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An Audit Report on

**The Soil and Water Conservation  
Board's Compliance with Historically  
Underutilized Business and State Use  
Program Requirements**

July 2021  
Report No. 21-028



An Audit Report on

# **The Soil and Water Conservation Board's Compliance with Historically Underutilized Business and State Use Program Requirements**

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## **Overall Conclusion**

### **Compliance with Historically Underutilized Business (HUB) Program Requirements**

The Soil and Water Conservation Board (Board) did not always comply with requirements related to the HUB program. The Board should ensure that it:

- Reports accurate expenditure and supplemental information for inclusion in the semi-annual and annual HUB reports.
- Compiles adequate supporting documentation for the supplemental information submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office).
- Develops agency-specific HUB goals.
- Participates in HUB outreach activities.
- Monitors contractors' use of HUB subcontractors.

The Board did comply with other HUB requirements, including adopting HUB rules, developing a written HUB plan, designating a HUB coordinator, and establishing a mentor-protégé program. In addition, the Board notified eligible vendors, including HUBs, of contracting opportunities; required bidders to provide HUB Subcontracting Plans (HSPs); and included the HSPs as terms in its contracts.

### **Background Information**

**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.

**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 created by Texas Human Resources Code, Chapter 122, and its rules are defined in Title 40, Texas Administrative Code, Chapter 806.

**Soil and Water Conservation Board.** The Soil and Water Conservation Board (Board) is the state agency that administers Texas' soil and water conservation laws and coordinates conservation and nonpoint source water pollution abatement programs throughout the State. Headquartered in Temple, the Board offers technical assistance to 216 Soil and Water Conservation Districts. During the scope of the audit, the Board reported to the Legislative Budget Board that it awarded \$17.6 million under contracts with 7 non-governmental entities, and it awarded 81 contracts with governmental entities totaling \$14.5 million.

Sources: The Board; the Legislative Budget Board; 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 (86th Legislature), Section 7.07, page IX-37; Texas Government Code, Section 2161.123, and Texas Human Resources Code, Section 122.029.*

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

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

The Board mostly complied with the requirements related to the State Use Program. However, the Board should strengthen its processes to ensure that all State Use Program purchase exceptions are reported to the Comptroller's Office and the Texas Workforce Commission.

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/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1	The Board Did Not Always Accurately Report on Its HUB Program	High
2	The Board Complied With Most HUB Planning Requirements; However, the Board Should Strengthen Its HUB Outreach	Medium
3-A	The Board Complied With HUB Contracting Requirements	Low
3-B	Although the Board Ensured That Contracts Included HUB Subcontracting Plans, It Did Not Monitor Those Plans in Accordance With Requirements	High
4	The Board Mostly Complied With State Use Program Requirements	Low
5	The Board Had Adequate Information Technology Controls to Restrict User Access to HUB Data	Low

<sup>a</sup> 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 the 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 Board 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 Board agreed with the recommendations.

## ***Audit Objectives and Scope***

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

- 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 Board's HUB activities and State Use Program activities from September 1, 2019, through January 31, 2021. Auditors selected the Board 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.
- Information technology requirements defined in Title 1, Texas Administrative Code, Chapter 202.

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# Detailed Results

Chapter 1

## ***The Board Did Not Always Accurately Report on Its HUB Program***

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**Chapter 1  
Rating:  
High <sup>1</sup>**

The Soil and Water Conservation Board (Board) did not have an effective and defined process for compiling and reporting the required information for inclusion in the semi-annual and annual Historically Underutilized Business (HUB) reports by the Office of the Comptroller of Public Accounts (Comptroller's Office). As a result, the Board did not report HUB subcontracting expenditure information to the Comptroller's Office for fiscal year 2020, nor did it remove intergovernmental expenditures from the Comptroller's detailed calculations of expenditures as required. Those actions resulted in inaccurate information being included in the Comptroller's Office's *Fiscal 2020 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*. In addition, the Board did not have supporting documentation that matched the supplemental information reported to the Comptroller's Office for inclusion in the annual HUB report.

**Annual and Semi-Annual HUB Reports.** During the audit, the Board disclosed that for fiscal year 2020 it did not report to the Comptroller's Office \$629,057 in payments to HUB subcontractors. Because of issues with subcontractor monitoring, auditors could not determine whether there were additional HUB subcontracting expenditures that were not reported. (See Chapter 3-B for additional information.)

Additionally, in fiscal year 2020, the Board processed 9 payments totaling \$2,889,908 to the United States Department of Agriculture. The Comptroller's Office's *Fiscal 2020 Annual Statewide Historically Underutilized Business (HUB) Reporting Procedures* states that it is the responsibility of state agencies to identify and exclude intergovernmental payments from the HUB report; however, the Board did not do so.

Had the issues above been corrected, the Board's overall proportion of HUB expenditures as reported in the Comptroller's Office's *Fiscal 2020 Annual Report for the Statewide Historically Underutilized Business (HUB) Program* would have been 5.63 percent instead of 0.23 percent. In addition, the category percentage for Professional Services would have been 6.86 percent

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<sup>1</sup> The risk related to the issues discussed in Chapter 1 is rated as High because they present risks or results 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.

instead of 0.19 percent, and the category percentage for Other Services would have been 0.44 percent instead of 0.19 percent.

Finally, although the Board reported supplemental information about (1) contracts awarded and (2) bids and proposals sent and received, as required by Texas Government Code, Section 2161.122(c), the numbers reported did not match the supporting documentation provided by the Board. As a result, auditors were unable to determine the accuracy of the supplemental information that appeared in the Comptroller's Office's *Fiscal 2020 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*.

**Biennial Reporting.** The Board submitted biennial reports by the due date as required by the General Appropriations Act (86th Legislature), Article IX, Sections 7.06 and 7.07.

**Legislative Appropriations Request.** The Board's *Legislative Appropriations Request* for the 2022-2023 biennium contained information related to the Board's HUB procurement goals and utilization rates as required by statute. Specifically, the Board included in its *Legislative Appropriations Request*:

- Its HUB goals for the prior two fiscal years.
- The percentages by which actual results fell short of the goals.
- An explanation for why the goals were not met.
- A description of its Good Faith Efforts compliance, as described in Title 34, Texas Administrative Code, Section 20.286(c).

**Agency Progress Report.** The Board submitted a state agency progress report as part of its *Annual Report of Non-Financial Data for the Year Ended August 31, 2020*, documenting progress under its plan for increasing use of HUBs, as required by Texas Government Code, Section 2161.124. The report contained required information, was submitted timely, and was in the form prescribed by the Office of the Governor.

## Recommendations

The Board should:

- Report accurate expenditure and supplemental information to the Comptroller's Office for inclusion in the semi-annual and annual HUB reports.
- Develop and document a process to compile adequate supporting documentation for the supplemental information submitted to the Comptroller's Office.

## Management's Response

*The TSSWCB agrees with recommendations.*

- *The TSSWCB has brought awareness to staff responsible for reviewing contractor invoices of the requirement to capture subcontracting HUB expenditure data and provide data to the HUB coordinator for inclusion in the semi-annual and annual HUB reports.*
- *The HUB Coordinator will identify and exclude intergovernmental payments in future reporting.*
- *The HUB Coordinator will maintain adding machine tapes, screen shots, and other applicable documentation evidencing calculations used for reporting supplemental information. A spreadsheet will be maintained to record compiled HUB information as additional supporting documentation.*
- *Target Implementation: September 1, 2021*



## ***The Board Complied With Most HUB Planning Requirements; However, the Board Should Strengthen Its HUB Outreach***

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**Chapter 2  
Rating:  
Medium <sup>2</sup>**

The Board complied with most HUB planning requirements. However, the Board did not establish agency-specific HUB goals for each procurement category.

Additionally, the Board should strengthen its HUB outreach efforts. From September 1, 2019, through January 31, 2021, the Board did not participate in any HUB forums sponsored by the Comptroller’s Office or sponsor any in-house presentations by HUBs.

**Compliance with Planning Requirements.** As required, the Board adopted the Comptroller’s Office’s HUB rules as its own and included in its strategic plan a written plan for increasing its use of HUBs in purchasing and public works contracting.

However, the Board did not establish agency-specific HUB goals for each procurement category (see text box for more information on HUB goal requirements). Setting HUB utilization goals based on the specific criteria defined in Texas Government Code, Section 2161.123(d)(5), and Title 34, Texas Administrative Code, Section 20.284(c), ensures that HUB goals are realistic and relevant for the Board.

**Compliance with Outreach Requirements.** As required, the Board designated an appropriate staff member to serve as HUB coordinator and established a mentor-protégé program.

However, the Board did not participate in HUB forums sponsored by the Comptroller’s Office as required by Texas Government Code, Section 2161.066(a-c), and Title 34, Texas Administrative Code, Section 20.297(a). In addition, the Board did not provide evidence that it aggressively identified and notified individual HUBs regarding opportunities to make presentations as required by Texas

### **HUB Goal Requirements**

The Texas Administrative Code requires state agencies to establish their own HUB goals for each procurement category (see Appendix 3 for a list of procurement categories).

Agencies can set their agency-specific HUB goals higher or lower than the state goals; however, at a minimum, the statewide HUB goals should be each agency’s starting point for establishing agency-specific goals. Agency-specific goals should be based on:

- the agency’s fiscal year expenditures and total contract expenditures;
- the availability to the agency of HUBs in each procurement category;
- the agency’s historic utilization of HUBs; and
- other relevant factors.

Source: Title 34, Texas Administrative Code, Section 20.284(c).

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<sup>2</sup> The risk related to the issues discussed in Chapter 2 is rated as Medium because Issues identified present risks or effects that if not addressed could moderately affect 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.

Government Code, Section 2161.066(e), and Title 34, Texas Administrative Code, Section 20.297(b). The Board did not sponsor any presentations by HUBs from September 1, 2019, through January 31, 2021.

### **Recommendations**

The Board should:

- Set agency-specific HUB goals.
- Participate in HUB forums sponsored by the Comptroller's Office.
- Develop and implement a process to aggressively identify and notify HUBs of opportunities to make presentations and sponsor in-house presentations by HUBs.

### **Management's Response**

*The TSSWCB agrees with recommendations.*

- *The Board will establish agency specific HUB goals for each procurement category that are realistic and relevant for Board purchasing needs.*
- *The Board will participate in future HUB forums as sponsored by the Comptroller.*
- *The pandemic limited the opportunities for the Board to sponsor presentations, but now in a post-pandemic environment, the Board will have more opportunities to sponsor presentations by HUBs and will look to virtual presentations when appropriate.*
- *Target Implementation: September 1, 2021*

## ***The Board Complied With HUB Contracting Requirements; However, It Did Not Adequately Monitor HUB Subcontracting***

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The Board complied with HUB requirements related to contracting and establishment of HUB subcontracting plans (HSPs). However, the Board did not monitor HSPs in accordance with requirements, and it did not record expenditures with HUB subcontractors for reporting purposes.

Chapter 3-A

### **The Board Complied With HUB Contracting Requirements**

**Chapter 3-A  
Rating:  
Low<sup>3</sup>**

The Board complied with the HUB contracting requirements of Texas Government Code, Chapters 2155 and 2161, and Title 34 of the Texas Administrative Code. Specifically, for all five contract solicitations tested (see text box), the Board:

- Performed a subcontracting analysis.
- Specified factors other than price to be considered in evaluating responses.
- Followed the specified pre-determined criteria for selecting the vendor based on best value for the State.

However, for 1 (20 percent) of the 5 contract solicitations tested, the Board could not provide documentation to support its assertion that it solicited bids from all eligible vendors on the Centralized Master Bidders List in accordance with Texas Government Code, Section 2155.264. Documentation establishing that all eligible vendors were notified was not retained in the contract file, according to the Board.

#### **Contracts Selected for Testing**

Texas Government Code, Chapters 2155 and 2161, and Title 34 of the Texas Administrative Code, establish requirements for contracting and subcontracting with HUBs that cover the solicitation process, the evaluation of bids and proposals, and the writing and monitoring of contracts. Auditors identified seven Board contracts that were in effect from September 1, 2019, through January 31, 2021, and may be eligible for the HUB program. Of those contracts, auditors tested:

- Five contract solicitations.
- Seven responses to those solicitations.
- Four resulting contracts, two of which had HUB Subcontracting Plans with identified HUB subcontractors.

Sources: Texas Government Code, Chapters 2155 and 2161; Title 34, Texas Administrative Code; and the State Auditor's Office.

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<sup>3</sup> 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.0

## Recommendation

The Board should retain documentation of its contract solicitation actions.

## Management's Response

*The TSSWCB agrees with recommendations.*

- *The Board has strengthened internal processes for document retainage. The HUB Coordinator now maintains a hard copy of the Certified Master Bidders List (CMBL) to document vendors solicited.*
- *Target Implementation: September 1, 2021*

Chapter 3-B

### **Although the Board Ensured That Contracts Included HUB Subcontracting Plans, It Did Not Monitor Those Plans in Accordance With Requirements**

**Chapter 3-B  
Rating:  
High<sup>4</sup>**

The Board ensured that its contractors submitted HUB subcontracting plans (HSPs) for all seven contract solicitation responses tested. Specifically, the contractors submitted fully completed HSPs timely, and, when applicable, their identified HUB subcontractors were certified at the time of submission. Additionally, the Board ensured that for the four contracts that resulted from the seven solicitation responses tested, the HSP was included as part of the contract, as required by Texas Government Code, Section 2161.253.

However, the Board did not monitor HSPs in accordance with requirements. Specifically, the Board did not obtain monthly *Progress Assessment Reports* for the two contracts in which HUB subcontractors were identified in the HSP. The Board was able to provide certain invoices with information about subcontractor payments for one contract in the sample, but the information was not in the required *Progress Assessment Report* format, which was developed by the Comptroller's Office. Title 34, Texas Administrative Code, Section 20.285, requires a monthly report in the format developed by the Comptroller's Office as a condition for payment by the contracting state agency.

The Board was unable to provide any information about subcontractor payments for the second of the two contracts in the sample, although that contractor was paid approximately \$1.7 million during fiscal year 2020.

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<sup>4</sup> The risk related to the issues discussed in Chapter 3-B is rated as 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.

Without *Progress Assessment Reports* or other documentation, auditors were not able to determine whether a portion of that amount was paid to HUBs and should have been included in the Board's HUB reporting.

The Board did not have a process to ensure that program staff provided documentation of HUB subcontractor expenditures to the HUB coordinator for (1) review of compliance with the HSP and (2) HUB reporting requirements. The Board asserted that program staff in one of its divisions did not forward documentation to the Board's HUB coordinator, who is responsible for HUB monitoring and reporting. As a result, the Board did not monitor the HSPs as required. This also resulted in the Board not recording or reporting HUB subcontractor payments to the Comptroller's Office in accordance with requirements, as discussed in Chapter 1.

## **Recommendations**

The Board should:

- Ensure that contractors submit all monthly *Progress Assessment Reports* as required.
- Develop and implement a process to monitor contractors' reported subcontracting activity to determine compliance with HUB subcontracting plans.

## **Management's Response**

*The TSSWCB agrees with recommendations.*

- *The Board has brought awareness to staff responsible for reviewing contractor invoices of the requirement to monitor the monthly submission of Progress Assessment Reports (PAR). The HUB Coordinator will check PARs to determine compliance with subcontracting plans.*
- *Target Implementation: September 1, 2021*

## The Board Mostly Complied With State Use Program Requirements

**Chapter 4  
Rating:**

Low<sup>5</sup>

The Board mostly complied with requirements related to the Purchasing from People with Disabilities Program (State Use Program). However, the Board should strengthen its processes to ensure that all State Use Program purchase exceptions are reported to the Comptroller's Office and the Texas Workforce Commission, as required by Texas Human Resources Code, Section 122.0095.

Twenty-four (96 percent) of the 25 tested purchases not made through the State Use Program were for products or services not available through the program. One purchase was for a product available through the State Use Program. Although the Board documented the reason for the purchase exception, it did not report the exception to the Comptroller's Office and the Texas Workforce Commission as required by Texas Human Resources Code, Section 122.0095. (See text box for more information on State Use Program purchase exception reporting.)

The Board reported to the Comptroller's Office that it had purchased goods that cost a total of \$5,349 through the State Use Program from September 1, 2019, through January 31, 2021. During this period, the Board also reported one State Use Program purchase exception of \$210 to the Comptroller's Office and the Texas Workforce Commission.

### State Use Program Purchase Exception Reporting

Texas Human Resources Code, Chapter 122, requires state agencies to purchase goods or services available through the State Use Program from vendors in this program unless certain exceptions are met. Any exceptions must be reported to the Comptroller's Office and the Texas Workforce Commission, including cost paid and reason for a qualifying exception to purchasing from the program.

#### Exceptions:

- When the product or service available through the set-aside program does not meet the reasonable requirement of the agency.
- The requisitions made cannot be reasonably complied with through provision of products or services produced by persons with disabilities.

The State Use Report is a legislatively mandated report and must be submitted by the 15th of each month for exceptions purchased in the previous month.

Sources: Texas Human Resources Code, Chapter 122, and the Comptroller's Office.

<sup>5</sup> The risk related to the issues discussed in Chapter 4 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.

## **Recommendation**

The Board should ensure that all State Use Program purchase exceptions are reported to the Comptroller's Office and the Texas Workforce Commission.

## **Management's Response**

*The TSSWCB agrees with recommendations.*

- *The Board has strengthened internal processes for reporting State Use Program purchase exceptions. The HUB Coordinator verifies each purchase order log entry to ensure all exceptions have been reported.*
- *Target Implementation: September 1, 2021*

## ***The Board Had Adequate Information Technology Controls to Restrict User Access to HUB Data***

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**Chapter 5  
Rating:**

Low <sup>6</sup>

The Board had policies and procedures that comply with Title 1, Texas Administrative Code, Chapter 202, which requires state agencies to implement information technology controls in accordance with the Department of Information Resources' *Security Control Standards Catalog*.

In addition, the Board appropriately restricted access to its internal directory in which information used to report HUB data is stored. The Board also restricted access to the Uniform Statewide Accounting System, which it used for payment processing, to current and appropriate staff.

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<sup>6</sup> The risk related to the issues discussed in Chapter 5 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.



# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were to determine whether the Soil and Water Conservation Board (Board):

- 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 Board's HUB activities and State Use Program activities from September 1, 2019, through January 31, 2021. Auditors selected the Board 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.
- Information technology requirements defined in Title 1, Texas Administrative Code, Chapter 202.

### **Methodology**

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

### **Data Reliability and Completeness**

To validate information in the Uniform Statewide Accounting System (USAS), auditors tied USAS expenditures to the Comptroller's Office's calculations of the Board's HUB expenditures for fiscal year 2020.

To test for compliance with HUB contracting requirements, auditors selected a sample of contracts using a list of contracts generated from the Legislative Budget Board's Contract Database. The list consisted of contracts awarded by the Board from September 1, 2019, through January 31, 2021. Auditors determined that the information in the database was of undetermined reliability; however, it provided the most complete population of contracts applicable to test HUB contracting requirements.

### **Sampling Methodology**

To test compliance with HUB contracting and subcontracting requirements, including *Progress Assessment Reports*, auditors selected a nonstatistical sample of the Board's contracts based on the number of bids and the dollar amount of the contract. The sample items were generally not representative of the population; therefore, it would not be appropriate to project the test results to the population.

To test compliance with State Use Program requirements, auditors selected a nonstatistical sample of USAS expenditures through random selection. 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 Board's semi-annual and annual HUB reporting, report submission confirmation emails, and purchase order logs.
- The Board's *HUB Agency Report* for fiscal year 2020 prepared by the Comptroller's Office.
- USAS detail transaction records for vendor payments for fiscal years 2020 and 2021.
- The Board's 2019-2023 and 2021-2025 strategic plans.
- The Board's HUB rules.
- The Board's Purchaser III job description.
- The Board's HUB forum display documents.

- The Board’s mentor-protégé program documentation.
- The Board’s *Legislative Appropriations Request* for the 2022-2023 biennium.
- The Board’s *Annual Report of Non-Financial Data for the Year Ended August 31, 2020*.
- The Board’s contract and solicitation documents.
- The Board’s State Use Program purchase exception reports.

Procedures and tests conducted included the following:

- Reviewed the Board’s HUB utilization goals.
- Interviewed the Board’s HUB coordinator and operating and fiscal officer regarding the Board’s HUB Program and outreach efforts, and State Use Program processes.
- Tested contracts the Board awarded between September 2019 and January 2021, and the HUB Subcontracting Plans associated with those contracts.
- Compared the *Fiscal 2020 Annual Report for the Statewide Historically Underutilized Business (HUB) Program* expenditure amounts calculated by the Comptroller’s Office to USAS data.
- Tested user access for the Board’s internal directory and USAS.

Criteria used included the following:

- Texas Government Code, Chapters 2155 and 2161.
- Texas Human Resources Code, Chapter 122.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 1, Texas Administrative Code, Chapter 202.
- General Appropriations Act (86th Legislature).
- Title 31, Texas Administrative Code, Chapter 518.

## Project Information

Audit fieldwork was conducted from January 2021 through May 2021. 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:

- Benjamin Nathaniel Keyfitz, CPA, CFE (Project Manager)
- Jennifer Grant, MPA, CFE (Assistant Project Manager)
- Andy Lee
- Tyler Miller, MPA
- Sterling Pape
- Nakeesa Shahparasti, CPA, CFE, CISA
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Hillary Eckford, CIA, CFE (Audit Manager)

## 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.

## Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for 5 integrated components and 17 principles of internal control, which are listed in Table 3.

Table 3

Internal Control Components and Principles		
Component	Component Description	Principles
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.	<ul style="list-style-type: none"> <li>▪ The organization demonstrates a commitment to integrity and ethical values.</li> <li>▪ The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.</li> <li>▪ Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</li> <li>▪ The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</li> <li>▪ The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.</li> </ul>
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.	<ul style="list-style-type: none"> <li>▪ The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.</li> <li>▪ The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.</li> <li>▪ The organization considers the potential for fraud in assessing risks to the achievement of objectives.</li> <li>▪ The organization identifies and assesses changes that could significantly impact the system of internal control.</li> </ul>
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.	<ul style="list-style-type: none"> <li>▪ The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</li> <li>▪ The organization selects and develops general control activities over technology to support the achievement of objectives.</li> <li>▪ The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.</li> </ul>

Internal Control Components and Principles		
Component	Component Description	Principles
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.	<ul style="list-style-type: none"> <li>▪ The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.</li> <li>▪ The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.</li> <li>▪ The organization communicates with external parties regarding matters affecting the functioning of internal control.</li> </ul>
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.	<ul style="list-style-type: none"> <li>▪ The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.</li> <li>▪ The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.</li> </ul>

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

## The Board's Fiscal Year 2020 HUB Goals and Performance

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Table 4 shows the Board's goals and performance for each procurement category in its HUB program for fiscal year 2020.

Table 4

The Board's HUB Goals and Reported Performance Fiscal Year 2020 <sup>a</sup>		
HUB Procurement Category	HUB Goals <sup>a</sup>	Reported HUB Performance
Heavy construction contracts	11.20%	0.00%
Building construction contracts	21.10%	0.00%
Special trade construction contracts	32.90%	0.00%
Professional services contracts	23.70%	0.19%
Other services contracts	26.00%	0.19%
Commodities contracts	21.10%	3.30%
<sup>a</sup> The Board's HUB goals are the State's HUB goals.		

Source: *Fiscal 2020 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*, Office of the Comptroller of Public Accounts.



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