



An Audit Report on

**Angelo State University's Compliance
with Requirements Related to the
Historically Underutilized Business and
State Use Programs**

November 2018

Report No. 19-008



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Overall Conclusion

Compliance with Historically Underutilized Business (HUB) Program Requirements

Angelo State University (University) did not comply with Historically Underutilized Business (HUB) subcontracting monitoring requirements. Specifically, the University:

- Did not ensure that its contractors consistently submitted monthly HUB-related *Progress Assessment Reports* as required by Title 34, Texas Administrative Code, Section 20.285(f).
- Did not effectively monitor to ensure that the subcontracting activity of its contractors followed the **contractors'** HUB subcontracting plans or require its contractors to submit revised HUB subcontracting plans as required.

The University compiled and maintained its HUB expenditures as required and reported those expenditures to the Office of the Comptroller of Public Accounts (**Comptroller's Office**) within the required timeframes. However, the University did not accurately report certain HUB activities. Specifically, for September 1, 2016, through February 28, 2018, the University:

- Submitted invalid vendor information associated with its reported HUB subcontracting expenditures to the **Comptroller's Office**.
- Reported incomplete and unsupported HUB supplemental information to the **Comptroller's Office**.

The Historically Underutilized Business (HUB) Program

The purpose of the HUB program is to promote full and equal business opportunities for all businesses in an effort to remedy disparity in state procurement and contracting.

The program is governed by Texas Government Code, Chapter 2161, and its rules are defined in Title 34, Texas Administrative Code, Chapter 20.

For fiscal year 2017, the Office of the **Comptroller of Public Accounts (Comptroller's Office)** reported that, of the approximately \$20.3 billion that the State spent in procurement categories that were eligible for HUB participation, the State paid approximately \$2.4 billion (approximately 12 percent) to HUBs.

The University reported HUB expenditures for fiscal year 2017 totaling approximately \$4.1 million.

The State Use Program

Under the Purchasing from People with Disabilities (State Use) Program, state agencies and other political subdivisions are required to purchase certain goods and services offered by community rehabilitation facilities that employ persons with disabilities.

The State Use Program was governed by the Texas Council on Purchasing from People with Disabilities through August 31, 2015. As of September 1, 2015, the oversight of the State Use Program was transferred to the Texas Workforce Commission. The State Use Program was created by Texas Human Resources Code, **Chapter 122, and the program's rules are defined in Title 40, Texas Administrative Code, Chapter 806.**

Sources: Texas Government Code, Chapter 2161; Texas Human Resources Code, Chapter 122; Title 34, Texas Administrative Code, Chapter 20; Title 40, Texas Administrative Code, **Chapter 806; and the Comptroller's Office.**

This audit was conducted in accordance with the General Appropriations Act (85th Legislature), Section 7.07, page IX-38; Texas Government Code, Section 2161.123; and Texas Human Resources Code, Section 122.029.

For more information regarding this report, please contact James Timberlake, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

From September 1, 2016, through February 28, 2018, the University complied with **statutes, rules, and Comptroller's Office requirements related to HUB planning and outreach**. Specifically, the University complied with HUB requirements to:

- Adopt HUB rules.
- Prepare a HUB strategic plan.
- Participate in HUB forums.
- Receive in-house marketing presentations from HUBs.
- Establish a mentor-protégé program.
- Designate a HUB Coordinator.

Compliance with State Use Program Requirements

The University is also subject to the requirements of the Purchasing from People with Disabilities (State Use) Program. The University substantially complied with purchasing requirements; however, it should strengthen its documented policies and procedures for the State Use Program to ensure full compliance with State Use Program requirements. From September 1, 2016, through February 28, 2018, the University did not report any exceptions from the State Use Program to the **Comptroller's Office as required**.

Information Technology Controls

The University should improve its information technology controls, such as its user access management and change management processes for its financial accounting system, to help ensure accurate HUB information.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	The University Did Not Comply with HUB Subcontracting Monitoring Requirements	High
2	The University Did Not Accurately Report Certain HUB Activities	High
3	The University Complied with HUB Planning and Outreach Requirements	Low
4	The University Substantially Complied with Purchasing Requirements; However, It Did Not Report Exceptions from the State Use Program	Medium
5	The University Should Improve Its Information Technology System Controls	High

^a A chapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
<p>A chapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>		

Auditors communicated other, less significant issues separately in writing to the University management.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The University agreed with the recommendations in this report.

Audit Objectives and Scope

The objectives of this audit were to determine whether the University:

- **Complied with statutory requirements and rules that the Comptroller's Office established to implement HUB Program requirements.**
- **Reported complete and accurate data to the Comptroller's Office.**
- Complied with requirements related to the State Use Program.

The scope of this audit covered the University's HUB activities from September 1, 2016, through February 28, 2018. Auditors selected the University for audit based on a risk assessment and audited for compliance with:

- HUB Program requirements for planning, outreach, subcontracting, and reporting defined in Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20.
- State Use Program requirements defined in Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 806.

Contents

Detailed Results

Chapter 1	
The University Did Not Comply with HUB Subcontracting Monitoring Requirements.....	1
Chapter 2	
The University Did Not Accurately Report Certain HUB Activities.....	4
Chapter 3	
The University Complied with HUB Planning and Outreach Requirements	7
Chapter 4	
The University Substantially Complied with Purchasing Requirements; However, It Did Not Report Exceptions from the State Use Program	8
Chapter 5	
The University Should Improve Its Information Technology System Controls	11

Appendices

Appendix 1	
Objectives, Scope, and Methodology	13
Appendix 2	
Issue Rating Classifications and Descriptions.....	17
Appendix 3	
The University’s Fiscal Year 2017 HUB Goals and Performance	18
Appendix 4	
Related State Auditor’s Office Work	19

Detailed Results

Chapter 1

The University Did Not Comply with HUB Subcontracting Monitoring Requirements

Angelo State University (University) did not effectively monitor its contractors' adherence to HUB subcontracting monitoring requirements. Specifically, the University did not consistently obtain (1) required monthly HUB *Progress Assessment Reports* or (2) complete (or updated) HUB subcontracting plans from contractors. It is important that the University consistently obtain that documentation to help ensure that it reports accurate HUB information as required and that contractors are complying with their HUB subcontracting plans.

Chapter 1
Rating:
High ¹

Progress Assessment Reports

The University did not ensure that its contractors consistently submitted monthly HUB-related *Progress Assessment Reports* as required by Title 34, Texas Administrative Code, Section 20.285(f). In those reports, contractors report their subcontractors' payment information (see text box for more information about the reports).

Progress Assessment Reports

Contractors are required to submit monthly *Progress Assessment Reports* that include contractor information and subcontracting expenditures that the contractors paid to their HUB and non-HUB subcontractors for the reporting period.

Source: The Comptroller's Office.

The University did not have a process in place to verify that its contractors submitted monthly *Progress Assessment Reports* as required. In two of the four contracts tested, the University did not obtain all of the monthly *Progress Assessment Reports*. Specifically:

- For one contract tested, the contractor submitted the first month's *Progress Assessment Report* but did not submit the reports for the next two months in which the contractor performed work.
- For a second contract tested, the contractor submitted *Progress Assessment Reports* for the first two months the contractor performed work but did not submit a report for the third month in which the contractor performed work.

¹ The risk related to the issues discussed in Chapter 1 is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

The University is required to report subcontracting expenditures to the Office of the Comptroller of Public Accounts (Comptroller’s Office). The University relies in part on the *Progress Assessment Reports* to comply with that requirement. Not ensuring that it obtained all of the required *Progress Assessment Reports* contributed to the University not accurately reporting subcontracting expenditures to the Comptroller’s Office (see Chapter 2 for more information).

In addition, the *Progress Assessment Reports* can help the University monitor its contractors and identify instances in which they are not complying with their HUB subcontracting plans.

HUB Subcontracting Plans

The University consistently obtained Historically Underutilized Business (HUB) subcontracting plans with bid submissions from contractors, and it considered the quality and extent of the HUB subcontracting plans when awarding contracts (see text box for more information about HUB subcontracting plans). Specifically, for the four contracts tested: (1) the contractor submitted a complete HUB subcontracting plan with the bid package and (2) the contracts contained the HUB subcontracting plans as a provision.

HUB Subcontracting Plans
Texas Government Code, Section 2161.252(a), and Title 34, Texas Administrative Code, Section 20.285(b)(1), require state agencies and higher education institutions to request HUB subcontracting plans from prospective bidders for potential contracts of \$100,000 or more with possible subcontracting opportunities.
The University is eligible to use HUB subcontract expenditures to count toward the annual HUB expenditure goals it establishes.

However, the University did not effectively monitor to ensure that the subcontracting activity of its contractors followed their HUB subcontracting plans, or require its contractors to submit changes or resubmit revised HUB subcontracting plans as required.

For 3 (75 percent) of the 4 contracts tested², the actual subcontracting activity the contractors reported in their *Progress Assessment Reports* was not consistent with the forecasted activity included in the HUB subcontracting plans those contractors submitted. Title 34, Texas Administrative Code, Section 20.285(g), requires contractors, prior to subcontracting in a manner not consistent with their HUB subcontracting plans, to submit revised subcontracting plans to the University for review and approval. However, the University did not have a process for monitoring contractors and following up when the contractors’ reported activity did not comply with the HUB subcontracting plans.

² Those four contracts totaled \$2.2 million.

Recommendations

The University should develop and implement a process to:

- Verify that contractors submit all monthly *Progress Assessment Reports* as required.
- Monitor contractors' reported subcontracting activity to determine compliance with the HUB subcontracting plan and, when the activity is not consistent with the plan, ensure that the contractor submits a revised plan for review and approval.

Management's Response

Angelo State University agrees with the SAO findings. Angelo State will implement a monthly process to verify all Progress Assessment Reports as required. Angelo State will develop a monthly reconciliation process to monitor contractor's compliance with the reported HUB subcontracting plan in order to identify activity that is not consistent with the plan and may warrant submittal of a revised HUB subcontracting plan.

Responsible Parties: *Executive Director of Contracts & Materials
Management/HUB Coordinator*

Implementation Date: *12/31/18*

The University Did Not Accurately Report Certain HUB Activities

Chapter 2
Rating:
High ³

The University compiled and maintained its HUB expenditures as required and reported those expenditures to the Comptroller's Office within the required timeframes (see text box for more information about the University's reported HUB expenditures). However, the University did not accurately report certain HUB activities to the Comptroller's Office from September 1, 2016, through February 28, 2018. Specifically, the University uploaded invalid HUB vendor information associated with the HUB subcontracting expenditures it reported, and it did not accurately report supplemental data regarding HUB bids received and total contracts awarded.

Reporting HUB Subcontracting Expenditures

The University submitted invalid vendor information associated with its reported HUB subcontracting expenditures to the Comptroller's Office.

The University's process to collect, verify, and upload vendor information associated with subcontracted HUB expenditures did not detect the invalid information. Auditors identified the following errors that resulted in the understatement of the University's qualifying HUB expenditures:

- For the semi-annual 2017 reporting period, \$52,800 paid to a HUB vendor was excluded from its total HUB subcontracting expenditures because the University uploaded an invalid vendor identification number.

The University's Reported HUB Expenditures for September 1, 2016, through February 28, 2018

The University reported the following HUB expenditures for the fiscal year 2017 annual reporting period (September 1, 2016, through August 31, 2017):

- HUB-eligible expenditures - \$42,804,395
- Expenditures with HUBs - \$4,116,807
- Expenditures with HUB subcontractors - \$1,369,151

The University reported the following HUB expenditures for the fiscal year 2018 semi-annual reporting period (September 1, 2017, through February 28, 2018):

- HUB-eligible expenditures - \$28,710,391
- Expenditures with HUBs - \$2,989,055
- Expenditures with HUB subcontractors - \$944,983

Sources: *Fiscal Year 2017 Annual Report for the Statewide Historically Underutilized Business (HUB Program)* and the *Fiscal Year 2018 Semi-annual Historically Underutilized Business (HUB) Report*.

Reporting Requirements

Texas Government Code, Section 2161.122, requires higher education institutions to maintain and compile monthly information related to the use of HUBs, including information regarding subcontractors. This information is used to **report to the Comptroller's Office** the total dollar amount of purchases and payments made under contracts awarded to HUBs. State agencies and higher education institutions may include subcontractor expenditures made by contractors and reimbursed by the state agency or higher education institution as HUB-eligible expenditures.

Source: Texas Government Code, Section 2161.122.

³ The risk related to the issues discussed in Chapter 2 is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

- An additional \$90,100 was later paid to the same HUB vendor the University misreported in the semi-annual 2017 reporting period, resulting in a total of \$142,900 paid to the HUB vendor. This amount was excluded from the University's total HUB subcontracting expenditures for the 2017 annual reporting period.
- A \$4,180 HUB payment reported in the semi-annual 2017 reporting period was excluded from the University's reported HUB subcontracting expenditures because it uploaded an incorrect vendor identification number. During the subsequent annual 2017 reporting period, the University identified this error and reported the correct HUB vendor identification number.

Additionally, the University reported a \$9,100 payment in the semi-annual 2018 period that was made to a vendor whose HUB status had expired prior to the fiscal year.⁴

As discussed in Chapter 1, the University did not ensure that its contractors consistently submitted *Progress Assessment Reports*. Those reports are necessary for the University to obtain and report complete and accurate subcontracting expenditures.

The University submitted *Quarterly Assessment of HUB-Related Activities* reports to the Comptroller's Office as required by the General Appropriations Act (85th Legislature). Additionally, the University reported information related to its HUB utilization goals in its *Legislative Appropriations Request* for the 2018-2019 biennium as required.

Reporting HUB Supplemental Data

The University reported incomplete and unsupported HUB supplemental information⁵ to the Comptroller's Office for September 1, 2016, through February 28, 2018. The University used undocumented, manual processes to compile the supplemental information, which Texas Government Code, Section 2161.122(c), required it to report to the Comptroller's Office. However, the University did not consistently follow those processes, which resulted in it reporting unreliable data. The Comptroller's Office publishes state agency supplemental information in its semiannual and annual HUB reports. Therefore, it is important that the University report complete and accurate information to help ensure the accuracy of the statewide reports.

⁴ The Comptroller's verification procedures identified this error and excluded the ineligible amounts from the total amount reported in the *Semi-annual 2018 Report for the Statewide Historically Underutilized Business (HUB) Program*.

⁵ The supplemental information includes the "Number of Bids and/or Proposals Received (HUB and Non-HUB)" and "Total State Agency Competitive and Non-Competitive Contracts Awarded (HUB and Non-HUB)" and provides details about the bids and proposals received by ethnicity, gender, total HUB participation, and total participation.

Recommendations

The University should:

- Improve the existing process to identify HUB eligible vendors and to maintain updated and accurate vendor information to ensure the University reports HUB expenditures accurately to the Comptroller's Office.
- Establish a documented process for developing required supplemental reports that ensures consistent and accurate reporting data.

Management's Response

Angelo State University agrees with the SAO findings. Angelo State will improve its existing process to identify HUB eligible vendors, and maintain up-to-date vendor information to ensure accurate reporting of HUB expenditures to the Comptroller's Office. Angelo State will further document its process for developing required supplemental reports and implement some automation to consistently capture and report required data.

Responsible Parties: Executive Director of Contracts & Materials
Management/HUB Coordinator

Implementation Date: 12/31/18

The University Complied with HUB Planning and Outreach Requirements

From September 1, 2016, through February 28, 2018, the University complied with HUB planning and outreach requirements. For example, in its HUB planning the University:

Chapter 3
Rating:
Low ⁶

- Adopted HUB rules required by Texas Government Code, Section 2161.123(d)(1).
- Created a HUB strategic plan that met all the requirements in Texas Government Code, Section 2161.123(b).

In addition, during that time period, the University complied with all HUB outreach requirements tested. Specifically, it:

- Participated in HUB forums.
- Received in-house marketing presentations from HUBs.
- Established a mentor-protégé program⁷ (see text box).
- Substantially complied with the HUB coordinator requirements.

HUB Mentor-Protégé Program

The State of Texas Mentor-Protégé Program is designed to foster relationships between prime contractors and HUBs. The objective of the Mentor-Protégé Program is to provide professional guidance and support to the protégé (HUB) to facilitate their growth and development and increase HUB contracts and subcontracts with the State of Texas.

Mentors can use their protégés to fulfill HUB subcontracting requirements when bidding on state contracts with expected values of \$100,000 or more.

State agencies serve as sponsors for the Mentor-Protégé agreements.

Source: **Comptroller's Office.**

⁶ The risk related to the issues discussed in Chapter 3 is rated as is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

⁷ The University did not sponsor any agreements between businesses serving as mentors and protégés that were in place during the audit scope.

The University Substantially Complied with Purchasing Requirements; However, It Did Not Report Exceptions from the State Use Program

From September 1, 2016, through February 28, 2018, the University complied with the purchasing requirements of the State Use Program for some purchases it made with state-appropriated funds. However, the University should strengthen its processes to achieve full compliance with State Use Program requirements.

Chapter 4
Rating:
Medium⁸

Policies and Procedures. The University's documented policies and procedures did not address the following State Use Program requirements:

- Establishing a process for State Use Program reporting, as required by Texas Human Resources Code, Section 122.0095(2).
- Designating an employee to ensure that the University complies with State Use Program requirements, as required by Texas Human Resources Code, Section 122.0095(1).
- Including a date by which exceptions must be reported, as required by Texas Human Resources Code, Section 122.016(b).
- Including a requirement to document the reasons for State Use Program purchase exceptions, as required by Texas Human Resources Code, Section 122.016(b).

Exception Reporting. From September 1, 2016, through February 28, 2018, the University did not report any of its State Use Program purchase exceptions made from state-appropriated funds to the Comptroller's Office and the Texas Workforce Commission as required (see text box for more information about exception reporting). Texas Human Resources Code, Section 122.0095, requires each state entity to provide an exception report to the Comptroller's Office and the

Exception Reporting

State statute requires state agencies and public higher education institutions to purchase from the State Use Program unless the needed product or service meet certain exceptions. Agencies and higher education institutions are also required to report the purchase of products or services available from an organization eligible under the State Use Program, but purchased from a business outside the State Use Program, including the cost paid and reasons for not purchasing from the State Use Program.

Classifications of acceptable exceptions include:

- The product or service available does not meet the reasonable requirements of the agency or institution. This may include an inability to meet product specifications or to deliver the needed product within a certain period of time.
- The inability to provide temporary services within certain regions of the state.

Sources: **Comptroller's Office.**

⁸ The risk related to the issues discussed in Chapter 4 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Texas Workforce Commission. The University should have reported the following exceptions:

- Of the 25 state-appropriated fund expenditures (totaling \$112,776) tested, 4 expenditures had a comparable product that was available through TIBH (a State Use Program vendor). However, the University purchased those four products, totaling \$5,911, from a non-State Use Program vendor, and it did not identify or document those four purchases as exceptions or report the purchases as State Use Program exceptions to the Comptroller's Office as required.
- The University had identified two additional expenditures totaling \$12,053 as exceptions to the State Use Program that it had not reported to the Comptroller's Office as required.

Recommendations

The University should strengthen its State Use Program processes by:

- Strengthening its policies and procedures to help ensure compliance with State Use Program requirements.
- Ensuring that for each of its purchases of eligible goods and/or services, the University either:
 - ♦ Purchases goods and services from a State Use Program vendor or another central nonprofit agency or community rehabilitation program as defined by Texas Human Resources Code, Section 122.002, or
 - ♦ Reports a State Use Program purchasing exception as required by Texas Human Resources Code, Section 122.0095.
- Developing and implementing processes to identify, document, and report purchasing exceptions.

Management's Response

Angelo State University agrees with the SAO findings. Angelo State will revise its operating policies and procedures to ensure compliance with Texas Human Resources Code, Sections 122.002 or 122.0095. Angelo State will develop and implement processes to identify, document, and report purchasing exceptions by a required monthly date.

Responsible Parties: *Executive Director of Contracts & Materials Management/HUB Coordinator*

Implementation Date: *12/31/18*

The University Should Improve Its Information Technology System Controls

Chapter 5
Rating:
High ⁹

The University should improve its information technology system controls over user access management and change management processes for its financial accounting system. Specifically, the University should address weaknesses in the following areas:

- Ensuring that access assigned to users is appropriate for their assigned duties.
- Disabling accounts when users no longer require access to the financial accounting system and ensuring that it disables those user accounts in a timely manner.
- Ensuring that it retains adequate documentation to show that all system changes were tested prior to implementation in the production environment.

Inadequate management of user access increases the risk of unintentional or unauthorized modification to data, disclosure of sensitive or confidential information, and misuse of the organization's information assets.

The University authorized changes to the financial accounting system in compliance with University policy. Additionally, it limited access to update the system in the production environment to individuals whose job duties required such access while maintaining an adequate segregation of duties.

Recommendations

The University should:

- Ensure that the level of assigned financial accounting system access is appropriate for the users' job duties.
- Establish a process to disable inactive users' access to its financial accounting system.

⁹ The risk related to the issues discussed in Chapter 5 is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

- Enhance periodic monitoring of access to enable the timely identification of when financial accounting system users' access levels should be changed or disabled.
- Enhance the documentation of tests of changes to its financial accounting system.

Management's Response

Angelo State University agrees with the SAO findings. Angelo State has adjusted the deactivation process to ensure that user access is appropriately removed in a timely manner from the financial system. Angelo State has reviewed access for business need and suitability to appropriately protect the financial system. Angelo State will implement a process to perform periodic reviews of access to the financial system and monitor needed changes to user access.

Responsible Parties: Executive Director and Controller; Information Technology Security Officer

Implementation Date: 12/31/18

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether Angelo State University (University):

- Complied with statutory requirements and rules that the Office of the Comptroller of Public Accounts (Comptroller's Office) established to implement Historically Underutilized Business (HUB) Program requirements.
- Reported complete and accurate data to the Comptroller's Office.
- Complied with requirements related to the Purchasing from People with Disabilities Program (State Use Program).

Scope

The scope of this audit covered the University's HUB activities and State Use Program activities from September 1, 2016, through February 28, 2018. Auditors selected the University for audit based on a risk assessment and audited for compliance with:

- HUB Program requirements for planning, outreach, subcontracting, and reporting defined in Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20.
- State Use Program requirements defined in Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 806.

Methodology

The audit methodology included reviewing statutes, rules, Comptroller's Office requirements, and the University's policies and procedures; collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of the tests; and interviewing management and staff at the University.

Data Reliability and Completeness

Auditors used expenditure data from the University's financial accounting system to verify the accuracy of the HUB data that the University reported to the Comptroller's Office. Auditors also used the expenditure data from the University's financial accounting system for State Use Program testing to verify whether the University complied with State Use Program requirements.

Auditors performed general controls testing on the University's financial accounting system. In addition, auditors reviewed the expenditures data from the University's financial accounting system for completeness by (1) tracing the data to hard-copy files, (2) performing high-level data analysis to determine completeness of the data, (3) observing the data extract, and (4) reviewing parameters used to extract the data.

Auditors determined that the expenditure data in the University's financial accounting system was sufficiently reliable for the purposes of the audit.

Sampling Methodology

To test compliance with HUB requirements, auditors selected a non-statistical sample of the University's contracts through risk-based selection. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project the test results to the population.

To test compliance with State Use Program exception reporting, auditors selected a non-statistical, random sample of non-State Use Program purchases that the University made from appropriated funds. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Semi-annual and annual HUB reports and supporting datasets.
- The University's HUB rules and HUB-related policy and procedures.
- The University's contracts, invoices, and other contract documentation.
- Expenditure data from the University's financial system for September 1, 2016, through February 28, 2018.
- The University's HUB forum and marketing emails.
- The University's HUB mentor-protégé program policies and procedures.

Procedures and tests conducted included the following:

- Reviewed the University's HUB utilization goals.
- Interviewed the University's HUB coordinator and other University staff.
- Reviewed the job description and associated responsibilities for the University's HUB coordinator.
- Tested the University's contracts with effective dates between September 1, 2016 and February 28, 2018.
- Tested the University's non-State Use program, non-payroll expenditures from appropriated funds for September 1, 2016, through February 28, 2018.
- Compared the annual HUB report for fiscal year 2017 and the semi-annual HUB report for fiscal year 2018 (through February 28, 2018) to the University's financial accounting system's expenditure data.
- Compared certain data in the University's *Legislative Appropriations Request* with source data.

Criteria used included the following:

- Texas Government Code, Chapters 2155 and 2161.
- Texas Human Resources Code, Chapter 122.
- Title 1, Texas Administrative Code, Chapter 202.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 40, Texas Administrative Code, Chapter 806.
- General Appropriations Act (85th Legislature).
- The Comptroller's Office's Statewide Historically Underutilized Business (HUB) Reporting Procedures for fiscal years 2017 and 2018.

Project Information

Audit fieldwork was conducted from April 2018 through September 2018. 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.

The following members of the State Auditor's staff performed the audit:

- Jules Hunter, CPA (Project Manager)
- Arnton Gray (Assistant Project Manager)
- Lauren Futch
- Namita Pai, CPA
- Nakeesa Shahparasti, CPA, CFE, CISA
- Ann E. Karnes, CPA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

The University's Fiscal Year 2017 HUB Goals and Performance

Table 3 shows Angelo State University's (University) fiscal year 2017 goals and actual performance for its Historically Underutilized Business (HUB) Program for each procurement category.

Table 3

The University's HUB Goals and Performance Fiscal Year 2017 ^a		
HUB Procurement Category	The University's Projected HUB Goal	The University's Actual HUB Performance
Heavy construction contract utilization goal	7.56%	6.69%
Building construction contract utilization goal	14.91%	28.85%
Special trade construction contract utilization goal	16.62%	10.70%
Professional services contract utilization goal	16.18%	13.77%
Other services contract utilization goal	13.58%	4.18%
Commodities contract utilization goal	16.42%	13.47%
^a Auditors did not perform procedures to validate the information in this table.		

Source: *Fiscal 2017 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*, Office of the Comptroller of Public Accounts.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
18-026	An Audit Report on the University of Texas Southwestern Medical Center's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs	April 2018
17-030	An Audit Report on the Texas Facilities Commission's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs	April 2017
17-028	An Audit Report on the University of Texas Medical Branch at Galveston's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs	March 2017
17-008	An Audit Report on the Department of Public Safety's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs	October 2016
16-002	An Audit Report on Selected Business Opportunity Programs at the Department of Transportation	September 2015

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