



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

Report No. 17-028



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Overall Conclusion

Compliance with Historically Underutilized Business (HUB) Program Requirements

The University of Texas Medical Branch at Galveston (UTMB) should strengthen its HUB reporting processes and report complete and accurate data to the Office of the Comptroller of Public Accounts (Comptroller's Office). Specifically, for fiscal year 2015 UTMB did not have adequate processes to identify and track its contracts, subcontracting expenditures, or bids. As a result, UTMB reported incomplete subcontracting expenditures and inaccurate supplemental information to the Comptroller's Office.

In addition, UTMB had processes in place to meet the subcontracting requirements during the contract procurement process. However, UTMB should strengthen those processes to help ensure compliance with HUB subcontracting requirements after awarding the contracts. Specifically, UTMB did not monitor its prime contractors to ensure that they implemented their HUB subcontracting plans.

UTMB complied with statutes, rules, and Comptroller's Office requirements related to HUB planning and outreach. Specifically, UTMB complied with HUB requirements to:

- Adopt HUB rules.
- Prepare a written plan.
- Designate a HUB coordinator.
- Participate in HUB forums.

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 2015, the Office of the Comptroller of Public Accounts (Comptroller's Office) reported that, of the nearly \$17 billion the State spent in procurement categories that were eligible for HUB participation, the State paid approximately \$2 billion to HUBs.

The State Use Program

As of September 1, 2015, the oversight of the State Use Program was transferred to the Texas Workforce Commission. Under the State Use 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 806.

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

This audit was conducted in accordance with the General Appropriations Act (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.

- Receive in-house marketing presentations from HUBs.
- Comply with mentor-protégé requirements.

Compliance with State Use Program Requirements

UTMB is also subject to the requirements of the Purchasing from People with Disabilities (State Use) Program. UTMB should strengthen its processes to help ensure compliance with State Use Program requirements and its existing policies and procedures. UTMB did not report its exceptions for fiscal year 2016 for the State Use Program as required.

Table 1 presents a summary of the findings in this report and the related issue rating. (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-A	UTMB Did Not Comply with All HUB Reporting Requirements	High
1-B	UTMB Should Strengthen its Processes to Help Ensure Compliance with HUB Subcontracting Requirements	Medium
1-C	UTMB Had Processes to Help Ensure Compliance with HUB Planning and Outreach Requirements	Low
2	UTMB Should Strengthen Its Processes to Help Ensure Compliance with State Use Program Requirements	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)/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 UTMB'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. UTMB generally agreed with the recommendations addressed to it. However, UTMB did not fully agree with certain findings related to the definitions of contracts and purchase orders and what should be reported.

Audit Objectives and Scope

The objectives of this audit were to determine whether UTMB:

- 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 UTMB's HUB activities for fiscal year 2015 and State Use program activities for fiscal year 2016. Auditors selected UTMB according to a risk assessment and audited for:

- Compliance with HUB Program requirements in four areas: planning, outreach, subcontracting, and reporting, as defined by Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20.
- Compliance with State Use Program requirements as defined by Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 806.

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Detailed Results

Chapter 1

UTMB Did Not Fully Comply with All HUB Reporting Requirements; However, It Generally Complied with Most Statutes, Rules, and Comptroller's Office HUB Program Requirements

HUB Program Areas Reviewed

Planning - Establish annual procurement utilization goals, adopt HUB rules, and prepare a written 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, 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, 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 Office of the Comptroller of Public Accounts' *HUB Reporting Procedures*.

For fiscal year 2015, the University of Texas Medical Branch at Galveston (UTMB) did not have adequate processes in place to identify and track its contracts, subcontracting expenditures, and bids for reporting its Historically Underutilized Business (HUB) Program information. In addition, UTMB did not have processes to (1) identify and track prime contractors¹ or (2) monitor prime contractors' HUB subcontracting plans as required.

UTMB had processes in place to ensure compliance with HUB Program planning and outreach requirements.

Auditors reviewed and tested applicable requirements related to four HUB program areas (see text box for more information about HUB program areas). UTMB reported that it purchased approximately \$34 million in goods and services from HUBs in fiscal year 2015; that amount represented 8 percent of UTMB's total expenditures of \$408 million.

Chapter 1-A

UTMB Did Not Comply with All HUB Reporting Requirements

For fiscal year 2015, UTMB did not have adequate processes in place to identify and track its contracts, subcontracting expenditures, and bids for reporting its HUB Program information. As a result, UTMB did not accurately report its HUB information to the Office of the Comptroller of Public Accounts (Comptroller's Office) as required. Specifically, UTMB did not report complete and accurate information for the number of contracts it awarded

**Chapter 1-A
Rating:
High²**

¹ A prime contractor is the lead contractor under a state contract. A prime contractor may subcontract part of the contract to work or contribute toward completing the work for a governmental entity.

² The risks related to the issues discussed in Chapter 1-A are rated as high because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

to HUBs and non-HUBs, subcontracting expenditures, and the number of bids it received from HUBs:

- **Number of Contracts Awarded to HUBs and Non-HUBs:** UTMB's process for reporting the number of contracts awarded, as required by Texas Government Code, Section 2161.122(c)(3), incorrectly included the number of purchase orders for fiscal year 2015 instead of the number of contracts it awarded during that time frame. As a result, UTMB incorrectly reported that it awarded 20,946 contracts to HUBs and 95,180 contracts in total. Auditors identified 8 contracts awarded to HUBs and 275 total contracts awarded in fiscal year 2015 based on contracts data that UTMB provided.
- **HUB Expenditures:** While the HUB expenditures that UTMB reported included some subcontracting expenditures, UTMB did not have a process in place to ensure that all prime contractors' expenditure information was collected and included in the report. UTMB management asserted that it did not have a comprehensive list identifying all prime contractors for fiscal year 2015. Therefore, UTMB could not determine whether all prime contractors submitted required monthly contractor *Progress Assessment Reports* (see text box). Those reports are necessary for UTMB to obtain subcontracting expenditures. As a result, while UTMB reported HUB expenditures to the Comptroller's Office in a timely manner, the subcontracting expenditures it reported for fiscal year 2015 were not complete. Not tracking prime contractors also limited UTMB's ability to monitor the contractors' compliance with subcontracting requirements. (See Chapter 1-B for more information about UTMB's compliance with HUB subcontracting requirements.)
- **Number of Bids Received from HUBs:** UTMB did not have a process to track the bids it received for fiscal year 2015. As a result, UTMB did not report the number of bids it received from HUBs to the Comptroller's Office as required by Texas Government Code, Section 2161.122(c)(4).

***Progress Assessment
Reports***

Prime contractors are required to submit monthly *Progress Assessment Reports* to UTMB. The reports should include contractor information and the amounts (subcontracting expenditures) that the contractors paid their HUB and non-HUB subcontractors for the reporting period.

Source: The Comptroller's Office.

UTMB submitted *Quarterly Assessment of HUB-related Activities* reports to the Comptroller's Office as required by Riders 17 and 18, pages 1-23 and 1-24, the General Appropriations Act (83rd Legislature). In addition, UTMB reported information related to its HUB utilization goals in its legislative appropriations request as required (see Appendix 3 for more information about UTMB's HUB utilization goals).

Recommendations

UTMB should:

- Strengthen its process to identify and track all contracts awarded within a fiscal year.
- Develop and implement a process to identify prime contractors.
- Develop and implement a process to ensure that prime contractors submit monthly *Progress Assessment Reports* as required.
- Develop and implement a process to track the number of bids received from HUBs.

Management's Response

Recommendation:

UTMB should:

- ***Strengthen its process to identify and track all contracts awarded within a fiscal year.***

Management's Response

UTMB includes Purchase Order data when reporting the number of contracts based on the Contract definition in the State Procurement Manual and Contract Management Guide.

The State Procurement Manual defines a purchase order as a document issued by a purchaser to a seller, indicating types, quantities, and agreed prices for products or services the seller will provide to the agency. Sending a purchase order to a supplier constitutes a legal offer to buy products or services. Acceptance of a purchase order by a seller usually forms a one-off contract between the buyer and seller, so no contract exists until the purchase order is accepted. (Page 189)

The State Contract Management Guide defines a contract as a written agreement where a contract provides goods or services and the agency pays for such goods and services in accordance with the established price, terms and conditions. (Page 14).

UTMB's considers all purchase orders written contracts to provide goods and services and contain an established price, quantities, and terms and conditions.

Currently, UTMB does not have the technology or resources to designate those purchase orders with an effective contract and those purchase orders for which a signed contract is not present and where SAO would define the PO as a contract. UTMB will seek clarification from the Texas Comptroller's Office on the definition of Contract vs Purchase Order and what should be reported.

UTMB will be implementing a new contract management software solution, which is expected to provide more advanced reporting capabilities and functionality related to HUB & non-HUB contracts reporting.

Responsible parties: Purchasing Managers; Associate Vice President, Supply Chain Management; and Manager, Supplier Diversity Program/HUB

Implementation: 10/1/2017

- **Develop and implement a process to identify prime contractors.**

Management's Response

UTMB will be implementing a new contract management software solution. The software solution is expected to provide the ability to generate automated reports and tracking capabilities for identified prime contractors. This automated improvement will provide a comprehensive list of prime contractors at any given time.

Responsible parties: Purchasing Managers; Associate Vice President, Supply Chain Management; and Manager, Supplier Diversity Program/HUB

Implementation: 10/1/2017

- **Develop and implement a process to ensure that prime contractors submit monthly Progress Assessment Reports as required.**

Management's Response

UTMB does not have an automated way to ensure that all prime contractors expenditures information is collected and currently relies on a manual process for the collection of the HUB Progress Assessment report (PAR) information. In order to improve the completeness of the information we will amend the current PO Checklist requiring the buyer to send the HUB Department a copy of the purchase order and the HUB Subcontracting Plan. The HUB Department will then have a complete list to monitor timely receipt of PARs and compliance with the Prime Contractors HUB Subcontracting Plan. UTMB will monitor HUB Plan compliance for prime contractors in accordance with UTMB internal policies.

Responsible parties: Purchasing Manager and Manager, Supplier Diversity Program/HUB

Implementation: 3/10/17

- **Develop and implement a process to track the number of bids received from HUBs.**

Management's Response

In fiscal year 2015, UTMB tracked the number of HUB bids received on each individual competitive bid, however, but not within a comprehensive database of all bid responses received. Since the audit, UTMB Purchasing established a new process to track all HUB and non-HUB bid responses in a single database. In addition, UTMB has assigned staff to make certain this database is populated and maintained to ensure accurate and complete HUB reporting in future fiscal years.

Responsible parties: Purchasing Managers and Manager, Supplier Diversity Program/HUB

Implementation: Complete

Auditor Follow-up Comment

After review and consideration of management's response regarding purchase orders, the State Auditor's Office stands by its conclusions based on the evidence presented and compiled during this audit.

UTMB Should Strengthen Its Processes to Help Ensure Compliance with HUB Subcontracting Requirements

**Chapter 1-B
Rating:**

Medium³

HUB Subcontracting Plans

Texas Government Code, Section 2161.252, requires each state agency with an expected contract value of \$100,000 or more to determine whether there will be subcontracting opportunities under the contract. If an agency determines there will be subcontracting opportunities, it must require each bid, proposal, or offer to include a HUB subcontracting plan.

Required Monitoring

Title 34, Texas Administrative Code, Section 20.285(g), requires each state agency with HUB subcontractors to monitor HUB subcontracting plans during the length of the contract to determine whether the prime contractor is complying with the HUB subcontracting plan.

Prior to awarding contracts, UTMB had processes that included reviewing and evaluating HUB subcontracting plans and documenting the subcontracting opportunities in solicitation documents or its reasons when no HUB subcontracting opportunities were probable. However, UTMB should strengthen its subcontracting processes to help ensure compliance with HUB subcontracting requirements after awarding the contracts.

UTMB appropriately addressed the HUB subcontracting requirements during its procurement process. For 24 (96 percent) of the 25 contracts tested, UTMB (1) evaluated whether subcontracting opportunities were possible and (2) required contractors to submit a subcontracting plan if necessary as required by Texas Government Code, Section 2161.252 (see text box for more information about subcontracting plan requirements). For one contract tested, UTMB could not provide documentation to show that it had complied with HUB subcontracting requirements.

However, UTMB did not monitor its prime contractors to ensure that they implemented their HUB subcontracting plans, as required by Title 34, Texas Administrative Code, Section 20.285⁴ (see text box for required monitoring). Without adequate monitoring, UTMB cannot evaluate whether contractors are completing the required tasks in their subcontracting plans, which may reduce subcontracting opportunities for HUBS. In addition, UTMB cannot adequately track HUB subcontracting expenditures, as discussed in Chapter 1-A.

Recommendation

UTMB should strengthen its process by developing and implementing a process to monitor HUB subcontracting plans after awarding contracts to ensure compliance with subcontracting requirements.

³ The risks related to the issues discussed in Chapter 1-B are 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 and reduce risks to a more desirable level.

⁴ For fiscal year 2015, the subcontracting monitoring requirements were in Title 34, Texas Administrative Code, Section 20.14(g). The subcontracting requirements moved to Title 34, Texas Administrative Code, Section 20.285, effective January 24, 2017.

Management's Response

Training will be provided to departmental managers and team coordinators who receive Invoices and Progress Assessment Reports (PARs) from Prime Contractors on the procedure for submitting the PARs and invoice copies to the HUB Coordinator's office. Buyers will also receive training on including the proper clauses in Prime Contractor POs to ensure that they know the proper procedures for submitting invoices and PARs.

Responsible parties: Purchasing Manager and Manager, Supplier Diversity Program/HUB

Implementation: 9/1/2017

Chapter 1-C

UTMB Had Processes to Help Ensure Compliance with HUB Planning and Outreach Requirements

Chapter 1-C
Rating:
Low⁵

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

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

Additionally, for fiscal year 2015, UTMB had processes in place to ensure compliance with all four outreach requirements tested. Specifically, UTMB:

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

⁵ The risks related to the issues discussed in Chapter 1-C are 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.

UTMB Should Strengthen Its Processes to Help Ensure Compliance with State Use Program Requirements

**Chapter 2
Rating:**
Medium ⁶

UTMB did not report its exceptions for fiscal year 2016 to the State Use Program (see text box for further information on exceptions reporting) as required. Texas Human Resources Code, Section 122.0095, requires each state entity to provide an exceptions report to the Comptroller's Office and the Texas Workforce Commission.

Exception Reporting

State statute requires state agencies and public higher education institutions to purchase from the State Use Program unless the needed products or services meet certain exceptions. Agencies and higher education institutions are also required to report all procurements made 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. 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: The Comptroller's Office and the Texas Workforce Commission.

The purchasing process at UTMB is decentralized, and UTMB did not consistently follow a process to identify exceptions related to TIBH Industries. As a result, UTMB reported \$0 in exceptions for fiscal year 2016, and auditors could not identify the number of exceptions that should have been reported, if any, or the dollars associated with those purchases. In addition, UTMB asserted that its interpretation of State Use Program requirements was that it had to report State Use program expenditures rather than exceptions.

Auditors tested a sample of 60 UTMB expenditures that totaled \$88,093. For 5 (8 percent) of those expenditures totaling \$150, a comparable good or service was available through TIBH Industries. Those five purchases were for paper products, dry-erase markers, a first-aid kit, and clip-on name tags that were available through the TIBH Industries.

UTMB appropriately designated a State Use Program coordinator and had documented policies and procedures that required purchasers to check on the availability of products and services from TIBH Industries-related businesses prior to making a purchasing decision. However, UTMB did not ensure that purchasers followed those policies. In addition, it should strengthen those policies and procedures to (1) exclude price as a reason for an exception to comply with Texas Human Resources Code, Section 122.008; (2) include a date on which State Use Program information must be reported; and (3) require purchasers to document the reason for not purchasing a product or service from TIBH Industries, when applicable.

⁶ The risks related to the issues discussed in Chapter 2 are 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 and reduce risks to a more desirable level.

Recommendations

UTMB should strengthen its State Use Program processes by:

- Tracking and reporting TIBH Industries exceptions as required by Texas Human Resources Code, Section 122.0095.
- Purchasing a good or service from TIBH Industries catalog whenever a comparable good or service is available.
- Strengthening its policies and procedures to ensure compliance with State Use Programs requirements.

Management's Response

UTMB should strengthen its State Use Program processes by:

- ***Tracking and reporting TIBH Industries exceptions as required by Texas Human Resources Code, Section 122.0095.***

Management's Response

UTMB has assigned staff to report any identified TIBH exceptions. Additionally, this exception requirement will be outlined in a new UTMB policy specifically for TIBH.

Responsible parties: *Purchasing Managers; and Manager, Supplier Diversity Program/HUB*

Implementation: *6/1/2017*

- ***Purchasing a good or service from TIBH Industries catalog whenever a comparable good or service is available.***

Management's Response

UTMB will work with its preferred HUB supplier for office supplies to promote all TIBH items sold by this supplier with a goal of improving TIBH purchasing. Any exceptions to this process will be reviewed and documented as to the reason for inclusion in the Exception Report.

Responsible parties: *Purchasing Manager and Manager, Supplier Diversity Program/HUB*

Implementation: *6/1/2017*

- **Strengthening its policies and procedures to ensure compliance with State Use Programs requirements.**

Management's Response

UTMB plans to establish a new policy specifically for TIBH including: reasons for exemptions for TIBH products; date when the State Use Program information must be reported and to document the reasons for not purchasing a product or service from TIBH industries, when applicable. The policy will include a process for tracking and reporting TIBH Industries exceptions as required by Texas Human Resources Code, Section 122.0095.

Responsible parties: *Purchasing Managers and Manager, Supplier Diversity Program/HUB*

Implementation: *6/1/2017*

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the University of Texas Medical Branch at Galveston (UTMB):

- 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 UTMB's HUB activities for fiscal year 2015 and State Use Program activities for fiscal year 2016. Auditors selected UTMB according to a risk assessment and audited for:

- Compliance with HUB Program requirements in four areas: planning, outreach, subcontracting and reporting, as defined by Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20.
- Compliance with State Use Program requirements as defined by Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 806.

Methodology

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

Data Reliability and Completeness

Auditors used expenditure information in UTMB's PeopleSoft Financial Management Solutions (FMS) and relied on prior KPMG LLP audit work that evaluated the general controls for FMS. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Auditors determined that the data in UTMB's contract management system, Omnicom, which UTMB uses to store contract information and documentation, was the most complete population of contracts applicable to HUB requirements and was sufficiently reliable for the purposes of our audit.

Auditors determined that the data in the HUB Contact System that UTMB 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 that UTMB reported to the Comptroller's Office.

Sampling Methodology

To test compliance with HUB requirements, auditors selected a non-statistical sample of non-HUB contracts through random selection.

To test compliance with State Use Program exception reporting, auditors selected a non-statistical, stratified, random sample of non-State Use Program purchases that UTMB made from appropriated funds. The results of that testing may be extrapolated to the specific 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.
- UTMB's HUB written plan for fiscal years 2015-2019.
- UTMB's policies and procedures.
- UTMB's HUB forum and marketing advertisements and email notifications.
- UTMB's contracts, invoices, and other supporting contracts documentation.
- 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).
- KPMG LLP audit working paper for FMS.

Procedures and tests conducted included the following:

- Reviewed UTMB's HUB utilization goals and rules.
- Interviewed UTMB's HUB coordinator, State Use Program coordinator, and other UTMB staff.
- Reviewed the job description and associated responsibilities for UTMB's HUB coordinator.
- Tested UTMB's HUB supplemental report information.
- Tested UTMB's non-State Use Program expenditures from appropriated funds for fiscal year 2016.
- Tested UTMB's contracts awarded in fiscal year 2015.
- Reviewed UTMB's implementation status of Riders 17 and 18, pages I-23 and I-24, 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 806.
- 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.

Project Information

Audit fieldwork was conducted from August 2016 through January 2017. 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:

- Namita Pai, CPA (Project Manager)
- Sherry Sewell, CGAP (Assistant Project Manager)
- Mohammad Ali Bawany, MS
- Frances Mikus Barker, MSA
- Arnton Gray
- Dana Musgrave MBA (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 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)/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.

UTMB's Fiscal Year 2015 HUB Goals and Performance

Table 3 shows the University of Texas Medical Branch at Galveston's (UTMB) projected fiscal year 2015 goals and actual performance for its Historically Underutilized Business (HUB) Program for each procurement category. The University established its own HUB goals.

Table 3

UTMB's HUB Goals and Performance Fiscal Year 2015		
HUB Category	UTMB's Projected HUB Goals	UTMB's Actual HUB Performance
Goal Attainment		
Comparison of entity goal to actual performance (Texas Government Code, Section 2161.123(e)).		
Heavy construction contract utilization goal. ^a	0.00%	0.00%
Building construction contract utilization goal. ^a	0.00%	0.00%
Special trade construction contract utilization goal.	33.15%	20.63%
Professional services contract utilization goal.	8.41%	4.64%
Other services contract utilization goal.	13.15%	7.20%
Commodities contract utilization goal.	8.50%	6.34%
^a UTMB established its own, entity-specific HUB goals with the exception of the heavy construction contract and the building construction contract utilization goals. In fiscal 2015, UTMB did not use the heavy construction and building construction categories.		

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

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