



An Audit Report on

**Texas State University's Compliance
with Historically Underutilized Business
and State Use Program Requirements**

October 2019

Report No. 20-003



An Audit Report on

Texas State University's Compliance with Historically Underutilized Business and State Use Program Requirements

SAO Report No. 20-003
October 2019

Overall Conclusion

Compliance with Historically Underutilized Business (HUB) Program Requirements

From September 1, 2017, through August 31, 2018, Texas State University (University) complied with most of the statutes, rules, and Comptroller's Office requirements related to HUB planning and outreach. For example, the University:

- Adopted HUB rules.
- Complied with strategic plan requirements.
- Complied with HUB Coordinator requirements.
- Participated in HUB forums.
- Received in-house marketing presentations from HUBs.
- Established a mentor-protégé program.

In addition, the University complied with most HUB subcontractor monitoring requirements tested. However, it did not ensure that contractors (1) submitted their HUB Subcontracting Plans within the required timeframes or (2) consistently submitted monthly HUB-related *Progress Assessment Reports* as required by Title 34, Texas Administrative Code, Section 20.285(f).

The University also generally complied with HUB reporting requirements; however, it should improve its HUB reporting process to ensure that it accurately reports certain HUB information. Specifically, during fiscal year 2018, the University:

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 2018, the Office of the Comptroller of Public Accounts (Comptroller's Office) reported that, of the approximately \$20.5 billion that the State spent in HUB eligible procurement categories, the State paid approximately \$2.7 billion (approximately 13 percent) to HUBs.

For fiscal year 2018, Texas State University (University) reported that, of the approximately \$217 million that the University spent in procurement categories that were eligible for HUB participation, the University paid approximately \$34 million (approximately 16 percent) to HUBs.

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 is governed by 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.

- Did not accurately report HUB expenditure data to the Office of the Comptroller of Public Accounts (Comptroller's Office) during fiscal year 2018.
- Did not maintain adequate support or follow all established University policies and procedures for its HUB supplemental reports during fiscal year 2018.

Compliance with Purchasing from People with Disabilities Program (State Use Program) Requirements

The University should strengthen its processes to ensure that it complies with all State Use Program requirements. Specifically, the University did not have processes to ensure that purchasers verified whether products and services were available through the program for purchases made from September 2017 through February 2019. It also did not track and report purchases of goods and services available through the program but not purchased through it. As a result, the University did not report any State Use Program purchase exceptions made from state-appropriated funds to the Comptroller's Office as required.

Information Technology Controls

The University has implemented certain information technology controls over its SAP financial system (SAP), which the University uses to track HUB-related expenditures. Additionally, the University implemented a process to help ensure that its Web-based procurement system sent accurate and complete data to SAP.

However, the University should strengthen the logical access and audit trail controls and its change management policies to include all of the policy requirements outlined in the Department of Information Resources' *Security Control Standards Catalog*.

Pursuant to Standard 7.41 of the U.S. Government Accountability Office's Government Auditing Standards, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Table 1 on the next page 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/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The University Complied with Most HUB Planning and Outreach Requirements	Low
2	The University Generally Complied with HUB Reporting Requirements; However, It Should Improve the Processes Used to Generate Certain HUB Reports	Medium
3-A	The University Complied With the HUB Subcontractor Selection Requirements Tested	Low
3-B	The University Complied With Most Subcontractor Monitoring Requirements Tested; However, It Did Not Consistently Obtain Required Documentation	Medium
4	The University Should Strengthen Its Purchasing Processes to Ensure That It Complies with State Use Program Requirements	Medium
5-A	The University Should Strengthen Controls Over the System Used to Track HUB-related Expenditures	Priority
5-B	The University Should Strengthen Its Change Management Documentation and Monitoring of Third-party Vendors	Medium

^a A chapter/subchapter 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.

A chapter/subchapter 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.

A chapter/subchapter 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.

A chapter/subchapter 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.

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

Summary of Management's Response

At the end of each chapter 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 and State Use Program activities from September 2017 through February 2019. Auditors selected the University for audit based on a risk assessment and audited for compliance with:

- HUB Program requirements for planning, outreach, contracting, 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.
- Information Technology requirements defined in Title 1, Texas Administrative Code, Chapter 202.

Contents

Detailed Results

Chapter 1	
The University Complied with Most HUB Planning and Outreach Requirements	1
Chapter 2	
The University Generally Complied with HUB Reporting Requirements; However, It Should Improve the Processes Used to Generate Certain HUB Reports.....	4
Chapter 3	
The University Complied with Most HUB Subcontracting Requirements Tested; However, It Should Ensure That It Consistently Obtains Required Monitoring Documentation.....	7
Chapter 4	
The University Should Strengthen Its Purchasing Processes to Ensure That It Complies with State Use Program Requirements	11
Chapter 5	
The University Should Strengthen Information Technology Controls to Ensure That It Complies with Applicable State Requirements.....	13

Appendices

Appendix 1	
Objectives, Scope, and Methodology	17
Appendix 2	
Issue Rating Classifications and Descriptions.....	21
Appendix 3	
The University’s HUB Reports Reviewed for This Audit.....	22
Appendix 4	
The University’s Fiscal Year 2018 HUB Goals and Performance	23

Appendix 5	
Related State Auditor's Office Work	24

Detailed Results

Chapter 1

The University Complied with Most HUB Planning and Outreach Requirements

Chapter 1
Rating:
Low ¹

Texas State University (University) had processes in place related to the historically underutilized business (HUB) program, and it complied with most of the applicable HUB planning requirements. In addition, the University complied with most of the HUB outreach and mentor-protégé requirements. However, the University should strengthen its processes to ensure that it (1) advertises in trade publications, and (2) obtains written Mentor-Protégé Program agreements as required.

Planning Requirements. For fiscal year 2018, the University had processes to ensure compliance with the planning requirements tested. Specifically, the University:

- Adopted HUB rules.
- Complied with strategic plan requirements.
- Included HUB information for the University's *Legislative Appropriations Request* for the 2020-2021 biennium, as required by Texas Government Code, Section 2161.127, and Title 34, Texas Administrative Code, Section 20.286.

The University adopted the statewide HUB goals (see Appendix 4 for more information about the University's fiscal year 2018 HUB goals and performance).

Outreach Requirements. For fiscal year 2018, the University had processes to ensure that it fully complied with three of the four outreach requirements tested. Specifically, the University:

- Complied with HUB coordinator requirements.
- Received in-house marketing presentations from HUBs.

¹ The risks related to Chapter 1 are 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.

- Submitted the internal HUB assessment report required by the General Appropriations Act (85th Legislature) to the Comptroller’s Office and the Legislative Budget Board.
- Established a Mentor-Protégé program, which is designed to foster relationships between prime contractors and HUBs (see text box for more information).

HUB Mentor-Protégé Program

The objective of the State of Texas Mentor-Protégé Program is to provide professional guidance and support to the protégé (HUB) to facilitate its 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: Office of the Comptroller of the Public Accounts.

In addition, the University participated in a HUB forum as required; however, it did not advertise in trade publications that target HUBs regarding opportunities for businesses to make a presentation regarding the types of goods and services it may offer, as required by Texas Government Code, Section 2161.066.

The University also did not comply with all Mentor-Protégé Program requirements in Title 34, Texas Administrative Code, Section 20.298. Specifically:

- It did not obtain annual written agreements (including progress reports) that identify developmental areas and guidance needed by the protégés (HUBs).
- It did not require documented progress reports from the mentor or protégé.

Obtaining documented agreements and progress reports can help the University monitor the mentor-protégé relationships and determine whether protégés are adequately informed about potential subcontracting opportunities.

Recommendations

The University should:

- Comply with all HUB outreach requirements by advertising in appropriate trade publications as required by Texas Government Code, Section 2161.066.
- Compile and maintain Mentor-Protégé Program written agreements, including progress reports, on an annual basis as required by Title 34, Texas Administrative Code, Section 20.298.

Management's Response

The University agrees with the recommendations. The Department of Procurement & Strategic Sourcing (P&SS) has taken measures to ensure it maintains current records for all state HUB reporting requirements including Mentor Protégé and progress of the program with each partnership the University sponsors.

Responsible Parties: Director of Procurement and Strategic Sourcing/HUB Coordinator

Implementation Time: Ongoing

The University Generally Complied with HUB Reporting Requirements; However, It Should Improve the Processes Used to Generate Certain HUB Reports

**Chapter 2
Rating:**
Medium ²

The University submitted all required reports within the required timeframes. This included the annual and semi-annual report of HUB-related expenditures and the *State Agency Progress Report*, which documents progress made toward increasing the use of historically underutilized businesses. However, the University did not accurately report certain HUB expenditure data and other supplemental data included in the reports to the Comptroller's Office during fiscal year 2018.

The University's processes did not ensure that certain HUB expenditure reports it submitted to the Comptroller's Office were accurate.

While the University had processes in place to track and report its HUB expenditures, it did not have adequate controls in place to ensure that certain HUB expenditure reports were accurately reported during fiscal year 2018. Specifically:

- The University's semi-annual 2018 HUB expenditure report overstated its HUB subcontracting expenditures by approximately \$632,000 (8.7 percent of the total reported subcontracting expenditures of \$7.3 million). This occurred because multiple departments within the University compile the HUB subcontracting expenditures data and submit that data to the procurement department for inclusion in the HUB report. However, the procurement department did not reconcile the HUB expenditure data that the individual departments submitted with the amounts it included in the HUB report to be sent to the Comptroller's Office.
- Auditors estimate that the University's 2018 annual HUB expenditure report misclassified approximately \$6.2 million of expenditures as related to professional services instead of correctly reporting them as building and construction expenditures. This automated SAP³ expenditure extraction report used to report the information incorrectly converted the "Real Property – Construction in Progress – Capitalized" category to the "Architectural/Engineering Services" category. While the

² The risk related to the issues discussed in Chapter 2 is rated as Medium because they 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(s) and reduce risks to a more desirable level.

³ SAP is the University's enterprise-wide financial management application, which it uses to report HUB expenditures and contract counts.

expenditure classification was incorrect, the overall expenditure amount that the University reported was not affected by the error.

The University did not accurately report certain information in or retain sufficient documentation for its semi-annual and annual HUB supplemental reports.

The Comptroller's Office requires the University to file supplemental information with its semi-annual and annual HUB reports. The University filed that supplemental information as required; however, it did not (1) accurately report the total number of contracts and (2) retain sufficient supporting documentation for all of the information it reported. Specifically:

- **Report of Contracts Awarded to HUBs and Non-HUBs.** The University filed both a fiscal year 2018 semi-annual and annual HUB contracting report with the Comptroller's Office as required. However:
 - ♦ For both the annual and semi-annual reports, the University did not have documentation showing how it calculated the total counts of contracts awarded to HUBs and non-HUBs. While the University was able to describe its process, the data that it used is continuously updated. As a result, auditors could not determine the correct information the University should have reported in the semi-annual and annual reports.
 - ♦ In addition, for the semi-annual report, during the first 6 months of fiscal year 2018, the University incorrectly reported a count of unique vendors and not a count of the total number of contracts which resulted in an understatement of the number of contracts due to vendors having multiple contracts. According to University procedures, it should have reported a count of the total purchase orders in SAP for that 6-month time period. In addition, the University asserted that they reviewed the semi-annual report information prior to submission but did not maintain documentation to support that review.
- **Report of HUBs submitting bids and/or proposals.** The University did not maintain documentation supporting the counts of HUB bids/proposals received that it reported in its semi-annual and annual reports for fiscal year 2018. In addition, while the University was able to describe its process for compiling the reported totals, the spreadsheets the University used in that process are continuously updated. As a result, auditors were not able to verify whether the HUB bids/proposals counts that the University reported in its fiscal year 2018 reports were accurate.

In addition, the University submitted the *State Agency HUB Progress Report* required by Texas Government Code, Section 2161.124.

Recommendations

The University should:

- Develop and implement procedures for reconciling (1) the HUB expenditure data that its departments submit and (2) the information to be reported in its reports submitted to the Comptroller's Office.
- Implement processes and controls to ensure that the SAP HUB expenditure reports produce accurate results.
- Maintain adequate supporting documentation for the information included in its HUB reports submitted to the Comptroller's Office.

Management's Response

The University agrees with the recommendations and has implemented new procedures to ensure correct and accurate reporting from its departments. The P &SS department has changed the process for Progress Assessment Reporting (PAR) and is now tracking the PAR reports for the departments. All documentation is being maintained by the P &SS department on a secure share drive with appropriate security measures in place to restrict access. The department is seeing a more efficient and accurate process for HUB reporting.

Responsible Parties: Director of Procurement and Strategic Sourcing/HUB Coordinator

Implementation Time: Implemented August 2019.

The University Complied with Most HUB Subcontracting Requirements Tested; However, It Should Ensure That It Consistently Obtains Required Monitoring Documentation

The University ensured that it complied with most HUB-related subcontracting requirements tested. However, the University should ensure that it consistently obtains monthly *HUB Progress Assessment Reports* from contractors to help verify subcontractors' compliance with HUB requirements.

Chapter 3-A

The University Complied With the HUB Subcontractor Selection Requirements Tested

**Chapter 3-A
Rating:
Low ⁴**

Auditors selected six contracts with a total contract value greater than \$100,000 executed between September 1, 2017, and February 25, 2019, to determine whether they complied with statutes and rules related to HUB subcontracting (see text box for information about the sampling methodology used for selecting those 6 contracts). For those six contracts, the University:

- Followed applicable laws, rules, and its policies and procedures regarding solicitation of HUB subcontractors.
- Followed its best value criteria to select HUB subcontractors, as required by Texas Government Code, Section 2155.074(a), and University policy.
- Documented in the requests for proposal the best value criteria that the University would use in HUB subcontractor selection, as required by Texas Government Code, Section 2155.075(a), and University policy.

In addition, for all five applicable contracts tested, the University:

- Performed subcontracting analysis as required by its policy for applicable solicitations with an expected value of \$90,000 or more.
- Included HUB Subcontracting Plan provisions.

Contracts Selected for Testing

Auditors initially identified 157 University contracts for more than \$100,000 that were in effect during the audit scope and may be eligible for the HUB program.

Auditors selected a random sample of 24 contracts for testing. Of those 24 contracts, auditors further determined that 18 contracts were not subject to HUB requirements due to the type of contract or the HUB status of the prime contractor.

⁴ The risk related to the issues discussed in Chapter 3-A is rated as 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.

The University's Contracts Database

While the University did not have a comprehensive list of contracts, it provided auditors with the most complete population of contracts available for use on this audit. According to the University, its Total Contract Management (TCM) system contains certain contracts executed since the system's "go live" date in 2016. However, certain contracts managed by individual departments were not included in the TCM system data.

The lack of a comprehensive list of all active contracts makes it difficult for the University to ensure that all HUB information gets reported completely and accurately to internal and external parties. Having a comprehensive list also would assist with the reconciliation issues noted in Chapter 2.

Recommendation

The University should strengthen its process to identify and track all contracts awarded within a fiscal year to ensure HUB data is reported completely and accurately.

Management's Response

The University agrees with the recommendations and has implemented requirements to ensure all University contracts are managed through a centralized system/database.

Responsible Parties: Director of Procurement and Strategic Sourcing/HUB Coordinator

Implementation Time: Implemented May 17, 2019.

The University Complied With Most Subcontractor Monitoring Requirements Tested; However, It Did Not Consistently Obtain Required Documentation

Chapter 3-B
Rating:
Medium ⁵

The University complied with most HUB subcontractor monitoring requirements. Specifically, the University developed and documented HUB subcontracting policies and procedures. In addition:

- For the five contracts tested, the contractors submitted HUB Subcontracting Plans, and those plans contained all sections as required.
- For the one contract tested that included certified HUB subcontractors, the University ensured that the subcontractors were HUBs at the time of solicitation.

However, for 2 (40 percent) of the 5 contracts tested, the University did not have documentation showing that the contractors submitted their HUB Subcontracting Plans within the timeframe required by Texas Government Code, Section 2161.

Progress Assessment Reports

The University also 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). The *Progress Assessment Reports* detail the payments that prime contractors have made to their subcontractors (see text box for more information about the reports).

Auditors selected three contracts for testing based on risk and determined that the University lacked a process to ensure that its contractors submitted the *Progress Assessment Reports* on a monthly basis as required. Specifically:

- For all 3 contracts tested, the University did not have documentation showing that the prime contractors submitted monthly *Progress Assessment Reports* during fiscal year 2018.

Progress Assessment Reports

A *Progress Assessment Report* should be submitted monthly to the Comptroller's Office. Those reports should include contractor and subcontractor information and the amounts that the prime contractor paid its HUB and non-HUB subcontractors for the reporting period. Prime contractors are required to maintain business records documenting compliance with the HUB subcontracting plan and must submit a compliance report to the contracting agency monthly, in the format required by the Comptroller's Office.

Sources: Title 34, Texas Administrative Code, Section 20.285.

⁵ The risk related to the issues discussed in Chapter 3-B is rated as Medium because they 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(s) and reduce risks to a more desirable level.

- For 1 (33 percent) of the 3 contracts tested, the University had documentation showing that the contractor submitted 5 *Progress Assessment Reports* covering 6 months in fiscal year 2018.

Recommendations

The University should:

- Ensure that contractors submit HUB Subcontracting Plans within required timeframes.
- Monitor to ensure that contractors submit *Progress Assessment Reports* on a monthly basis as required by the Texas Administrative Code.

Management's Response

Texas State University agrees with the SAO findings. Texas State will implement a regular review process to verify all Progress Assessment Reports as required. Texas State will develop a 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 (HSP).

Responsible Parties: Director of Procurement and Strategic Sourcing/HUB Coordinator

Implementation Time: Implemented August 2019

The University Should Strengthen Its Purchasing Processes to Ensure That It Complies with State Use Program Requirements

**Chapter 4
Rating:**

Medium ⁶

The University should strengthen its processes to ensure that it complies with all Purchasing from People with Disabilities (State Use Program) requirements (see text box for more information about the requirements). Specifically, the University:

- Had a policy that required its purchasers to check the availability of products and services through TIBH Industries⁷ prior to making a purchasing decision. However, it did not have any processes in place to verify that its purchasers complied with this policy.
- Did not track and report exceptions, which are purchases of goods and services available through the State Use Program but not purchased through it, to the Comptroller's Office as required (see text box for more information about exception reporting).
- Did not designate an employee to ensure that the University complies with State Use Program requirements, as required by Texas Human Resources Code, Section 122.0095.

From September 2017 through February 2019, the University reported to the Comptroller's Office that it purchased goods and services totaling \$5,953 through the State Use Program. However, as a result of not having processes in place to comply with State Use Program requirements, the University did not report any purchase exceptions to the Comptroller's Office for September 2017 through February 2019, as required by Texas Human Resources Code, Section 122.0095.

State Use Program Requirements

Texas Human Resources Code, Section 122.0095, requires each state entity that purchases products or services to (1) designate an employee to ensure that it complies with all requirements and (2) report to the Comptroller's Office and the Texas Workforce Commission when products or services are available through TIBH Industries but are purchased from a different vendor.

Exception Reporting

State statute requires state agencies and 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.

⁶ The risk related to the issues discussed in Chapter 4 is rated as Medium because they 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(s) and reduce risks to a more desirable level.

⁷ This was the Texas Industries for the Blind and Handicapped, which is now known as Workquest. This is the State Use Program designated vendor.

Recommendations

The University should document and implement policies and procedures for State Use Program compliance including:

- Ensuring that purchasers verify whether products and services are available in the State Use vendor's catalog prior to making a purchase, as required by University policy.
- Tracking, documenting, and reporting all State Use Program purchase exceptions, as required by Texas Human Resources Code, Section 122.0095.
- Designating an employee as the State Use Coordinator, as required by Texas Human Resources Code, Section 122.0095.

Management's Response

The University agrees with the recommendations and will be implementing new procedures to ensure it complies with the State Use Program. The department will implement a new workflow process within its procurement system to adhere to the State Use Program. The new workflow will ensure appropriate tracking and reporting is maintained. The University has designated the Assistant Director of Procurement as its State Use Coordinator.

Responsible Parties: Director of Procurement and Strategic Sourcing/HUB Coordinator and Assistant Director of Procurement

Implementation Time: December 31, 2019

The University Should Strengthen Information Technology Controls to Ensure That It Complies with Applicable State Requirements

The University should strengthen its information technology controls to help ensure that the HUB-related expenditure data is accurate and complete. In addition, the University should strengthen its change management policies and procedures and its monitoring of third-party vendors.

The University has implemented certain controls over the system used to track its HUB-related expenditures. For example, the University conducted periodic application user access reviews and implemented application input, processing, and approval controls to help ensure the system contained complete and accurate data. Additionally, the University implemented a process to help ensure that its Web-based procurement system sent accurate and complete data.

Chapter 5-A

The University Should Strengthen Controls Over the System Used to Track HUB-related Expenditures

**Chapter 5-A
Rating:
Priority⁸**

The University should strengthen the logical access and audit trail controls for the system used to track HUB-related expenditures to help prevent and detect unauthorized transactions.

To minimize the risks associated with public disclosure, auditors provided the details about certain information security control weaknesses and the recommendations separately in writing to the University. Pursuant to Standard 7.41 of the U.S. Government Accountability Office's Government Auditing Standards, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

⁸ The risk related to the issues discussed in Chapter 5-A is rated as Priority because 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.

Management's Response

The university agrees with the recommendation to strengthen the logical access and audit trail controls for the system used to track HUB-related expenditures to help prevent and detect unauthorized transactions. This will include an external review of account access permissions and logging and making recommended changes.

Responsible Parties: Associate Vice President, Technology Resources

Implementation Time: July 1, 2020

The University Should Strengthen Its Change Management Documentation and Monitoring of Third-party Vendors

The University should strengthen its change management policies and procedures to address Texas Administrative Code requirements.

Chapter 5-B
Rating:
Medium⁹

The University had documented change management policies and procedures, and those procedures described the University's process for controlling changes to the systems audited. However, the University should strengthen its change management policies to include all of the policy requirements outlined in the Department of Information Resources' *Security Control Standards Catalog*¹⁰ (see text box for additional information about those change management requirements). Specifically, the University's change management policies did not include a statement of purpose, the scope of the systems to which the policies apply, or the roles and responsibilities of employees and areas within the University related to the change management process, as required. Without properly designed change management policies, there is an increased risk that system changes may result in unintended disruptions in operations or a loss of data integrity.

The University did not monitor a third-party vendor as required by the Texas Administrative Code.

The University contracted with a third-party vendor for the use of a Web-based contract management and procurement system. However, the University did not adequately monitor the vendor as required by the *Security Control Standards Catalog*. Specifically, during fiscal year 2018, the University did not obtain, review, and follow-up on the information contained in the vendor's SSAE 18 attestation engagement reports. SSAE 18 reports are designed to help entities gain assurance about the design and effectiveness of a third party's information technology related controls (see text box for more information about SSAE reports). The *Security Controls*

Change Management Policies

The *Security Control Standards Catalog* states that state entities should develop, document, and disseminate a change management policy "that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance."

Source: *Security Control Standards Catalog*.

Statement on Standards for Attestation Engagements

An SSAE 18 report is the report of an attestation by an independent reviewer based upon a set of standards. As noted by the American Institute of Certified Public Accountants (AICPA):

"The attestation standards establish requirements for performing and reporting on examination, review, and agreed-upon procedures engagements that enable practitioners to report on subject matter ordinarily other than financial statements, for example, an entity's compliance with laws or regulations, the effectiveness of an entity's controls over the security of a system."

Source: The AICPA.

⁹ The risk related to the issues discussed in Chapter 5-B is rated as Medium because they 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(s) and reduce risks to a more desirable level.

¹⁰ Title 1, Texas Administrative Code, Chapter 202, requires state agencies to comply with the security standards defined in the Department of Information Resources' *Security Control Standards Catalog*. This catalog provides state agencies and institutions of higher education specific guidance for implementing security controls and specifies the minimum requirements that the agencies and institutions must meet to provide appropriate levels of information security.

Standards Catalog requires state entities “to monitor security control compliance by external service providers on an ongoing basis.” Obtaining, reviewing, and following up on the vendor’s SSAE 18 reports would help the University monitor the vendor and ensure that the data hosted in the third-party system is properly controlled and secured.

Recommendations

The University should:

- Develop, document, and disseminate change management policies that comply with applicable Texas Administrative Code requirements.
- Obtain and review the SSAE 18 report of the third-party vendor for its Web-based contract management and procurement system to ensure that data in that system is properly controlled and secured.

Management’s Response

Management agrees with the finding that the change management policies and procedures are missing some required sections and is in concurrence with the recommendation to revise the policies to meet Texas Administrative Code requirements.

Responsible Parties: Associate Vice President, Technology Resources

Implementation Time: February 1, 2020

Management concurs with the recommendation that the SSAE 18 report of the third-party vendor for its web-based contract management and procurement system should be obtained and reviewed to ensure that data in that system is properly controlled and secured as required by the Security Control Standards Catalog. The university will collect, review, and react to the SSAE 18 report for its third-party web-based contract management system.

Responsible Parties: Chief Information Security Officer

Implementation Time: February 1, 2020

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether Texas 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 Office of the Comptroller of Public Accounts (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 2017 through February 2019. Auditors selected the University for audit based on a risk assessment and audited for compliance with:

- HUB Program requirements for planning, outreach, contracting, 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.
- Information Technology requirements defined in Title 1, Texas Administrative Code, Chapter 202.

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 of data collection, calculation, and reporting 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 SAP financial accounting system (SAP) to verify the accuracy of the HUB data that the University reported to the Comptroller's Office. Auditors performed general controls testing on SAP and determined that the expenditure data in that system was of undetermined reliability because of control weaknesses discussed in Chapter 5.

To test for compliance with HUB compliance requirements, auditors selected a sample of contracts from the University's TCM contracts database. Auditors determined that the data in that database was of undetermined reliability; however, it provided the most complete population of contracts applicable to test HUB compliance requirements (see Chapter 3 for more information).

Sampling Methodology

- To test compliance with HUB requirements, auditors selected a non-statistical sample of the University's contracts primarily through random selection. In some cases, auditors selected additional contracts and HUB *Progress Assessment Reports* based on risk. The sample items were generally not representative of the population; therefore, it would not be appropriate to project the test results to the population.
- Auditors selected a non-statistical risk-based sample of system changes from a third party help desk tool that the University uses to track and manage its information technology system changes. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The University's semi-annual and annual HUB reports and supporting datasets.
- The University's HUB rules and HUB-related policies and procedures.
- The University's contracts and other contract documentation.
- Expenditure data from the University's financial system for annual and semi-annual reporting.
- 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 about the University's HUB program processes.
- Interviewed University staff about the processes related to its State Use Program.
- Tested the University's contracts with execution dates between September 2017 and February 2019.
- Compared the University's semi-annual and annual HUB reports it submitted for fiscal year 2018 to the University's financial accounting system's expenditure 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).
- Texas State University Historically Underutilized Businesses Policies and Procedures Manual dated July 2018.

Project Information

Audit fieldwork was conducted from February 2019 through July 2019. We conducted this performance audit in accordance with generally accepted government auditing standards¹¹. 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:

- Jamie Kelly, MBA (Project Manager)
- Michael Yokie, CISA (Assistant Project Manager)
- Ashlie Garcia
- Shahpar M. Hernandez, CPA, CISA, M/SBT
- Benjamin Hikida
- Andy Lee, CITP
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

¹¹ United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-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 the 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 HUB Reports Reviewed for This Audit

Table 3 lists the University's reports reviewed for this audit related to the Historically Underutilized Business (HUB) program.

Table 3

The University's HUB Reports Reviewed for This Audit			
The University Complied with Requirements			
Name of Report or Report Type	Description	Submission Requirement	Criteria Establishing Requirements
Internal Assessments on Utilization of Historically Underutilized Businesses	This is an internal assessment evaluating the University's efforts during the previous two fiscal years to increase the participation of HUBs in purchasing and public works contracting.	Submitted every odd-numbered year before December 1, to the Comptroller's Office and the Legislative Budget Board.	General Appropriation Act (85th Legislature), Article IX, Section 7.06.
State Agency Progress Report	This report documents the University's progress made under its plan for increasing use of historically underutilized businesses.	Submitted annually no later than December 31 to governor, lieutenant governor and the speaker of the House of Representatives.	Texas Government Code, Section 2161.124.
Legislative Appropriations Request for the 2020-2021 Biennium	This report describes the University's goals, and its progress toward achieving those goals, for contracting with HUBs during the two calendar years preceding the calendar year in which the request is submitted.	Submitted each biennium to the Office of the Governor, Budget Division and the Legislative Budget Board.	Texas Government Code, Section 2161.127, and Title 34, Texas Administrative Code, Section 20.286(c).
The University Should Strengthen Its Compliance with Requirements			
Name of Report or Report Type	Description	Submission Requirements	Criteria Establishing Requirements
Annual and Semi-annual 2018 HUB Expenditure Report	This is a report on the University's HUB-related expenditures, including: <ul style="list-style-type: none"> The total dollar amount of purchases and payments made under contracts awarded to HUBs. The number of businesses participating in any issuance of state bonds by the agency. The number of contracts awarded. The number of bids and proposals made by HUBs. 	The semi-annual report is submitted on March 15 of each year. The annual report is submitted each year on September 15. Both reports are submitted to the Comptroller's Office.	Texas Government Code, Sections 2161.121(b) and 2161.122; and Title 34, Texas Administrative Code, Section 20.287(a) and (c).
Progress Assessment Report	In this report, the prime contractor is required to include certain contractor and subcontractor information and the amounts that the prime contractor paid its HUB and non-HUB subcontractors for the reporting period.	The prime contractor is required to submit this report monthly to the University.	Texas Government Code, Section 2161.122(b), and Title 34, Texas Administrative Code, Section 20.285(f)(1).

The University's Fiscal Year 2018 HUB Goals and Performance

Table 4 shows Texas State University's (University) fiscal year 2018 goals and actual performance for its Historically Underutilized Business (HUB) Program for each procurement category.

Table 4

The University's HUB Goals and Performance Fiscal Year 2018 ^a		
HUB Procurement Category	The University's Projected HUB Goal ^b	The University's Actual HUB Performance
Heavy construction contract utilization goal	11.20%	0.00%
Building construction contract utilization goal	21.10%	14.27%
Special trade construction contract utilization goal	32.90%	16.23%
Professional services contract utilization goal	23.70%	11.79%
Other services contract utilization goal	26.00%	11.88%
Commodities contract utilization goal	21.10%	26.52%
^a Auditors did not perform procedures to validate the information in this table. ^b The University's projected HUB goals are the State's HUB goals.		

Source: *Fiscal 2018 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
19-008	An Audit Report on Angelo State University's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs	November 2018
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

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dennis Bonnen, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Dustin Burrows, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Texas State University

Dr. Denise M. Trauth, President

Texas State University System

Members of the Texas State University System Board of Regents

Mr. William F. Scott, Chairman
Mr. David Montagne, Vice Chairman
Mr. Charlie Amato
Mr. Duke Austin
Mr. Garry Crain
Dr. Veronica Muzquiz Edwards
Mr. Don Flores
Ms. Nicki Harle
Ms. Katey McCall
Mr. Vernon Reaser, III
Mr. Alan L. Tinsley
Dr. Brian McCall, Chancellor



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.texas.gov.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.