

Investigation for ATP Implementation Services Procurement

University of Wisconsin System
Office of Internal Audit
May 2021

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
TRANSMITTAL LETTER TO PRESIDENT THOMPSON AND CHANCELLOR BLANK	2
BACKGROUND, PURPOSE, AND SCOPE	3
CHRONOLOGY	3
OBSERVATIONS	4
RECOMMENDATIONS	8



Office of Internal Audit

780 Regent Street, Suite 200
Madison, Wisconsin 53715
(608) 263-4397
wisconsin.edu/offices/audit/

President Thompson and Chancellor Blank,

At the direction of President Thompson and the President of the Board of Regents (Board), the Office of General Counsel directed us to perform a full independent investigation and review of the implementation services procurement performed to date (February 23, 2021) by UW-Madison related to the Administrative Transformation Program (ATP), specifically including UW-Madison *Request for Proposal (RFP) 21-5020*, Cloud-Based Enterprise Resource Planning (ERP) Systems Integration Services. In addition, we reviewed any additional internal control issues, legal, or other risks or liability that we determined were appropriate for UW System and Board leadership to consider.

As part of this request, we received authorization from the President of the UW System and the President of the Board of Regents to unfettered access to any and all employees, documents, emails, or other information deemed necessary to conduct this review. Our review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, and our report follows.

This communication is intended solely for the information and use of management and others within the UW System, including the Board of Regents. This restriction is not intended to limit the distribution of this communication, which upon final issuance is a matter of public record.

We appreciate the cooperation afforded to us by individuals at UW-Madison and UW System Administration during the performance of this review.

Best regards,

A handwritten signature in cursive script that reads "Lori L. Stortz".

Lori L. Stortz, CPA

Chief Audit Executive, Office of Internal Audit

May 5, 2021

BACKGROUND, PURPOSE, AND SCOPE

On February 17, 2021, UW-Madison notified UW System of a concern with its Administrative Transformation Program (ATP) Systems Integration Services procurement in which UW-Madison had failed to issue Notices of Intent to Award “preplanning” services contracts.

Based on those discussions, at the direction of the President of the UW System and the President of the Board of Regents, the Office of General Counsel directed us to perform a full independent investigation and review of the implementation services procurement performed to date (February 23, 2021) by UW-Madison related to ATP, specifically including UW-Madison RFP 21-5020. In addition, we were directed to review any additional internal control issues, legal, or other risks or liability that we determined were appropriate to flag for UW System and Board leadership.

CHRONOLOGY

In 2019, UW-Madison and UW System Administration (UWSA) agreed to distribute responsibility for two procurements necessary for the successful completion of ATP:

1. Cloud-Based ERP Solution: UWSA analyzed publicly available contracts for the purchase of a cloud-based ERP system and determined two best-in-class systems, Oracle and Workday, were available on consortia contracts. UWSA and UW-Madison evaluated each system and determined that Workday better met business needs. UWSA notified Oracle and Workday in January 2021 that the latter was chosen for the ATP project. As of this date, UWSA is in contract negotiations with Workday. No concerns have been raised relative to this procurement.
2. Cloud-Based ERP Systems Integration (SI) Services: In December 2019, UW-Madison received authorization from the Department of Administration (DOA) to conduct a Request for Proposals (RFP) to purchase ATP system integration services pursuant to Chapter 16, Wis. Stats. UW-Madison subsequently conducted the following activities.
 - January 24, 2020: Issued RFP 21-5020 (posted publicly to VendorNet). Per the RFP, “UW-Madison is requesting proposals for UW-Madison and all other institutions and administrative units of the [UW] System...for Systems Integration (SI) Services to implement a cloud-based Enterprise Resource Planning (ERP) solution to succeed its current on-premise Enterprise Financial and Human Resources software.”
 - March 2, 2020: Five prospective vendors submitted proposals by the RFP deadline.
 - March 16, 2020: UW-Madison announced that all administrative employees were to work virtually.
 - March 18, 2020: Evaluation Committee completed initial scoring; Accenture, Deloitte Consulting LLP (Deloitte), and Huron were the only proposers that met the 560-point RFP threshold. Collaborative Solutions and Sierra-Cedar failed to meet the scoring threshold.
 - April 16, 2020: UW-Madison issued Clarification #1 via email to Accenture, Deloitte, and Huron. Per Clarification #1, “Due to the COVID-19 pandemic, the University intends to complete ATP preplanning activities as scheduled and then begin work in a planning phase modified to reflect the current situation. The selection of a cloud-based ERP solution from either Oracle or Workday is paused at this time. However, the University would like to move forward with as much of the Planning Phase as possible in a software-agnostic approach.” Further, “It is the intention of the University to initially award a contract to an SI Services vendor to support a Planning Phase for the implementation (software agnostic). Pending a decision on the specific cloud-based ERP software (Oracle or Workday) and contingent upon successful performance of Planning services, the University intends to award a contract to a

single primary SI Services vendor who will work with the University on the remaining implementation phases (defined as Design, Build, Validate and Transition).” Clarification #1 was not posted publicly.¹

- June 2020: A subgroup of the RFP Evaluation Committee heard presentations by Accenture, Deloitte, and Huron. The subgroup subsequently determined via consensus that Accenture and Huron should be considered for preplanning contracts. Initial scores were not rescored.
- July 24, 2020: UW-Madison notified Accenture and Huron via email that it intended to issue contracts to each firm for preplanning work. UW-Madison did not issue a formal Notice of Intent to Award and did not notify Collaborative Solutions, Deloitte, or Sierra-Cedar of its intent to contract with Accenture and Huron.
- August 18-20, 2020: UW-Madison executed preplanning contracts with Accenture (\$819,440) and Huron (\$807,980).
- January 22, 2021: UW-Madison issued Clarification #2 to Accenture, Deloitte, and Huron. Per Clarification #2, “The University will complete ATP preplanning and preparation activities as scheduled and begin the implementation planning phase on July 1, 2021.” Further, “It is the intention of the University to award a contract to SI Services vendor(s) who will work with the University on all implementation phases (defined as Planning, Design, Build, Validate and Transition). The scope of the initial Statement of Work (SOW) will include the ‘Planning’ and ‘Design’ phases of the implementation.” Clarification #2 was not posted publicly.
- February 18, 2021: UW-Madison cancelled RFP 21-5020.
- February 23, 2021: UW-Madison forwarded to UWSA a letter dated February 23, 2021, from Deloitte regarding its concerns of unequal treatment and conflict of interest in UW-Madison RFP 21-5020. The letter provided an overview of the RFP and the award process, concerns regarding the integrity of the RFP procurement process, and a summary of what Deloitte perceived as conflicts of interest.

OBSERVATIONS

As a result of our review, we observed matters that warrant the attention of management. The observations relate to:

- General matters.
- Procurement decisions that may have contributed to the cancellation of the procurement.
- Procurement quality control procedures and management oversight.

General Matters

1. Potential Pressure to Meet Project Milestone Due Dates

Pressure to meet project milestone due dates may have contributed to errors in and the cancellation of RFP 21-5020. In various emails and discussions, it was noted that the pandemic contributed to the delay of the project. This pressure may have incentivized managers and employees to take risks or override internal controls to prevent further delay of the project.

¹ According to the *State Procurement Manual*, PRO-306, Competitive Solicitations, Request for Proposals, RFP Amendments - Section III A (effective 9/16/19), “After an RFP has been posted, if the procuring agency determines the need for changes or clarifications, they must issue a written revision to the solicitation to all known recipients and posted in the same manner as II, A.” Section II A states, “All RFPs will be posted on the system(s) required by the Department and be advertised according to the requirements of PRO-601, Legal/Public Notice.”

2. Reliance on Key Individual Staff

Per discussion with various individuals, it was noted that ATP was a high-risk project. Despite this, we found that key project staff lacked a working knowledge of procurement rules and did not challenge procurement decisions noted herein. Inadequate procurement knowledge among key project staff may have contributed to errors in and the cancellation of RFP 21-5020.

3. Reliance on a Subject Matter Expert for Procurement Expertise

A subject matter expert (SME) for RFP 21-5020 did not have Chapter 16 delegated authority, nor was the SME a procurement professional. The SME was nonetheless involved in facilitating discussions between the evaluation team and the ATP team and contacted vendors, including emails to Accenture and Huron. Communication related to the RFP should have been conducted by the Procurement Manager assigned to RFP 21-5020 to ensure proper procedures were followed.

4. Perceived Conflicts of Interest

We reviewed instances of perceived conflicts of interest related to the preplanning work conducted by a vendor, and another related to an employee and that employee's previous relationship with a vendor. We inquired about potential conflicts of interest with Accenture and/or Huron. UW-Madison indicated that they did not believe that there were conflicts of interest, and the perception of the conflicts of interest did not have a material impact on the procurement. We did not review any direct evidence indicating a conflict of interest in fact.

Procurement Decisions

5. Decision to Perform the Procurements Concurrently

UWSA and UW-Madison decided to run the software (Cloud-Based ERP Solution) procurement and system implementation procurement on parallel tracks. Per inquiry, it was noted that running the procurements sequentially would have extended the timeline. A better approach would have identified the software first and then solicited a system implementer based on qualifications relative to the selected software.

6. Contracting with ATP Consultants

The procurement of the cloud-based ERP technology and the respective system implementation consultants were conducted under Chapter 16, Wis. Stats. Therefore, we would expect other consultants engaged for ATP would also be procured via Chapter 16. However, we noted that three consultants for ATP were procured via Chapter 36, a procurement policy limited to goods and services specific to higher education. We challenged the use of Chapter 36 and the sole source justification of the consultants based on the nature of the work that they were engaged to perform.

7. Vice Chancellor Included as Evaluator for the RFP

State Procurement Manual (PRO-307, Evaluation Committee, Request for Proposal) provides, "Pursuant to Wisconsin 2006 Executive Order 137, 'the evaluation committee shall exclude any employee of the Office of the Governor, and any unclassified Agency Head, Commissioner, Deputy Agency Head, Executive Assistant or Division Administrator.' For UW System Administration and campuses appointees are defined as UW System President and Vice President and Chancellor, Vice Chancellor and Provost positions." Nonetheless, UW-Madison allowed a Vice Chancellor for Finance and Administration from another comprehensive institution to serve as an evaluator (resigned December 31, 2020).

8. Use of Clarification vs. Amendment to the RFP

UW-Madison issued Clarifications #1 and #2 to only the three vendors that exceeded the minimum scoring for the initial scoring of RFP 21-5020. The Clarifications modified the scope of the RFP

by basing evaluation and award decisions on only certain activities. Such modifications constitute an Amendment under PRO-306, III., A., *State Procurement Manual*, and not a clarification of proposals to ensure responsiveness to requirements under PRO-306, VII., E. We believe the Clarifications should have been treated as Amendments, all proposers should have been notified and the documents should have been posted on the public procurement website.²

9. Use of RFP 21-5020 to Provide Work to Huron for Other Projects

We questioned the decisions to use RFP 21-5020 to provide work to Huron for other projects. We found UW-Madison employee communications included questions about whether the Clarification #1 award to Huron could be used for work that appeared to be outside the scope of the RFP. In one instance, a question was raised if it was appropriate to use RFP 21-5020 in advance of the full award. In another, an employee implied the activity was not included in the RFP 21-5020 Scope of Work. UW-Madison made a good-faith effort to review the RFP for appropriateness; however, we did not find these questions were properly presented to management for resolution.

10. Decision to Not Escalate Vendor Communications

We found multiple instances where procurement staff did not answer proposer questions with expected clarity and transparency. These instances began following the issuance of Clarification #1 and continued beyond the award of contracts to Accenture and Huron in August 2020. The failure to escalate legitimate vendor issues to management for resolution likely contributed to errors in the procurement.

11. Decision to Award Clarification #1

Proposals for RFP 21-5020 were initially scored by an evaluation committee convened for that purpose. Per inspection of procurement documentation, Deloitte-Workday received the highest score. Huron received the lowest score of the three proposers that exceeded the minimum threshold. Due to the pandemic, the RFP was put on hold. In late March/early April 2020, a decision was made to issue Clarification #1 to the three proposers that exceeded a minimum score of 560 points.

In June 2020, the three proposers (Deloitte, Huron, and Accenture) presented their proposals for preplanning work (Clarification #1) to a subgroup of the evaluation committee. A July 2, 2020 email summarizing the “SI interviews debrief” stated, “Got approval to do pre-planning differently, but when we make actual award for planning/design, we need to go back to the abstract and we need to go with the highest scorer.”

A February 4, 2021 email exchange concluded that there was not a separate written evaluation criterion for the preplanning awards. In summary, UW-Madison executed contracts with Huron and Accenture for \$807,980 and \$819,440, respectively with no documentation of rescoring to support the decision.

12. Decision to Not Issue Notice of Intent to Award

We are not able to determine when, or by whom, the decision or error was made to not issue a Notice of Intent to Award for Clarification #1. Nonetheless, it was the responsibility of the

² According to the *State Procurement Manual*, PRO-306, Competitive Solicitations, Request for Proposals, RFP Amendments - Section III A (effective 9/16/19), “After an RFP has been posted, if the procuring agency determines the need for changes or clarifications, they must issue a written revision to the solicitation to all known recipients and posted in the same manner as II, A.” Section II A states, “All RFPs will be posted on the system(s) required by the Department and be advertised according to the requirements of PRO-601, Legal/Public Notice.”

Procurement Director and RFP Manager to ensure policies and procedures were followed, including proper issuance of a Notice of Intent to Award.

Procurement Quality Control Procedures and Management Oversight

We noted that the following review and/or oversight was not performed, or not performed effectively:

- Quality assurance review
- Additional UW-Madison oversight
- Additional UWSA oversight
- Additional executive sponsors' oversight

13. Assignment of RFP

Per inquiry, it was noted that UW-Madison expressed concern about resource constraints that impacted RFP 21-5020 staffing decisions. The assignment of the RFP was not optimal. Per inquiry, it was noted that the agent did not have experience with information technology (IT) related procurements, and that the agent “typically procures goods and services for athletics and auxiliaries.” The UW-Madison procurement office employs IT agents; however, it was noted that none were available for this project. We noted, per inquiry of others in the department, that they considered the assigned agent competent.

The assignment of the RFP should have taken into consideration the need for adequate management and supervision of the assigned agent, especially considering the material nature of this procurement and the subsequent pandemic. In addition, supervision of the assigned agent changed in April 2020. The supervisor was also new to UW-Madison and did not have experience with large, complex IT procurements.

14. Review of the RFP 21-5020 File

Per inspection of email correspondence, we noted that on February 22, 2021, there was a discussion indicating that the review for the procurement file was still pending. We would have expected the required records per PRO-105 of the *State Procurement Manual* (e.g., all records related to RFP 21-5020 dated January 24, 2020, Clarification #1 dated April 16, 2020, and Clarification #2 dated January 22, 2021) to be compiled in a manner to allow management to review, and provide sufficient evidence of that review, prior to February 22, 2021.

15. Delegated Agent Management Reviews as Required by the *State Procurement Manual* and Department of Administration (DOA) Delegation Agreement

PRO-110 of the *State Procurement Manual* states, “delegation of authority by the State Bureau of Procurement (Bureau) carries with it the responsibility to conduct management reviews of those delegated processes to assure that the intent of the authorizing legislation is fulfilled, and the terms of the delegation granted by the Department of Administration are met.” The management review requirement is further reiterated in the DOA *Terms of Delegated Purchasing Authority* agreements. UW-Madison Purchasing Department is not completing management reviews as required. The lack of management reviews was previously communicated by the UW System Office of Internal Audit to UW-Madison in the *Purchasing and Contract Audit Management Letter* dated May 17, 2019. UW-Madison provided draft procedures; however, the procedures have yet to be finalized and implemented.

16. Lack of Documentation (UWSA and UW-Madison)

Per inquiry, it was noted that a vendor conducted preplanning work prior to issuance of RFP 21-5020, then submitted a proposal in response to RFP 21-5020, and was later awarded a contract pursuant to Clarification #1. While there is no specific requirement, there did not appear to be

documentation to support upfront consideration of how to mitigate competitive risks when vendors perform preplanning activities and subsequently bid on future work on the same project.

RECOMMENDATIONS

Based on the matters noted herein, below are the recommendations proposed by Internal Audit. These recommendations are intended to help redirect and focus ATP procurements and improve internal controls.

Recommendations for UW-Madison

1. UWSA or a Third-Party Agency/Institution Manage Successor SI RFP

Deficiencies relative to the RFP require that UWSA or a third-party agency/campus manage the successor SI RFP to ensure a level, competitive playing field and restore confidence in the vendor community.

2. Replace Membership of SI RFP Evaluation Committee

As possible, replace members of the prior SI RFP evaluation committee to, once again, ensure a level, competitive playing field and restore confidence in the vendor community.

3. Design and Implement Procurement Quality Control Procedures

UW-Madison should implement structures and quality control procedures to ensure procurement activities are conducted in a manner compliant with state law and Regent policy. The procedures may be designed and implemented based on risk. This includes, but is not limited to:

- Quality control reviews performed by the Purchasing Department management and professional staff. The professional staff should receive the proper training.
- Peer reviews performed by other institutions (for example, UWSA), based on risk.
- Peer reviews performed by the Wisconsin Department of Administration, based on risk.
- High-level reviews performed by Executive Sponsors. Executive Sponsors must obtain demonstrable evidence that the vendor that will be awarded the contract won because of objective scoring and effective procurement processes. There should be a robust review regarding potential conflicts of interest.

4. Design and Implement Procurement Controls to Promote Supervisor Accountability

UW-Madison should establish a culture of supervisory accountability to ensure procurement activities are conducted in a manner compliant with state law and Regent policy. The controls may be designed and implemented based on risk. This includes, but is not limited to:

- Risk-based planning and assignment of work.
- Management reviews as required by the delegation agreement from the Wisconsin Department of Administration and the *State Procurement Manual*.
- Additional risk-based management and director reviews prior to the award.

Recommendations for UW System Administration and UW-Madison

5. Control Environment - ATP Organizational Structure, Authority, and Responsibility

Per the *Committee of Sponsoring Organization of the Treadway Commission (COSO) Internal Control - Integrated Framework - Principle 3 and 4*, “Principle 3: Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. Principle 4: The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.”

We recommend that ATP clarify authority for functional leads. The functional leads should be charged with the responsibility to oversee the specific tasks and decisions respective to their functional areas. Also, there must be a functional lead dedicated to procurement to ensure that procurements are conducted in a manner to comply with all State Procurement Rules and demonstrate a commitment to effective internal controls. This must be a competent procurement professional with experience in large complex system implementations.

6. Additional Internal Control Considerations

Additional Care when Vendors Perform Preplanning Work

Consider designing and implementing controls to ensure there is upfront consideration when vendors perform preplanning work and intend to bid on future work.

Appropriate Use of Chapter 36

Regent Policy Document (RPD) 13-1, *General Contract Approval, Signature Authority, and Reporting* states, “Individuals authorized to sign contracts under this policy are expected to have the necessary information and expertise to fully understand the implications of making such commitments.” Furthermore, UW System Administrative Policy 520, *Board of Regents Procurement Authority* states, “The University of Wisconsin System BOR Procurement Authority, found in s. 36.11, Wis. Stats. supports the educational and research mission of the university. It is for purchasing goods and services unique to the university’s academic and student life. These are goods and services which are not normally purchased by other state agencies nor found in state mandatory contracts.”

UW System Administration, in conjunction with UW-Madison, should conduct training on procurement authority with all delegated agents to ensure they have the necessary information and expertise to fully understand the implications of making Chapter 36 commitments, as required by RPD 13-1 and Policy 520. In addition, monitoring controls should be designed and implemented to ensure proper documentation exists to support the procurement process used.