types of contracts, "University departments are also responsible for verifying that prices paid for*

*directed or sole source purchases are fair and reasonable”; the policy does not require that documentation is obtained since it is often difficult to find comparative pricing when qualified competitors do not exist. Documentation is only required when qualified competitors do exist, as stated in Attachment A to University Policy #05-02-16, Competitive Bidding. For both types of contracts, our standard operating procedure is to review all contract documentation provided, and to discuss larger or more complex contract requests with the originating department.*

*The University believes that the contract documentation submitted for the School of Medicine software modernization project, which included statements of work, project schedules, and fixed fee payment terms for each project phase, along with discussions with the originating department, were sufficient for Purchasing Services to determine that pricing was reasonable. The University entered into contractual obligations for this project on a phase by phase basis, and Purchasing Services reviewed the documentation for each phase.*

*With regard to the reasonableness of pricing for the student recruiting and enrollment management services contract, as mentioned previously, Purchasing Services provided a one-time exception on competitive bidding due to exigent circumstances. Purchasing Services relied on the new Chief Enrollment Officer’s very recent sourcing experience at another institution as to whether the pricing for the contracted services was reasonable*

**Auditor’s  
Conclusion**

Regarding the justification of direct source contracts, we are pleased that the University of Pittsburgh management agrees with our recommendations and that management has already taken action to implement them.

Regarding reasonableness of pricing, we continue to recommend the University of Pittsburgh document the steps it takes to comply with its policy and to ensure that the contract prices are fair and reasonable.

During our next audit we will review the new policy and evaluate whether the recommendations have been implemented.

**Finding 8**

**The University did not ensure payments made under one contract were made in accordance with contract terms.**

Our review of 60 vendor invoices and related payments to the 19 contractors selected for review disclosed that all requested invoices were approved by the contract monitor prior to payment; however two of the 60 invoices were not paid according to contract terms.

Our initial testing of invoices found that rates charged on two invoices from a contractor were incorrect and that the University overpaid the vendor by \$826. We reviewed six additional invoices paid to the same vendor and determined the rates charged were also incorrect. The total overpayment made by the University to the vendor \$2,898. We brought this matter to the attention of University officials who indicated the vendor mistakenly used the rates for a subsequent year in the contract and not the current year and the contract monitor failed to identify the mistake. The University stated it intends to collect the overpayment from the vendor.

Theses overpayments occurred when the contract monitor did not compare current contracted rates with invoice charges prior to approving payment.

**Recommendation for Finding 8**

1. The University should improve verification of invoice pricing per contract to ensure correct invoicing and payment is made.

**Management Response**

*We agree that for this specific contract, the department invoice auditor inadvertently accepted the incorrect rates invoiced by the service provider, and this was not caught by the central Payment Processing Department. A refund of \$2,898 has been received by the University.*

*The Auditor General discovered a small number of incorrect invoices over a three-year audit period for a single vendor out of the non-statistical sample of 60 contracts examined. Although our goal is 100% accuracy, we believe it is not unreasonable to find small processing errors for the approximately one million invoices and other payment requests totaling approximately \$2.4 billion over the three-year audit period.*

**Auditor's Conclusion**

We are pleased that the University of Pittsburgh management agrees with our recommendation and has received the \$2,898 overpayment from the vendor. However, the fact that an overpayment did occur points to a weakness in the internal control structure for that department. The University needs to ensure all internal controls are functioning as designed to prevent future overpayments.

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**Observation      The University did not consistently use the Request for Proposal process to obtain competitive bids, and to ensure it contracted at the best cost**

Our review of the 83 of the 152<sup>63</sup> contracts for professional services in excess of \$100,000 that were in effect during the period July 1, 2012 through June 30, 2013 disclosed that 76 of the 83 contracts were awarded either through direct or sole source rather than the University's competitive bidding process.

Directed source is a term used to designate a product or service, for specific and justifiable reasons, that will be purchased from one specified supplier. Examples of acceptable directed source purchase justifications include products that are an integral part or accessory to existing equipment or a service or system that requires a supplier with unique skills or experience. Sole source is a term used to designate the existence of only one supplier that is capable of providing a particular product or service. Directed and sole source contracts are exceptions to the University's Competitive Bidding Policy.

The chart on the next page provides details regarding the 83 contracts for professional services with effective dates from July 1, 2012, through June 30, 2013:

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<sup>63</sup> The University's automated system was only able to provide the type of contract issued (Sole Source, Direct Source, and Competitive bid for 83 of the 152 contracts in effect from July 1, 2010 through June 30, 2013.



<b>Comparison of competitive bid contracts to directed/sole source contracts that were in effect from July 1, 2012, through June 30, 2013</b>				
<b>Type of Professional Service</b>	<b>Number of Contracts Awarded through Competitive Bidding</b>	<b>Contract Amount</b>	<b>Number of Contracts Awarded through Directed/Sole Sourcing</b>	<b>Contract Amount</b>
Audit	2	\$ 374,433	0	-
Consulting	1	\$ 184,243	8	\$ 2,020,924
Guarantee <sup>64</sup>	0	-	6	\$ 1,585,000
Information Technology	0	-	19	\$ 7,467,895
Legal	0	-	14	\$ 4,987,911
Other <sup>65</sup>	4	\$3,200,903	18	\$41,434,930
Related <sup>66</sup>	0	-	6	\$ 4,374,278
Special <sup>67</sup>	0	\$0	5	\$ 6,536,870
<b>Totals</b>	<b>7</b>	<b>\$3,759,579</b>	<b>76</b>	<b>\$68,407,808</b>

The 19 contracts we reviewed were among the 83 contracts for professional services. The University expended between \$136,000 and \$87 million over our three year audit period of 2011 through 2013 on these 19 contracts. Sixteen of the nineteen contracts we reviewed were sole or directed source contracts. We determined that five of the sixteen contracts should have been procured using the Request for Proposal (RFP), a competitive bid process. Using the process would have opened bidding to qualified vendors, promoted competition and possibly resulted in better pricing and savings for the University.

The five contracts, which were directed source contracts, included:

- A contract with a technology firm to provide services related to a software modernization project;
- A contract with a vendor to manage and operate the University's Oakland campus food service and beverage operations;
- A contract with a bus company to transport students to and from home football games;

<sup>64</sup> Guarantees are contracts with other universities to come to Pittsburgh to play football games.

<sup>65</sup> Other includes the food service agreement. The University listed this agreement as having been competitively bid. The contract was originally awarded through competitive bidding in 1997. A new agreement, signed in 2007, and subsequent extensions were not competitively bid, therefore we considered this to be a directed source contract.

<sup>66</sup> Various agreements with the University of Pittsburgh Medical Center.

<sup>67</sup> This includes the contract for home football games and the contracts with the Port Authority of Allegheny County that allows students and employees to use bus services.

- A contract to provide all necessary services for billing, collection, and accounting for all student loans for the University;
- A contract to provide student recruiting and enrollment management services.

In each of the five contracts listed above, the University did provide its justification for directed sourcing the contracts rather than competitively bidding them. However the University was not seeking a service that required a unique skill or service; therefore it should not have used a directed source. We identified multiple vendors that could have provided the services the University sought. To ensure it receives the best possible price for services, the University should, as its policy requires, competitively bid all contracts in excess of \$5,000 for services that do not require a unique skill or service.

Details of the five contracts are provided below:

- 1) The University entered into a directed source contract with a technology firm to provide services related to a modernization project. The University did not issue an RFP for this project and did not provide any documentation of proposals submitted from other vendors. University officials responded to our questions regarding the method of contract procurement, by stating they did not have enough information to issue a formal RFP when the project began. The scope of services in the contract indicated the vendor was contracted to provide assessment, elaboration, construction, and transition for the modernization project. University officials also responded that the vendor was originally selected because it had application modernization experience in university settings and it was a local firm and a Microsoft partner. Documentation provided by the University indicated the vendor was unable to complete the project. University officials stated that during the assessment and elaboration phases of the project, the vendor represented it had the staffing and expertise to complete the project and to provide complete and timely deliverables. However, according to University officials the vendor was unable to meet the requirements for development personnel. The University and vendor reached a mutual decision to end the contract in early 2011. Subsequently, the University issued an RFP to engage a vendor to complete the remainder of the project. The vendor, selected through competitive bidding, was awarded a contract including change orders to complete the project. University officials indicated they did not have enough information to issue a request for proposal at the beginning of the project; however, the University could have solicited proposals from firms to complete the initial assessment and then

developed a formal request for proposal for the remainder of the project.

- 2) The University entered into a contract with a vendor to manage and operate the University's food service and beverage operations. The vendor was awarded the contract through competitive bidding in 1997 and through a directed source contract beginning July 1, 2007, through June 30, 2012. Amendments to that agreement extended the contract from July 1, 2012, to June 30, 2013, and from July 1, 2013, through June 30, 2017. University officials responded to our questions regarding the University's method of procurement by stating that an analysis was conducted prior to the most recent extension and the conclusion to the evaluation was that it was not in the best interests of the University to seek request for proposals due to: 1) a favorable return guarantee on the existing contract (University believes it is unlikely any vendor including the current vendor would provide the current guarantee), 2) specific and favorable rebate language in the contract that would help the University get more quickly to a profit share with the vendor, and 3) estimated costs of moving to an alternate supplier. University officials also responded that student satisfaction survey results are on a positive trend and they felt it was important to keep the positive momentum. University officials also stated they would re-evaluate customer satisfaction, the competitive landscape, and the cost/benefits of moving to an alternate provider before determining sourcing strategy when the current extension ends in 2017.
- 3) The University entered into a directed source contract with a bus company to transport students to and from home football games. The term of the contract was from August 1, 2011, until July 31, 2014, and the contract automatically renews annually for one year terms until the University or the bus company provides written notice terminating the contract. The University indicated it obtained three phone quotes from potential vendors prior to entering into the contract. The University provided documentation that, from among the three quotes it obtained, it selected the vendor that met the University's needs and provided the lowest price. By not issuing a formal RFP, the University did not allow any interested bus companies an opportunity to compete to provide the service. Based on the size of this contract for services, the University should have prepared a formal RFP and evaluated proposals from interested companies before awarding the contract.
- 4) The University entered into a directed source contract with a vendor to provide all necessary services for billing, collection, and accounting for all student loans. The term of the agreement is from February 1,

2013, through January 31, 2016, with an option for a two year extension. The directed /sole source justification form indicated the University did a thorough RFP in 2006. The University indicated on the form that no new vendors entered the service area since 2006, and that no vendors made significant improvements or added new functionality to their systems since 2006. University officials also provided written responses to questions we had regarding the decision not to competitively bid the contract. The officials stated that the University is well connected to the professional community and are much attuned to reports, positive and negative, about vendor's service. The officials indicated the reasons the current vendor meets the needs of the University and how several other vendors cannot meet the University's needs. Additionally, University officials indicated that the prices currently paid to the vendor are less than the price they paid for the same services in 2006. There have been no price increases since the original contract was signed in 2006, except for postage costs.

- 5) The University entered into a directed source contract with a vendor to provide student recruiting and enrollment management services. The term of the agreement was from October 26, 2012, through May 15, 2013. University officials provided written responses to questions we had regarding the decision not to competitively bid this contract. The University's response indicated the Chief Enrollment Officer began employment in July 2012, and that the fall 2012 and fall 2013 enrollment numbers were projected to fall below the University's goals. The University felt it did not have sufficient time to develop, issue, and score a formal RFP. The University provided documentation showing it researched and assessed the services and qualifications of three vendors prior to selecting the contractor. The directed/sole source justification form indicated the University's reasons why the vendor was selected. The response also indicated the University plans to issue a formal RFP for these services in spring 2015, to check pricing, services, and benefits provided in a fast changing and competitive marketplace. Our review found that University officials should have been aware that the projected enrollment numbers were going to fall below their goals and initiated the RFP process earlier.

## **Recommendations**

1. The University should strictly adhere to its competitive bidding policy to encourage competition for the University's business and to ensure the University obtains services at the best possible cost. The policy "requires suppliers of goods and services in excess of \$5,000 to be selected through competitive bidding with

the exception of directed or sole source purchases. The department must obtain a minimum of three bids from a qualified supplier or a documented attempt to obtain three bids. The bids must be conducted with the assistance of the purchasing department if the purchase is in excess of \$50,000.

2. Competitive bids and price quotations should be conducted in a manner that provides, to the maximum extent possible, open and free competition. This is accomplished by adhering to formal competitive bidding procedures, soliciting requests for quotations and proposals, and negotiating pricing agreements

**Management  
Response**

*Contracts not reviewed by the State Auditor General*

*Sixty-four (64) professional services contracts were not reviewed by the State Auditor General, but summarized by category in the Auditor General's Observation and associated recommendations. To include these in the Auditor General's observations without review is misleading for the following reasons.*

*The University concluded that no qualified competition existed for many of the contracts in the Auditor General's categories of Guarantee, Related, and Special. For example, the University is obligated to contract for certain home games with members of its football conference; these contracts cannot be competitively bid. Another example is that the Allegheny County Port Authority is the only legal and reasonable alternative to provide broad public transportation services to its students, faculty and staff. This partnership is important not only to the University, but it supports the County's financially-strapped Port Authority. By promoting public transportation, the University also helps the environment and alleviates congestion in Oakland, one of the busiest traffic corridors in Pennsylvania.*

*We would also like to note that unlike purchased goods, professional services present additional considerations when evaluating qualified competitors. In addition to technical fit, some service providers must also carry special federal, state or local certifications. Often, the University can locate qualified competition which are a good technical fit, but are not available at the time the service is required. In the case of legal services, a law firm may appear to possess some legal specialization in the general subject area at issue in a particular matter, but may not be the best firm to represent the University's interests for a variety of reasons including past experience, the nature of the allegations, the parties involved, and actual or potential conflicts of interest. As a result of these*

*highly individualized considerations, as well as concerns relating to immediacy and confidentiality, professional services contracts for unique services typically have fewer opportunities for competitive bidding than routine supplies and equipment.*

*Contracts reviewed by the State Auditor General*

1. *School of Medicine software modernization project.* *This service provider was utilized on a previous project, and therefore, had knowledge of the School's systems, which saved billable hours. The service provider also utilized the same object-oriented development methodology as the School, which improved project communication among the technical staff. Since the contractor was local, travel expenses were minimized. Thus, Purchasing Services accepted the School's initial choice of service provider when reviewing the directed source justification.*

2. *Oakland campus food services.* *The University is committed to controlling the cost of student meal plans while ensuring that students receive the quality they demand. The Assistant Vice Chancellor for Business, reporting to the Executive Vice Chancellor for Business, annually compares the benefit of changing its food services provider against the cost of conducting a request for proposal and the cost to implement a new food services provider.*

*As part of this annual assessment, the University conducts extensive surveys of customer satisfaction. Over the past eight years, there has been steady and dramatic improvement in student satisfaction. During that period, students who felt that the meal plans met or exceeded their expectations in terms of value increased by 69%, students who felt the quality of food met or exceeded expectations increased by 42%. Overall satisfaction with staff service now stands at 94%.*

*Against those gains in student satisfaction, we continually compare the costs and potential benefits of a competitive bidding process. Currently, there are a small number of food services providers with the capabilities to manage a customer base as large and diverse as the University's. Also, new supplier start-up costs to purchase and install equipment as well as the University's cost to change food services providers would be substantial. These costs would certainly be passed onto students in the form of higher food costs. Finally, the current contractor also provides a significant annual investment to the University, which is used for continuous food services facilities improvements on campus to achieve a modern, safe and healthy food services operation.*

3. Heinz Field bus services. *The Director of Parking and Transportation, reporting to the Executive Vice Chancellor for Business, contacted other regional bus service providers to determine capacity and for price quotes. However, the contracted service provider was the only commercial company operating a fleet of school buses in the Pittsburgh area with the required Pennsylvania Department of Transportation “Apportioned” registration, and with the capacity to send as many as 40 buses concurrently to transport the football team, band and students to Heinz Field for football games. Without other viable service providers, it did not make sense to incur the costs of conducting a competitive bid for the years covered by this audit. The University will continue to evaluate the competitive landscape annually, and will issue a request for proposal if and when qualified competition exists.*

4. Student loans billing, collection, and accounting. *A request for proposal was conducted for the prior contract effective 2007 by the Associate Vice Chancellor for Student Financial Services, who reported to the Chief Financial Officer. The contractor awarded was both low bidder and provided best evaluated service. Upon expiration in 2012, a thorough review of the competition and their capabilities was conducted, and it was concluded that the incumbent still possessed the best combination of attributes to meet the University’s needs. In addition, the service provider agreed to hold prices at 2007 levels through 2016 and through a two-year extension, which has resulted in a 10% inflation cost-avoidance to date. Our decision to bypass competitive bidding in 2012 considered this cost avoidance, and the fact that the University would have needed three full-time equivalent contractors to support a four-month conversion process to a new service provider. We will reassess whether to competitively bid at the end of the contract period in 2016.*

5. Student recruiting, enrollment management. *As mentioned in the University’s response to Finding 7, Purchasing Services permitted a one-time exception to the competitive bidding policy due to exigent circumstances that included key personnel turnover and looming enrollment deadlines. In addition, Purchasing Services required a shorter-term contract of three versus five years and competitive bidding upon contract expiration. Even though a request for proposal was not issued in 2011, the Chief Enrollment Officer, reporting to the Provost, conducted a thoughtful evaluation of competitors’ capabilities against documented criteria. In 2014, the contractor was notified that the University is conducting a competitive bid process, and the request for proposal process is currently underway with a targeted conclusion of June 30, 2015.*

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**Auditor's  
Conclusion**

We strongly recommend the University adheres to the competitive bid policy it has adopted. We are pleased the University is committed to conducting a competitive bid process for one of the five contracts and that it will evaluate the competitive landscape annually and/or reassess whether to competitively bid for two or three of the other contracts identified in the finding.

So as not to mislead readers, the report does provide information regarding the University's Guaranteed, Related and Special contracts. These types of contracts equal 17 of the 76 directed or sole sourced contracts that were entered into by the University. Information in the finding regarding these contracts indicates that, by their nature, they would reasonably be directed or sole sourced contracts. Direct or sole source contracts are reasonable when the University is compelled to contract with a particular vendor, as it is obligated to do as a member of the Atlantic Coast Conference, or when only one facility of vender exists as it the case with the stadium facility and Port Authority of Allegheny County. Direct or sole source contracting for professional services is also reasonable when exigent circumstances exist.

With respect to justification of a direct source contract with a private transportation service to football games, University management did not, although given the opportunity on more than one occasion, provide these reasons to justify its decision to direct source the contract.

Although directed and sole source contracts are to be exceptions to the University's Competitive Bidding Policy, they are the norm in the area of professional service contracts. Our review of a test group of 16 direct or sole sourced contracts indicated that 5 of the contracts or 31% should have been competitively bid by the University. By competitively bidding these contracts, the University might have obtained better pricing for the services which would result it cost savings and more efficient University operations. We are pleased that the University has committed to competitively bidding one of the five professional service contracts and that it will evaluate competitively bidding three others. During our next audit we will evaluate whether the recommendations have been implemented.



Performance Audit

University of Pittsburgh

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