



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

Report No. 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*

SAO Report No. 17-008  
October 2016

## *Overall Conclusion*

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

The Department of Public Safety (Department) should strengthen its HUB reporting processes and report complete and accurate data to the Office of the Comptroller of Public Accounts (**Comptroller's Office**). The Department did not have a process to ensure that prime contractors submitted their monthly reports, which identify the amounts paid to subcontractors, as required. In addition, the Department reported inaccurate HUB subcontracting expenditure and other supplemental information to the **Comptroller's Office**.

The Department complied with statutes, rules, **and Comptroller's Office requirements related to HUB planning and outreach**. Specifically, the Department complied with HUB requirements to:

- Adopt HUB rules.
- Prepare a strategic plan.
- Participate in HUB forums.
- Receive in-house marketing presentations from HUBS.
- Comply with mentor-protégé requirements.

#### 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 was created by Texas Government Code, Chapter 2161, **and the program's rules are defined in Title 34, Texas Administrative Code, Chapter 20.**

For fiscal year 2015, the Office of the Comptroller of Public Accounts reported that, of the \$17.0 billion the State spent in procurement categories that were eligible for HUB participation, the State paid approximately \$2.0 billion to HUBs.

The Purchasing from People with Disabilities (State Use) Program

The State Use Program is governed by the Texas Workforce Commission (Commission). The Commission encourages employment opportunities for Texans with disabilities through the State Use Program. Under that program, state agencies and other political subdivisions give purchasing preference to goods and services offered by community rehabilitation facilities that employ persons with disabilities. The program was created by Texas Human Resources Code, Chapter 122, and the **program's rules are defined in Title 40, Texas Administrative Code, Chapter 189.**

*This audit was conducted in accordance with General Appropriations Act (84th Legislature), Section 7.07; Texas Government Code, Section 2161.123; and Texas Human Resources Code, Section 122.029.*

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

## Compliance with State Use Program Requirements

The Department is also subject to the requirements of the Purchasing from People with Disabilities (State Use) Program. The Department has processes in place to help ensure compliance with State Use Program requirements and its existing policies and procedures.

### Prior Recommendations

Auditors also followed up on three prior recommendations related to the HUB and State Use programs addressed **to the Comptroller's Office in An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program (State Auditor's Office Report No. 15-006, October 2014). The Comptroller's Office fully implemented two of those three recommendations; the implementation of one recommendation was incomplete.**

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-A	The Department Did Not Fully Comply with HUB Reporting Requirements	Medium
1-B	The Department Had Processes to Help It Ensure Compliance with HUB Planning and Outreach Requirements	Low
2	The Department Had Processes to Help it Ensure Compliance with State Use Program Requirements	Low
3	<b>The Comptroller's Office Should Continue to Implement</b> a Prior Audit Recommendation	Low

<sup>a</sup> A 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 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 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 subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(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 to the Department's management separately in writing.

## ***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. Both agencies audited agreed with the recommendations in this report.

### *Audit Objectives and Scope*

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

- **Complied with statutory requirements and rules established by the Comptroller's Office 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 Department's HUB and State Use program** activities for fiscal year 2015. Auditors selected the Department according to a risk assessment, and audited for:

- Compliance with HUB Program requirements in three areas: planning, outreach, and reporting, as defined by Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20. Auditors were unable to test subcontracting requirements because sufficient evidence was not readily available to test compliance with those requirements.
- Compliance with State Use Program requirements as defined by Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 189.

Auditors also followed up on prior audit recommendations addressed to the **Comptroller's Office**.

# Contents

## *Detailed Results*

---

Chapter 1	
The Department Did Not Fully Comply with HUB Reporting Requirements; However, It Generally Complied with Most Statutes, <b>Rules, and Comptroller’s Office HUB Program Requirements</b> .....	1
Chapter 2	
The Department Had Processes to Help It Ensure Compliance with State Use Program Requirements .....	5
Chapter 3	
<b>The Comptroller’s Office Should Continue to Implement a Prior Audit Recommendation</b> .....	8

## *Appendices*

---

Appendix 1	
Objectives, Scope, and Methodology .....	10
Appendix 2	
Issue Rating Classifications and Descriptions .....	14
Appendix 3	
<b>The Department’s Fiscal Year 2015 HUB Goals and Performance</b> .....	15

# Detailed Results

## Chapter 1

### *The Department Did Not Fully Comply with HUB Reporting Requirements; However, It Generally Complied with Most Statutes, Rules, and Comptroller's Office HUB Program Requirements*

---

For fiscal year 2015, the Department of Public Safety (Department) did not ensure compliance with Historically Underutilized Business (HUB) Program reporting requirements; however, the Department had processes to ensure compliance with the planning and outreach requirements related to the HUB Program. Auditors reviewed and tested applicable requirements related to three HUB Program areas. Because the evidence was not readily available, the Department could not provide documentation to auditors to test the requirements related to subcontracting (see text box for more information about HUB Program areas). The Department reported that it purchased approximately \$30.6 million in goods and services from HUBs in fiscal year 2015.

#### HUB Program Areas Reviewed

Planning - Establish annual procurement utilization goals, adopt HUB rules, and prepare a strategic plan in accordance with certain requirements.

Outreach - Have a HUB coordinator, participate in HUB forums, receive in-house marketing presentations from HUBs, and implement a mentor-protégé program.

Reporting - Report timely and accurate HUB subcontracting expenditure and other supplemental information; comply with progress assessment reporting requirements; and comply with reporting requirements in Riders 17 and 18, pages I-23 and I-24, the General Appropriations Act (83rd Legislature).

Subcontracting - Maintain evidence of good faith effort in the development of HUB subcontracting plans, obtain statements of Texas certified HUB from potential contractors, review and evaluate HUB subcontracting plans prior to making contract awards, include a statement of subcontracting opportunities in solicitation documents, and use resources to determine whether subcontracting opportunities are probable.

Sources: Texas Government Code, Chapter 2161; Title 34, Texas Administrative Code, Chapter 20; the General Appropriations Act (83rd Legislature); and the Comptroller's Office's HUB Reporting Procedures and Methodology.

#### Chapter 1-A

### The Department Did Not Fully Comply with HUB Reporting Requirements

The Department reported HUB expenditure and other supplemental information to the Office of the Comptroller of Public Accounts (Comptroller's Office) in a timely manner.

However, that information was inaccurate. Specifically, the Department did not have adequate processes to report accurate information for the number of bids it received from HUBs and the number of contracts it awarded to HUBS and non-HUBS for fiscal year 2015:

Chapter 1-A  
Rating:  
Medium<sup>1</sup>

---

<sup>1</sup> The risks related to the issues discussed in Chapter 1-A are rated as medium because they present risks or results 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.

- Number of Bids Received from HUBS: **The Department tracked bids received both in its eProcurement System (EPS) (see text box) and in a spreadsheet during fiscal year 2015. The Department reported that it received 929 bids from HUB vendors in fiscal year 2015. However, the Department’s reporting process accounted only for bids tracked in EPS. As a result, the Department should have reported an estimated 1,359 bids<sup>2</sup> received from HUB vendors to the Comptroller’s Office, which means that it understated bids by 430 or 32 percent.**
- Number of Contracts Awarded to HUBS and Non-HUBS: **The Department’s process used inaccurate data to report information regarding contracts awarded to the Comptroller’s Office. The Department implemented EPS in fiscal year 2015. That system automatically assigned all contracts transferred from the previous system to fiscal year 2015, even though the data included contracts from fiscal years 2013 and 2014. As a result, the 3,013 total number of contracts awarded that the Department reported incorrectly included contracts that were executed prior to fiscal year 2015. The Department was unable to identify which contracts it included incorrectly; therefore, auditors could not calculate the correct number.**

eProcurement System

The eProcurement System (EPS) is the Department’s electronic procurement system. The Department also uses that system to track certain HUB information, including bids received and contracts awarded. The Department implemented EPS at the beginning of fiscal year 2015.  
 Source: The Department.

In addition, the Department did not have an adequate process to track and capture the subcontracting expenditures that were required to be reported to the Comptroller’s Office. During fiscal year 2015, the Department did not ensure that prime contractors submitted required monthly contractor

*Progress Assessment Reports*

*Progress Assessment Reports* should be submitted monthly to the Department. The 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.  
 Source: The Comptroller’s Office.

*Progress Assessment Reports* (see text box). Specifically, 11 prime contractors tested did not submit the required monthly *Progress Assessment Reports*. The reports are necessary for the Department to determine subcontracting expenditures. As a result, the data that the Department used to report subcontracting expenditures to the Comptroller’s Office was not complete.

The Department submitted *Quarterly Assessment of HUB-related Activities* reports to the Comptroller’s Office as required by Riders 17 and 18, pages I-23 and I-24, the General Appropriations Act (83rd Legislature).

<sup>2</sup> That is based on the Department’s estimate of the bids that were not included. Auditors did not verify the accuracy of that estimate.

The Department did not appropriately limit user access to the folder that contained its HUB data. Forty-seven (92 percent) of the 51 employees who had access to that folder did not have job duties related to HUB reporting.

#### Recommendations

The Department should strengthen its HUB reporting processes by:

- Ensuring that HUB supplemental information and HUB subcontracting expenditures are accurate, sufficiently documented, and complete.
- Limiting user access to its HUB data to only users whose job duties require that access.

#### Management's Response

*The Department agrees with the recommendations and has already implemented some of the recommendations.*

*The HUB Program office has already improved quality control by adding validation steps for reviewing supplemental bid data in order to accurately capture procurements solicited and awarded outside of e-Procurement. Anomalies are corrected on a monthly basis and the HUB program office will begin certifying monthly subcontracting reports and document issues encountered while performing the validation process. Currently in progress, the Department is developing a HUB SharePoint list to serve as a single tracking tool to monitor solicitation reviews and evaluation of HSPs. This tool will also serve as a document repository for the HSP of the awarded vendor and Progress Assessment Reports (PARs) for verification of HSP compliance and reporting. This initiative is estimated to be fully implemented by October 30, 2016 by the HUB Coordinator.*

*In July 2016, the HUB Coordinator limited access to the HUB data to only those staff members involved in the agency's HUB activities.*

*Title of Responsible Person: Director of Procurement and Contract Services*

*All items by 11/1/2016*

## The Department Had Processes to Help It Ensure Compliance with HUB Planning and Outreach Requirements

Chapter 1-B  
Rating:  
Low<sup>3</sup>

For fiscal year 2015, the Department had processes in place to ensure compliance with all three planning requirements tested. Specifically, the Department:

- Established annual procurement utilization goals. (See Appendix 3 for the Department's annual procurement goals and actual performance.)
- Adopted HUB rules.
- Complied with strategic plan requirements.

In addition, for fiscal year 2015, the Department had processes in place to ensure compliance with all four outreach requirements tested. Specifically, the Department:

- Complied with HUB coordinator requirements.
- Participated in a HUB forum.
- Received in-house marketing presentations from HUBs.
- Established a mentor-protégé program.

---

<sup>3</sup> The risks related to the issues discussed in Chapter 1-B are rated as low because they did not present significant risks or results that would affect to the audited entity's ability to effectively administer the program/function audited.

## The Department Had Processes to Help It Ensure Compliance with State Use Program Requirements

---

Chapter 2  
Rating:  
Low<sup>4</sup>

The Department appropriately designated a Purchasing from People with Disabilities (State Use) Program coordinator to ensure compliance with requirements. The Department also developed procedures that require purchasers to check on the availability of products and services from TIBH Industries<sup>5</sup> prior to making a purchasing decision.

However, the Department did not always comply with the State Use Program requirements tested. Specifically, the Department did not accurately report its exceptions to the State Use Program (see text box for further information on exception reporting). For example:

- For 9 (60 percent) of 15 transactions tested that the Department reported as exceptions, the goods or services were not offered by TIBH Industries during fiscal year 2015; therefore, the Department should not have reported them as exceptions.
- The Department was not able to provide documentation to support the reported exception classification for 2 (13 percent) of 15 exceptions tested.
- The Department did not report the exception classification for 2 (13 percent) of 15 tested as required by the State Use Program.

### Exception Reporting

State law requires state agencies to purchase from the State Use Program unless the needed products or services meet certain exceptions. The 77th Legislature required agencies to report all procurements 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 requirement of the Department. That 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 with certain regions of the state.

Source: Texas Council on Purchasing from Persons with Disabilities.

The Department also did not consistently comply with its policies and procedures to determine whether items or services could be purchased through the State Use Program. Specifically, the Department did not check the availability of services through TIBH Industries for 17 of 60 transactions tested. All 17 of those transactions were for freight and delivery services that were available through TIBH Industries; however, the Department did not use TIBH Industries for all 17 transactions tested.

---

<sup>4</sup> The risks related to the issues discussed in Chapter 2 are rated as low because they did not present significant risks or results that would affect to the audited entity's ability to effectively administer the program/function audited.

<sup>5</sup> TIBH Industries administers the day-to-day operations of the State Use Program.

In addition, the Department did not ensure that its user access to the Texas Council on Purchasing from People with Disabilities (TCPPD) Web portal<sup>6</sup> was appropriate. Specifically, the Department did not remove access until eight months after an employee left the agency. In addition, three employees had access when their job duties did not include State Use Program reporting.

#### Recommendations

The Department should:

- Strengthen its process for identifying and reporting exceptions for State Use Program requirements by ensuring that exceptions reports are accurate and complete prior to submission.
- Implement a process to document its determination regarding whether TIBH Industries goods and services are available.
- Limit user access to the TCPPD Web portal to current employees who require access to complete their job duties.

#### Management's Response

*The Department agrees with the recommendations and has already implemented some of the recommendations.*

*During FY 2015, the Department had a process in place for the Procurement and Contract Management staff to review exceptions reports prior to upload and submission of the report. The Department also enhanced the reporting functionality and automated process within e-Procurement to capture the exceptions versus manually tracking the exceptions in a spreadsheet. The Department is currently strengthening its review process to review the monthly aggregate purchases for possible anomalies due to data entry error. In addition, the State Use Coordinator has attended additional training and has established contacts with TIBH and TCPPD to seek additional guidance, when necessary, from the subject matter experts in order to achieve full compliance with the State Use requirements. The State Use Coordinator and Director of Procurement and Contract Services will update standard operating procedures by October 30, 2016.*

*The Department currently has procedures for validating the availability of goods or services available from TIBH by adhering to the procurement*

---

<sup>6</sup> The State Use Program was transferred from the Texas Council of Purchasing from People with Disabilities (TCPPD) to the Texas Workforce Commission, effective September 1, 2015. The TCPPD Web portal used to report exception reports is now on the "WorksWonders" Web site.

*hierarchy established by the Comptroller of Public Accounts. The Department also uses a procurement checklist to monitor compliance with the procurement hierarchy for each procurement activity. The procurement checklist will be enhanced and the procurement staff will be required to document the reasons why a TIBH contract was not utilized (i.e., does not meet specifications, product unavailable, etc.) If a similar item is available, a screen shot of the item will be captured and the exception will be properly documented. Director of Procurement and Contract Services will update the checklist and standard operating procedures by October 30, 2016.*

*The State Use Coordinator will be responsible for updating the TCPPD web portal by changing staff access when job duties change or removing staff access upon terminating employment at agency. The agency has begun documenting changes to the portal by capturing screen shots. By October 30, the State Use Coordinator and Director of Procurement and Contract Services will develop written procedures for managing access to the TCPPD web portal.*

*Title of Responsible Person: Director of Procurement and Contract Service*

*All items by 11/1/2016*

## The Comptroller’s Office Should Continue to Implement a Prior Audit Recommendation

Chapter 3  
Rating:  
Low<sup>7</sup>

The Comptroller’s Office has made progress in implementing recommendations the State Auditor’s Office made in *An Audit Report on Selected State Entities’ Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program* (State Auditor’s Office Report No. 15-006, October 2014).

As Table 2 shows, the Comptroller’s Office fully implemented two of the three recommendations auditors reviewed. The implementation of one recommendation incomplete (see text box for implementation status definitions).

**Implementation Status Definitions**

Fully Implemented: Successful development and use of a process, system, or policy to implement a prior recommendation.

Partially Implemented: Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete: Successful development and consistent use of a process, system, or policy to implement a prior recommendation but implementation is not fully complete.

Ongoing: Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented: Lack of a formal process, system, or policy to address a prior recommendation.

Table 2

Status of Implementation of Three Audit Recommendations in <i>An Audit Report on Selected State Entities’ Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program</i> (State Auditor’s Office Report No. 15-006, October 2014)			
Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
The Comptroller’s Office should ensure that user passwords are not accessible or viewable by Comptroller management and staff.	Fully Implemented	Fully Implemented	The Comptroller’s Office has encrypted passwords for the State Use Program’s Web portal, which prevents Comptroller’s Office management and staff from decrypting and viewing passwords.
The Comptroller’s Office should ensure that HUB Reporting database password rules comply with Comptroller policy.	Fully Implemented	Fully Implemented	The Comptroller’s Office updated the password settings for the HUB Reporting database to comply with the Comptroller’s Office’s current policy.
The Comptroller’s Office should review and update it forms, rules, and manual for the HUB program.	Fully Implemented	Incomplete	The Comptroller’s Office fully implemented recommendations related to the HUB subcontracting plan, the HUB reporting manual, and its rules. However, the Comptroller’s Office did not update the form for agencies to use to comply with Riders 17 and 18, pages I-23 and I-24, the General Appropriations Act (83rd

<sup>7</sup> The risks related to the issues discussed in Chapter 3 are rated as low because they did not present significant risks or results that would affect to the audited entity’s ability to effectively administer the program/function audited.

Status of Implementation of Three Audit Recommendations in  
**An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program**  
 (State Auditor's Office Report No. 15-006, October 2014)

Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
			<p><b>Legislature). Specifically, the Comptroller's Office</b> directed entities to use a reporting form designed to address (1) the HUB utilization self-assessment required by Rider 17 and (2) the HUB policy compliance quarterly reports required by Rider 18. However, that reporting form is not sufficient to incorporate the self-assessment required by Rider 17 because it does not include a space for an entity to evaluate its efforts in increasing the participation of HUBs in purchasing and public works contracting. Additionally, that form does not include a space for an entity to include information about additional efforts it is making to increase HUB participation. While that reporting form contains the elements for quarterly reporting required in Rider 18, it is not sufficient to address other requirements in Rider 18.</p>

Recommendation

The Comptroller's Office should continue to implement the prior audit recommendation to review and update its forms for the HUB program for entities to use to comply with the all reporting requirements in Rider 17 and Rider 18, pages 1-23 and 1-24, the General Appropriations Act (83rd Legislature).

**Management's Response**

*The Comptroller's office created the HUB assessment instrument based on the logic of providing uniformity in HUB reporting. The Comptroller's office, as a recipient of the data, was concerned about receiving close to 200 reports in various formats; therefore, we created this form for agencies and institutions to use. Agencies and institutions could always submit additional information as needed to comply with Rider 17 and Rider 18, pages 1-23 and 1-24, General Appropriations Act (83rd Legislature).*

*Based on the finding, the Comptroller's office has added cells to the form to request the information in Rider 17 and Rider 18, as identified in the audit report.*

# Appendices

Appendix 1

## *Objectives, Scope, and Methodology*

---

### Objectives

The objectives of this audit were to determine whether the Department of Public Safety (Department):

- Complied with statutory requirements and rules established by the Office of the Comptroller of Public Accounts (Comptroller's Office) 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 Department's HUB and State Use program activities for fiscal year 2015. Auditors selected the Department according to a risk assessment and audited for:

- Compliance with HUB Program requirements in three areas: planning, outreach, and reporting, as defined by Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20. Auditors were unable to test subcontracting requirements because sufficient evidence was not readily available to test compliance with those requirements.
- Compliance with State Use Program requirements as defined by Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code 189.

Auditors also followed up on prior audit recommendations addressed to the Comptroller's Office.

### Methodology

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

## Data Reliability and Completeness

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work that evaluated USAS application and general controls to determine that data was sufficiently reliable for the purposes of this audit.

Auditors determined that the spreadsheet the Department used to report its HUB supplemental information was not reliable for the purposes of this audit. However, that spreadsheet provided the most complete population of the Department's number of bids received and contracts awarded in fiscal year 2015. Therefore, auditors used the data to test the Department's compliance with HUB supplemental reporting requirements.

Auditors also determined that the data in the Department's eProcurement System (EPS) was of undetermined reliability; however, it provided the most complete population of contracts applicable to HUB reporting requirements. Therefore, auditors used EPS data to test for compliance with HUB reporting requirements.

The findings and conclusions about the Department's compliance with HUB reporting requirements, including supplemental reporting requirements, are subject to the limitations discussed above.

Auditors determined that the spreadsheet the Department used to track subcontracting expenditures was unreliable and incomplete. As a result, auditors could not determine the accuracy of the reported subcontracting expenditures.

Auditors determined that the HUB Contact System the Department used to report HUB expenditures and supplemental information was sufficiently reliable for purposes of this audit. Auditors used data extracted from that system to verify the accuracy of the HUB data the Department reported to the Comptroller's Office.

### Sampling Methodology

To test compliance with HUB requirements regarding contractor *Progress Assessment Reports*, auditors selected a nonstatistical sample of expenditures through random selection.

To test compliance with State Use Program exception reporting requirements, auditors selected a nonstatistical random sample of purchases reported as exceptions.

To test compliance with exception identification and reporting for the State Use Program, auditors selected a nonstatistical, random sample of non-State

Use Program transactions from USAS. The results of that testing may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured.

Information collected and reviewed included the following:

- HUB and State Use Program reports and supporting schedules.
- The Department's strategic plan for fiscal years 2013-2017.
- Department policies and procedures.
- HUB forum and marketing advertisements, travel vouchers, and email notifications.
- Purchase orders, invoices, and other supporting expenditure documentation.
- Spreadsheets the Department used to track bids received, contracts awarded, and *Progress Assessment Reports* submitted.
- Reports and information associated with the implementation of Riders 17 and 18, pages I-23 and I-24, the General Appropriations Act (83rd Legislature), and Texas Government Code, Section 2161.002(d).
- Prior State Auditor's Office reports.

Procedures and tests conducted included the following:

- Reviewed HUB utilization goals and rules.
- Interviewed the Department's HUB coordinator, State Use Program coordinator, contracts management, and other staff.
- Tested HUB supplemental information.
- Tested reported State Use Program exceptions.
- Tested non-State Use Program expenditures.
- Reviewed the Department's implementation status of Riders 17 and 18, pages I-23 and I-24, the General Appropriations Act (83rd Legislature), and Texas Government Code, Section 2161.002(d).

Criteria used included the following:

- Texas Government Code, Chapter 2161.

- Texas Human Resources Code, Chapter 122.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 40, Texas Administrative Code, Chapter 189.
- Title 1, Texas Administrative Code, Chapter 202.
- General Appropriations Act (83rd Legislature).
- Comptroller's Office's Attachment - C: Fiscal 2015 Annual Statewide Historically Underutilized Business (HUB) Reporting Procedures.
- Comptroller's Office's *TCPD State Use Program Training Manual*.

#### Project Information

Audit fieldwork was conducted from April 2016 through August 2016. 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:

- Sarah Jane M. Puerto, CFE (Project Manager)
- Nakeesa Shahparasti, CPA, CFE (Assistant Project Manager)
- Lisa Lack
- Fred Ramirez, CISA
- Colleen F. West
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

## Issue Rating Classifications and Descriptions

---

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/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 3 provides a description of the issue ratings presented in this report.

Table 3

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

## The Department's Fiscal Year 2015 HUB Goals and Performance

Table 4 shows the Department of Public Safety's (Department) projected fiscal year 2015 goals and actual performance for the Historically Underutilized Business (HUB) Program for each procurement category. The Department adopted the statewide HUB goals as its projected HUB goals.

Table 4

The Department's HUB Goals and Performance		
Fiscal Year 2015		
HUB Category	The Department's Projected HUB Goals	Actual Department HUB Performance
Heavy construction contract utilization goal.	11.2%	76.1%
Building construction contract utilization goal.	21.1%	2.6%
Special trade construction contract utilization goal.	32.9%	22.3%
Professional services contract utilization goal.	23.7%	39.5%
Other services contract utilization goal.	26.0%	14.6%
Commodities contract utilization goal.	21.1%	13.9%

Source: The **Comptroller's Office's** *Fiscal Year 2015 Annual HUB Report*. Auditors did not perform procedures to validate the information presented in this table.

Copies of this report have been distributed to the following:

### Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Otto, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

### Office of the Governor

The Honorable Greg Abbott, Governor

### Department of Public Safety

Members of the Public Safety Commission

Ms. Cynthia Leon, Chair

Mr. Manny Flores Jr.

Ms. Faith Johnson

Mr. Steven Mach

Mr. Randy Watson

Mr. Steve McCraw, Director

### Office of the Comptroller of Public Accounts

The Honorable Glenn Hegar, Comptroller of Public Accounts



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](http://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.