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An Audit Report on

# **The Historically Underutilized Business Program at the Texas Building and Procurement Commission**

August 2006  
Report No. 06-056



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## *Overall Conclusion*

The Texas Building and Procurement Commission (Commission) generally administers the Historically Underutilized Business (HUB) program in accordance with statutory requirements. However, it should improve its administration of the HUB program by doing the following:

- **The Commission should improve the assistance it provides to HUBs regarding state procurement procedures and the availability of state contracts.** Sixty percent of the HUBs and 82 percent of the state agencies and higher education institutions the State Auditor's Office surveyed reported overall satisfaction with the HUB program.

However, only 44 percent of the HUBs surveyed rated the assistance the Commission provides regarding state procurement procedures as satisfactory or better than satisfactory. In addition, only 45 percent of the HUBs surveyed rated the assistance the Commission provides regarding the availability of state contracts as satisfactory or better than satisfactory.

- **The Commission should monitor third-party entities that review businesses' eligibility for HUB certification to ensure they meet and maintain the Commission's HUB standards.** Auditors reviewed files for a random sample of 70 of the 1,509 HUBs that were determined to be eligible for HUB certification by three third-party entities since September 2004. Thirteen (19 percent) of the 70 files did not have complete documentation required to support HUB certification.

The Commission has agreements with seven third-party entities to review businesses' eligibility for HUB certification. These third-party entities do not apply the same standards the Commission applies when they determine that

### **Historically Underutilized Businesses (HUB)**

A HUB is a business with its principal location in Texas and for which 51 percent or more of its stock or assets and interests are owned by one or more economically disadvantaged persons who:

- (A) Have a proportionate interest and actively participate in the business's control, operation, and management; and
- (B) Are economically disadvantaged because of their identification as a member of the following groups:
  - (i) Black Americans
  - (ii) Hispanic Americans
  - (iii) Women
  - (iv) Asian Pacific Americans
  - (v) Native Americans

Source: Texas Government Code, Section 2161.001

HUB certification by the Commission is free and renewable every four years.

businesses are eligible for HUB certification and do not always retain complete support for their decisions regarding HUB certification eligibility. As a result, the Commission does not have assurances that the businesses identified by third parties as eligible for HUB certification meet the criteria for this certification.

- **The Commission should ensure that it certifies only qualified HUBs.** For 7 (10 percent) of the 71 certified HUBs we tested, the Commission did not have complete documentation required to qualify these businesses for HUB certification. Examples of missing supporting documentation included documentation required to substantiate ethnicity, citizenship, or Texas residency; ownership or interest and participation in the business's control, operation, and management; or principal place of business.

The Commission issues semi-annual and annual HUB reports that summarize statewide information regarding the HUB program. In its fiscal year 2004 and 2005 annual HUB reports, the Commission over-reported the number of certified HUBs by as much as 10.5 percent because it counted some HUBs more than once. The Commission reported there were 15,051 certified HUBs in its annual HUB report for fiscal year 2005, but data provided by the Commission supported that there were only 13,626 unique certified HUBs.

To prepare its semi-annual and annual HUB reports, the Commission also relies on information that agencies and higher education institutions self-report regarding the amount of expenditures made to HUBs. Prior State Auditor's Office audits have found that this information was not always accurate.<sup>1</sup> For example, our last two audits at 21 state agencies and higher education institutions determined that 17 (81 percent) of these entities did not fully comply with HUB reporting requirements.

In fiscal year 2005, agencies and higher education institutions self-reported that they paid approximately \$1.6 billion to 4,833 HUBs, which represented 13.9 percent of the approximately \$11.3 billion in total state expenditures for fiscal year 2005.

## ***Summary of Management's Response***

The Commission generally agrees with the recommendations in this report. Its responses are in Appendix 4.

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<sup>1</sup> For example, see *An Audit Report on Selected Entities' Compliance with Requirements Related to Historically Underutilized Businesses and Purchases from People with Disabilities* (State Auditor's Office Report No. 05-016, December 2004) and *An Audit Report on Selected Entities' Compliance with Historically Underutilized Business Requirements* (State Auditor's Office Report No. 03-018, February 2003).

## Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine:

- Whether the Commission administers the HUB program in compliance with statutory requirements, including requirements for certification of HUBs, assistance to HUBs, and assistance to state agencies.
- The accuracy and completeness of the semi-annual report on contracts awarded to HUBs.
- Whether the Commission has taken steps to make statewide procurements accessible to HUBs.

The scope of this audit covered the Commission's certification of HUBs between September 2004 and March 2006.

The audit methodology included (1) conducting interviews with Commission HUB program staff and third-party entities that determine businesses' eligibility for HUB certification and (2) reviewing Commission HUB program documents and HUB certification supporting documentation at the Commission and third-party entities. In addition, we surveyed certified HUBs, state agencies, and higher education institutions. This audit did not include a review of any information technology systems.

Recent SAO Work		
Number	Product Name	Release Date
05-031	A Review of Construction Project Management at the Texas Building and Procurement Commission	April 2005
05-016	An Audit Report on Selected Entities' Compliance with Requirements Related to Historically Underutilized Businesses and Purchases from People with Disabilities	December 2004
03-018	An Audit Report on Selected Entities' Compliance with Historically Underutilized Business Requirements	February 2003

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# Detailed Results

Chapter 1

## *The Certified HUBS, State Agencies, and Higher Education Institutions Surveyed Reported Overall Satisfaction with the HUB Program, But They Suggested Certain Opportunities for Improvement*

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More than half of the certified Historically Underutilized Businesses (HUB), state agencies, and higher education institutions the State Auditor's Office surveyed reported overall satisfaction with the Texas Building and Procurement Commission's (Commission) HUB program. However, less than half of the HUBs surveyed rated the assistance the Commission provides regarding state procurement procedures and the availability of state contracts as satisfactory or better than satisfactory.

Chapter 1-A

### **Most HUBs That Responded to Our Survey Are Satisfied with the HUB Program, But the Commission Should Improve Assistance Regarding State Procurement Procedures and the Availability of State Contracts**

#### **The State Auditor's Office HUB Audit Survey**

The State Auditor's Office surveyed 11,613 certified HUBs and received 877 completed survey responses (an 8 percent response rate). The survey solicited opinions from HUBs regarding the level and quality of assistance they receive from the Commission's HUB program.

The State Auditor's Office also surveyed 174 state agencies and higher education institutions regarding the level and quality of assistance they receive from the Commission's HUB program. One hundred seventy-two state agencies and higher education institutions responded to the survey (a 99 percent response rate).

Survey responses were summarized and analyzed for this report. In addition, the State Auditor's Office provided respondents' anonymous comments to the Commission's HUB program for its own review and analysis.

See Appendix 2 for the survey instruments and results.

Sixty percent of HUBs that responded to our survey rated the overall assistance the Commission provides regarding the HUB program as satisfactory or better than satisfactory. However, 44 percent rated the assistance the Commission provides regarding state procurement procedures as satisfactory or better than satisfactory. In addition, 45 percent rated the assistance provided regarding the availability of state contracts as satisfactory or better than satisfactory.

The HUBs that responded also suggested that additional education and outreach is needed regarding the HUB directory, registering on the master bidders list, participating in the Mentor Protégé Program, and HUB program forums. In these instances, almost half of the HUBs indicated that they did not know about or participate in these components of the HUB program.

Some HUBs also indicated they had not received any assistance from the Commission regarding the HUB program, and others indicated they did not know they were certified because they had not received any information or a

certificate from the Commission regarding their HUB certification status. We provided the Commission with information regarding these HUBs for its follow-up.

The survey also identified the following:

- Seventy-nine percent of HUBs rated their experience with the Commission's HUB certification process as satisfactory or better than satisfactory.
- Sixty-three percent of HUBs that indicated they received a HUB orientation package from the Commission (when they were certified or recertified) indicated that they found the orientation package to be useful.
- Ninety-two percent of HUBs indicated that the Commission's responses to their assistance requests were timely. Eighty-nine percent indicated that the Commission's responses to their assistance requests were adequate.

## Recommendations

The Commission should:

- Consider the survey results in determining the outreach and education efforts it can use to:
  - ♦ Improve the assistance it provides HUBs regarding state procurement procedures and the availability of state contracts.
  - ♦ Inform HUBs about using the HUB directory, registering on the master bidders list, and participating in the Mentor Protégé Program and the HUB program forums.
- Provide assistance to the HUBs that requested additional assistance through the survey.
- Ensure that all certified HUBs receive information about their certification status.

## **Most State Agencies and Higher Education Institutions That Responded to Our Survey Are Satisfied with the HUB Program and the Assistance the Commission Provides**

The majority of state agencies and higher education institutions that responded to the State Auditor's Office survey indicated overall satisfaction with the HUB program and the assistance the Commission provides regarding the HUB program. Specifically:

- Eight-two percent of the state agencies and higher education institutions that responded to our survey rated their experience with the HUB program as satisfactory or better than satisfactory.
- Seventy-five percent of state agencies and higher education institutions that responded to our survey rated the assistance the Commission provides regarding the HUB program as satisfactory or better than satisfactory.

The survey also identified the following:

- Seventy-one percent of state agencies and higher education institutions rated the assistance the Commission provides in helping them find HUBs capable of supplying goods and services as satisfactory or better than satisfactory.
- Seventy-three percent of state agencies and higher education institutions rated the assistance the Commission provides in helping them meet HUB reporting requirements as satisfactory or better than satisfactory.
- Fifty-eight percent of state agencies and higher education institutions rated the assistance the Commission provides in helping them comply with HUB subcontracting requirements as satisfactory or better than satisfactory.

A number of state agencies and higher education institutions that responded also suggested that there is a need for:

- Additional training and guidance for HUB coordinators (including training for new HUB coordinators).
- Additional assistance with HUB subcontracting requirements.
- Updating the HUB directory more often and correcting erroneous data on services provided by HUBs.
- Additional outreach to HUBs regarding the use and benefit of the State Business Daily Web site (formerly referred to as the Texas Marketplace).

## Recommendation

The Commission should consider the survey results in determining the outreach and education efforts it can use to enhance the assistance requested by the state agencies and higher education institutions.

## ***The Commission's Monitoring and Certification Processes Should Ensure that Only Qualified Businesses Receive HUB Certification***

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The Commission does not monitor the third-party entities that review and determine businesses' eligibility for HUB certification on its behalf (see text

### **Third-Party HUB Certification**

To maximize the number of certified HUBs, the Commission may approve the HUB certification program of local governments or non-profit organizations, minority business enterprises, or disadvantaged business enterprises, if the local government or nonprofit organization meets or exceeds the standards established by the Commission.

Source: Texas Government Code, Section 2161.061

box for additional information regarding third-party entities that review businesses' eligibility for HUB certifications.) We reviewed the files of 70 businesses that three third-party entities determined were eligible for HUB certification and determined that 13 (19 percent) did not have complete documentation required to support their HUB certification. The Commission certified these 13 businesses as HUBs based on the third-party entities' determination of HUB eligibility.

In addition, the Commission should ensure that its determinations of HUB certification eligibility are supported by complete documentation. For 7 (10 percent) of the 71 certified HUBs we tested, the Commission did not have complete documentation required to qualify these businesses for HUB certification. The Commission has a quality review process to review HUB certification files and an audit process to determine whether HUBs should be certified, but neither of these processes is sufficient to ensure that only qualified businesses receive certification.

The Commission is meeting its goal of processing and certifying HUBs in a timely manner. Ninety-three percent of the 71 HUB application files we tested were processed within the required 90 days set by the Commission.

Chapter 2-A

### **The Commission Should Monitor Third-Party Entities that Determine HUB Eligibility to Ensure That These Entities' Meet and Maintain the Commission's Certification Standards**

Third-party entities that determine businesses' eligibility for HUB certification on behalf of the Commission do not apply the same standards that the Commission applies when it certifies businesses as HUBs.

We reviewed files for a random sample of 70 of the 1,509 HUBs that three third-party entities determined were eligible for HUB certification since September 2004. Thirteen (19 percent) of those files did not have complete documentation required to support HUB certification. Examples of missing documentation included documentation required to substantiate:

- Citizenship, ethnicity, or Texas residency.

- Ownership or interest and participation in the business's control, operation, and management.

As a result, the Commission does not have assurances that the businesses identified by third parties as eligible for HUB certification meet the criteria for this certification.

**Third-Party Entity Review of Businesses Eligibility for HUB Certification**

Third party entities' primary purpose is to certify women-owned, minority-owned, or disadvantaged business enterprises for certification and membership in its own program.

Under the memorandums of agreement the Commission has with seven third-party entities, when a third-party entity determines a business is eligible for HUB certification, the Commission will certify the business as a HUB if it has not been previously denied certification by the Commission.

However, the processes used and documentation required by these third party entities to certify a business do not align with the Commission's certification policies, procedures, and standards.

The three third-party entities we visited indicated that they perform an on-site visit at each business that applies for certification. During these on-site visits, entities verify documentation and make observations to substantiate the businesses' eligibility for HUB certification. However, these visits are usually performed by one individual and the third-party entities' do not obtain copies of the necessary supporting documentation discussed above.

The files maintained by the third-party entities contain a checklist indicating what documentation was reviewed and observations made during the on-site visit (in lieu of actual supporting documentation). There is no documentation indicating that the third-party entities' conclusions are complete or correct. In addition, two of the three entities simply require a

business to submit an affidavit for recertification indicating that no changes to the business's ownership and control have occurred, but no additional verification is performed. Without performing additional verification when recertifying businesses, there is a risk that businesses that may not meet HUB eligibility requirements will continue to be qualified and certified as HUBs.

The three third-party entities we visited account for 54 percent of all HUBs determined to be HUB eligible (and eventually certified by the Commission) by third-party entities since September 2004. Currently, the Commission has agreements with seven third-party entities to review businesses' eligibility for HUB certification. Third-party entities determined HUB eligibility for 24 percent of all businesses currently certified as HUBs. Therefore, it is important that the Commission ensure that businesses determined to be eligible for HUB certification by third party entities meet the Commission's certification requirements and standards.

The Commission's memorandums of agreement with the third-party entities allows it to audit the entities' "certification processes as necessary to determine compliance with HUB certification policies and procedures." However, the Commission does not audit HUB eligibility determinations made by the third-party entities, nor does it audit the HUBs that third-party entities determine are eligible for HUB certification.

## Recommendations

The Commission should:

- Regularly monitor third-party entities' HUB eligibility determination processes to ensure that they meet and maintain the Commission's HUB certification standards.
- Consider (1) including the HUBs determined to be eligible for certification by third-party entities (and eventually certified by the Commission) in its HUB risk selection process and (2) auditing these HUBs.

## The Commission Should Ensure That Only Qualified HUBs Receive Certification

We tested documentation maintained by the Commission for a random sample of 71 of the 3,481 HUBs certified (and re-certified) by the Commission since September 2004. For 7 (10 percent) of the 71 certified HUBs we tested, the Commission did not have complete documentation required to qualify these

businesses for HUB certification. Files for these seven HUBs lacked certain documentation the Commission requires to qualify the business and substantiate the applicants':

### Examples of Documentation Required by the Commission to Support HUB Certification

Examples of documentation the Commission accepts to substantiate eligibility for HUB certification include:

- Ethnicity can be substantiated with a birth certificate or an affidavit of ethnicity.
- Citizenship can be substantiated with a birth certificate, certificate of naturalization, or United States passport.
- Texas residency can be substantiated with a driver's license or voter registration card.
- Ownership and/or interest and participation in the business can be substantiated with recent and complete tax returns, complete stock ledgers, bank statements, and bank signature cards.
- Principal place of business can be substantiated with current lease agreements or property tax statements that agree with the business's stated location and applicant(s).

Source: Commission HUB application materials.

- Ethnicity, citizenship, or Texas residency.
- Ownership or interest and participation in the business's control, operation, and management.
- Principal place of business.

The Commission's certification and compliance analysts process certification files and make certification decisions independently. However, the Commission has a quality review process to ensure that the certification files are complete and that the analysts' decisions to certify a business as a HUB are correct, but only about 10 percent of the completed certification applications are reviewed through this process.

### HUB Enforcement and Audits

The Legislature included a rider in the Commission's 2006-2007 biennium appropriations bill requiring a \$20 increase in the fee it charges vendors to register on the Centralized Master Bidders List. The intent of the rider was to increase the funds available for the purpose of enforcing compliance with the requirements of state purchasing statutes and the prevention of fraud in the HUB program as set forth in Chapter 2161, Texas Government Code.

Information provided by the Commission indicates that, at the current rate of HUB audits performed in fiscal year 2006, more audits will be performed in fiscal year 2006 as compared to previous fiscal years.

The Commission also performs audits of selected HUBs it certifies to determine whether they should be certified, recertified, or maintain their certification. However, prior to April 2006 it did not consider HUBs certified prior to April 2004 in its risk selection process. HUBs certified by the Commission prior to April 2004 were previously considered for audit only when they were scheduled for recertification.

In addition, the Commission does not audit decisions regarding HUB certification eligibility made by third-party entities. Furthermore, although supervisors track and select which

regions or areas to be audited each month, each Commission HUB compliance analyst selects the individual HUBs he or she will audit and then performs

these audits alone. This process does not result in a consistent selection process and increases the risk that certified HUBs may not meet eligibility requirements.

The Commission is meeting its requirement for processing HUB applications and making a certification decision in a timely manner. Sixty-six (93 percent) of the 71 files we tested were processed within the 90-day requirement set by the Commission.

## Recommendations

The Commission should:

- Consider increasing the number of completed HUB certification applications it reviews during its quality review process.
- In its risk selection process for HUB audits, regularly consider all HUBs (including the HUBs determined to be eligible for certification by third-party entities).
- Consider performing additional reviews and approvals of the HUBs that compliance analysts select for audit to ensure that it audits HUBs with the highest risk.
- Continue to increase the number of HUB audits it performs.

## ***The Commission Should Improve Its Reporting of Statewide HUB Information***

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The Commission issues semi-annual and annual HUB reports that summarize statewide information regarding the HUB program. The Commission has over-reported the number of certified HUBs in its annual HUB reports to the Legislature by as much as 10.5 percent. In addition, the Commission relies on state agencies and higher education institutions to self-report the amount of expenditures they make to HUBs. However, it does not verify this information before it uses the information in the HUB reports it prepares. Prior State Auditor's Office audits have found that the information that is self-reported by state agencies and higher education institutions is not always accurate. For example, our last two audits at 21 state agencies and higher education institutions determined that 17 (81 percent ) of these entities did not fully comply with HUB reporting requirements.

### Chapter 3-A

#### **The Commission Should Report Only the Number of Unique Certified HUBs in Its Annual Report**

The Commission over-reported the number of certified HUBs in its fiscal year 2004 and 2005 annual HUB reports by as much as 10.5 percent because it counted some HUBs more than once. The Commission reported there were 15,051 certified HUBs in its fiscal year 2005 annual HUB report, but data provided by the Commission supported that there were only 13,626 unique certified HUBs.

In addition, data provided by the Commission to support the number of certified HUBs reported in its fiscal year 2004 annual HUB report contained duplicate records for 1,061 vendors. The over-reporting occurred because the Commission (1) counted HUBs with multiple business locations more than once and (2) counted HUBs registered by both their employer identification number and the owner's Social Security number more than once.

#### **Recommendation**

The Commission should count and report certified HUBs only once to ensure that it reports reliable information to the Legislature and can better evaluate the performance of the HUB program.

## The Commission Relies on Self-Reported Data about HUB Expenditures for its Semi-Annual and Annual HUB Reports

For the purposes of semi-annual and annual HUB reporting, the Commission relies on state agencies and higher education institutions to self-report the amount of expenditures made to HUBs. However, it does not verify this information before using it in the semi-annual and annual HUB reports it prepares.

### Statewide HUB Expenditures

In its annual HUB report for fiscal year 2005, the Commission reported that agencies and higher education institutions paid approximately \$1.6 billion to 4,833 HUBs, which represented 13.8 percent of the approximately \$11.3 billion in total state expenditures for fiscal year 2005. For additional information on HUB expenditures, see Appendix 3.

Prior State Auditor's Office audits have found that the information that agencies and higher education institutions report regarding the amount of expenditures made to HUBs was not always accurate. For example, our last two audits at 21 state agencies and higher education institutions determined that 17 (81 percent) of these entities did not fully comply with HUB reporting requirements, primarily because they could not provide support for the numbers they reported to the Commission.

Each state agency and higher education institution is required by statute and rule to report to the Commission information about the amount of expenditures made to HUBs. The Commission prepares its semi-annual and annual HUB reports, in part, based on this self-reported information.

The Commission has established statewide HUB reporting procedures for state agencies and higher education institutions to follow. The Commission makes agencies and higher education institutions responsible for the accuracy of their self-reported data and relies on agencies and higher education institutions to confirm that they have reported correct information to the Commission (or to make necessary corrections) prior to the Commission's finalizing its semi-annual and annual HUB reports.

### Recommendation

The Commission should clearly state that the information in its semi-annual and annual HUB reports is self-reported by the state agencies and higher education institutions and not verified by the Commission.

# Appendices

Appendix 1

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

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### Objectives

The objectives of this audit were to determine:

- Whether the Texas Building and Procurement Commission (Commission) administers the Historically Underutilized Business (HUB) program in compliance with statutory requirements, including requirements for certification of HUBs, assistance to HUBs, and assistance to state agencies.
- The accuracy and completeness of the semi-annual report on contracts awarded to HUBs.
- Whether the Commission has taken steps to make statewide procurements accessible to HUBs.

### Scope

The scope of this audit covered the Commission's certification of HUBs between September 2004 and March 2006.

### Methodology

The audit methodology included conducting interviews, observing Commission processes, reviewing the Commission's policies and procedures, and performing audit procedures and tests. This audit did not include a review of any information technology systems.

Information collected and reviewed included the following:

- Semi-annual and annual HUB reports for fiscal years 2004 and 2005 and the semi-annual HUB report for fiscal year 2006
- *HUB Education and Outreach Report* for fiscal year 2005
- The Commission's HUB program outreach plans and events
- The Commission's centralized master bidders list
- The Commission's on-line HUB directory
- The Commission's HUB program policies and procedures

- The Commission's statewide HUB reporting procedures
- The Commission's memorandums of agreement with third-party entities that identify businesses that are eligible for HUB certification on behalf of the Commission
- State of Texas Disparity Study, December 1994
- Prior State Auditor's Office reports related to the HUB program
- Texas Government Code, Chapter 2161
- Title 1, Texas Administrative Code, Chapter 111, Subchapter B, Historically Underutilized Business Program

Procedures and tests conducted included the following:

- Compared the semi-annual and annual HUB reports to the HUB reporting requirements outlined in Texas Government Code, Chapter 2161
- Verified the completeness of the HUB directory by determining whether the number of certified HUBs in the Commission's HUB directory agreed with (1) the number of certified HUBs reported by the Commission in its fiscal year 2004 and 2005 annual HUB reports and (2) the number reported in the centralized master bidders list. Reviewed the HUB directory and searched for duplicates and anomalies.
- Compared the *HUB Education and Outreach Report* to the HUB education and outreach reporting requirements outlined in Texas Government Code, Chapter 2161
- Compared the Commission's HUB program rules in the Texas Administrative Code to the requirements in the Texas Government Code
- Selected a sample of certified HUBs and tested certification application documents to determine whether the businesses were appropriately certified by the Commission as a HUB. Also determined whether the selected certification applications were processed within 90 days as required by rule.
- Selected a sample of HUBs determined to be eligible for HUB certification by third-party entities (and certified by the Commission) and tested the support for the certification decisions to determine whether these businesses were appropriately certified as a HUB.
- Administered a survey to 11,613 certified HUBs to solicit their opinions regarding the level and quality of assistance they receive from the

Commission's HUB program. We received 877 complete survey responses and compiled and analyzed the survey responses.

- Administered a survey to 174 state agencies and higher education institutions to solicit their opinions regarding the level and quality of assistance they receive from the Commission's HUB program. We received 172 complete survey responses and compiled and analyzed the survey responses.

Criteria used included the following:

- Texas Government Code, Chapter 2161, Historically Underutilized Business Program
- Title 1, Texas Administrative Code, Chapter 111, Subchapter B, Historically Underutilized Business Program
- HUB certification policies and procedures
- Statewide HUB reporting procedures
- Commission HUB certification memorandums of agreement with third-party entities

### **Project Information**

Audit fieldwork was conducted from April 2006 through June 2006. This audit was conducted in accordance with generally accepted government auditing standards.

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

- Juan R. Sanchez, MPA, CGAP (Project Manager)
- Sandra Q. Donoho, MPA, CISA, CIA, CFE (Assistant Project Manager)
- Harriet Fortson, M.Acy
- Arby Gonzales
- Rene Valadez
- James (Tony) White
- J. Scott Killingsworth, CIA, CGFM (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CGAP (Audit Manager)

## ***Survey Instruments and Results***

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### **Survey Sent to Historically Underutilized Businesses**

The State Auditor's Office sent the following survey to 11,613 certified HUBs and received 877 completed survey responses.

TBPC = Texas Building and Procurement Commission

HUB = Historically Underutilized Business

1. How long has your business been certified as a HUB?
  - [18.13%] One year or less
  - [13.57%] One to two years
  - [13.80%] Two to three years
  - [12.09%] Three to four years
  - [42.41%] More than four years
  
2. How did your business learn about the TBPC HUB program?
  - [ 6.74%] Vendor fair
  - [10.74%] TBPC-sponsored marketing materials or program
  - [19.66%] Another HUB
  - [32.57%] Contacted TBPC and/or a state agency or state university
  - [30.29%] Other, please specify:
  
3. How would you rate your business's experience with the TBPC HUB certification process?
  - [26.91%] Excellent
  - [41.73%] Good
  - [14.25%] Neutral or no opinion
  - [10.03%] Satisfactory
  - [ 5.36%] Poor
  - [ 1.71%] Not applicable
  
4. Did you receive a TBPC HUB orientation package when your business was certified and/or re-certified as a HUB?
  - [60.09%] Yes, when certified
  - [39.91%] No, when certified
  - [12.54%] Yes, when re-certified
  - [87.46%] No, when re-certified

5. Did you find the orientation package useful?  
[63.11%] Yes  
[ 4.57%] No  
[30.46%] Neutral or no opinion  
[ 1.86%] Not applicable
6. Is your business included in the TBPC HUB Directory?  
[50.63%] Yes  
[ 2.51%] No  
[46.86%] Do not know about the HUB Directory
7. Is your business' information in the TBPC HUB Directory complete and accurate?  
[95.25%] Yes  
[ 4.75%] No
8. Overall, how would you rate the assistance provided by the TBPC regarding the HUB program?  
[15.39%] Excellent  
[35.01%] Good  
[31.70%] Neutral or no opinion  
[ 9.35%] Satisfactory  
[ 8.55%] Poor
9. How would you rate the assistance and training provided by the TBPC HUB program regarding state procurement procedures?  
[10.26%] Excellent  
[23.26%] Good  
[43.79%] Neutral or no opinion  
[10.60%] Satisfactory  
[12.09%] Poor
10. How would you rate the assistance provided by the TBPC HUB program regarding the availability of state contracts?  
[10.15%] Excellent  
[23.60%] Good  
[38.20%] Neutral or no opinion  
[11.52%] Satisfactory  
[16.53%] Poor

11. Have you received advice from the TBPC HUB program about registering on the TBPC master bidders list?  
[45.26%] Yes  
[54.74%] No
12. How often to you contact TBPC HUB program staff for assistance?  
[ 0.00%] Daily  
[ 0.34%] Weekly  
[ 2.40%] Monthly  
[35.73%] As needed, please note how often:  
[61.53%] Never
13. How do you contact TBPC HUB program staff for assistance? (Please check all that apply.)  
[ 6.60%] Face-to-face visit  
[59.60%] Telephone call  
[25.40%] E-mail  
[ 3.60%] Letter or correspondence  
[ 2.80%] Fax  
[ 2.00%] Other
14. Are TBPC responses to your assistance requests:  
▪ Timely?  
[92.40%] Yes  
[ 7.60%] No  
▪ Adequate?  
[88.82%] Yes  
[11.18%] No
15. How does the TBPC HUB program staff contact you? (Please check all that apply.)  
[ 4.84%] Face-to-face visit  
[21.26%] Telephone call  
[36.29%] E-mail  
[31.20%] Letter or correspondence  
[ 6.40%] Fax
16. Has your business been audited by the TBPC HUB program?  
[22.74%] Yes  
[46.06%] No  
[31.20%] Do not know audits are conducted

17. If yes, how many times has your business received an audit from the TBPC HUB program?  
[81.91%] Once  
[11.06%] Twice  
[ 5.03%] Three  
[ 2.00%] Four or more times
18. Is your business part of the TBPC HUB Mentor–Protégé Program?  
[ 4.91%] Yes  
[50.00%] No  
[45.09%] Do not know about the HUB Mentor–Protégé Program
19. Has your business participated in any TBPC or state agency HUB program forums?  
[23.17%] Yes  
[48.86%] No  
[27.97%] Do not know about the HUB program forums
20. If the answer to Question 19 was “Yes,” how many TBPC or state agency HUB program forums has your business attended in the past two years?  
Note: This was an open-ended question and respondents were allowed to enter an actual number.  
[17.12%] 0  
[38.29%] 1  
[22.97%] 2  
[ 5.86%] 3  
[ 5.86%] 4  
[ 6.76%] 5-9  
[ 3.15%] 10+
21. If the answer to Question 19 was “Yes,” did your business find the HUB program forums useful?  
[52.51%] Yes  
[20.55%] No  
[26.94%] Neutral or no opinion

22. How many State of Texas contracts has your business bid for in the past two years?

Note: This was an open-ended question and respondents were allowed to enter an actual number.

- [53.16%] 0
- [38.55%] 1 to 10
- [ 3.91%] 11 to 20
- [ 1.38%] 21 to 30
- [ 1.38%] 31 to 50
- [ 0.69%] 51 to 100
- [ 0.92%] More than 100

23. How many State of Texas contracts has your business been awarded in the past two years?

Note: This was an open-ended question and respondents were allowed to enter an actual number.

- [40.75%] 0
- [53.75%] 1 to 10
- [ 2.50%] 11 to 20
- [ 0.50%] 21 to 30
- [ 1.00%] 31 to 50
- [ 0.75%] 51 to 100
- [ 0.75%] More than 100

24. Overall, how would you rate the value of the TBPC HUB program to your business's success in obtaining state purchasing contracts and subcontracts?

- [10.72%] Excellent
- [22.46%] Good
- [38.77%] Neutral or no opinion
- [ 5.70%] Satisfactory
- [22.35%] Poor

25. Please provide any comments you may have regarding the TBPC HUB program, the usefulness of the assistance provided by the TBPC HUB program, and how the TBPC HUB program can further assist your business with procuring state contracts.

## Survey Sent to State Agencies and Higher Education Institutions

The State Auditor's Office sent the following survey to 174 state agencies and higher education institutions and received 172 responses.

TBPC = Texas Building and Procurement Commission

HUB = Historically Underutilized Business

1. How would you rate TBPC's assistance in helping your entity establish a policy for increasing the use of HUBs?  
[ 6.47% ] Excellent  
[25.88% ] Good  
[45.88% ] Neutral or no opinion  
[14.71% ] Satisfactory  
[ 7.06% ] Poor
2. How would you rate TBPC's assistance in helping your entity find HUBs capable of supplying goods and services to your entity?  
[15.88% ] Excellent  
[38.82% ] Good  
[24.71% ] Neutral or no opinion  
[16.47% ] Satisfactory  
[ 4.12% ] Poor
3. How would you rate TBPC's assistance in identifying and advising HUBs of your entity's needs for goods and services?  
[ 8.24% ] Excellent  
[20.59% ] Good  
[46.47% ] Neutral or no opinion  
[15.29% ] Satisfactory  
[ 9.41% ] Poor
4. How would you rate TBPC's assistance in increasing the amount of business your entity places with certified HUBs?  
[ 5.29% ] Excellent  
[28.24% ] Good  
[42.94% ] Neutral or no opinion  
[12.35% ] Satisfactory  
[11.18% ] Poor

5. How would you rate TBPC's assistance in helping your entity comply with HUB subcontracting requirements?
  - [13.53%] Excellent
  - [28.24%] Good
  - [32.94%] Neutral or no opinion
  - [15.88%] Satisfactory
  - [ 9.41%] Poor
  
6. Has your entity received assistance from the TBPC in developing a written plan (for inclusion in your entity's strategic plan) for increasing its use of HUBs?
  - [ 8.77%] Yes
  - [10.53%] No
  - [80.70%] Have never requested this type of assistance from the TBPC
  
7. How would you rate the assistance provided by TBPC in helping your entity meet HUB reporting requirements?
  - [20.71%] Excellent
  - [32.54%] Good
  - [23.67%] Neutral or no opinion
  - [19.53%] Satisfactory
  - [ 4.14%] Poor
  
8. Does your entity use the TBPC HUB Directory to find HUBs capable of supplying your entity with goods and services?
  - [94.12%] Yes
  - [ 3.53%] No
  - [ 2.35%] Do not know about the HUB Directory
  
9. If the answer to Question 8 was "Yes," how does your entity access the TBPC HUB Directory? (select all that apply)
  - [ 7.47% - Yes, 92.53% - No] Electronic copy provided by TBPC
  - [ 1.72% - Yes, 98.28% - No] Hard copy provided by TBPC
  - [89.08% - Yes, 10.92% - No] TBPC Web site
  - [ ] Other, please specify: Three references to the centralized master bidders list (CMBL)
  
10. If the answer to Question 8 was "Yes," does your entity find the TBPC HUB Directory easily accessible?
  - [96.88%] Yes
  - [ 3.12%] No

11. If the answer to Question 8 was “Yes,” is the information found in the TBPC HUB Directory complete and accurate?  
 [80.63%] Yes  
 [19.37%] No
12. Does your entity participate in the TBPC HUB Mentor-Protégé Program?  
 [51.18%] Yes  
 [44.12%] No  
 [ 4.70%] Do not know about the TBPC HUB Mentor-Protégé Program
13. If the answer to Question 12 was “Yes,” how would you rate TBPC’s assistance with the Mentor-Protégé Program?  
 [ 9.20%] Excellent  
 [27.59%] Good  
 [31.03%] Neutral or no opinion  
 [16.09%] Satisfactory  
 [16.09%] Poor
14. If the answer to Question 12 was “Yes,” has the TBPC provided or made available to your entity all registered Mentor Protégé Agreements?  
 [66.67%] Yes  
 [ 1.15%] No  
 [32.18%] Not applicable – Never have requested the agreements
15. Has your entity hosted a HUB Program Forum in the past two years?  
 [54.71%] Yes  
 [45.29%] No
16. If the answer to Question 15 was “Yes,” how did/does your entity advertise or promote HUB Program Forum(s) that it hosts? (select all that apply)  
 [21.26% - Yes, 78.74% - No] Trade publications  
 [35.06% - Yes, 64.94% - No] Agency Web site  
 [37.36% - Yes, 62.64% - No] TBPC Web site  
 [ ] Other, specify: Examples of other advertisement and promotion techniques include direct contacts, mailouts, newsletters, local media, chambers of commerce, and minority business organizations

17. If the answer to Question 15 was “Yes,” did your entity hold a HUB Program Forum cooperatively with another state entity?

[76.34%] Yes

[23.66%] No

18. Overall, how would you rate your entity’s experience with the HUB program?

[15.88%] Excellent

[48.82%] Good

[14.12%] Neutral or no opinion

[17.06%] Satisfactory

[ 4.12%] Poor

19. Overall, how would you rate the assistance provided by TBPC regarding the HUB program?

[10.59%] Excellent

[47.65%] Good

[17.06%] Neutral or no opinion

[16.47%] Satisfactory

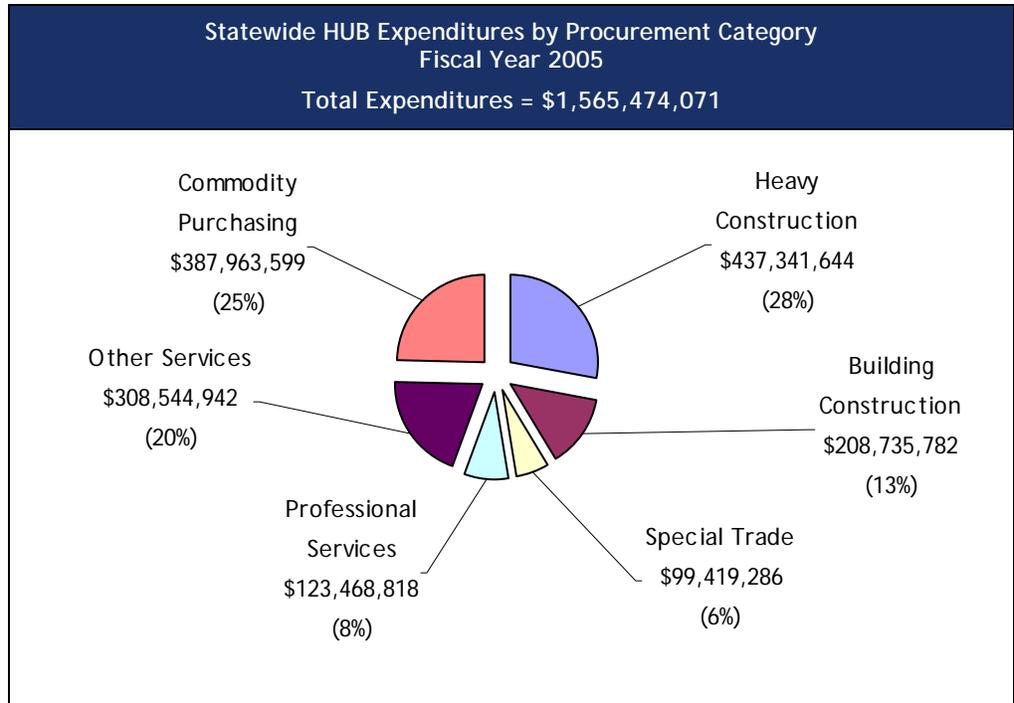
[ 8.23%] Poor

20. Please provide any comments you may have regarding the HUB program, the usefulness of the assistance provided by the TBPC HUB program staff, and how TBPC can further assist your entity with complying with the HUB program requirements and/or increasing the amount of business awarded to HUBs.

## Statewide HUB Information

Figure 1 presents information on statewide HUB expenditures by procurement category that the Texas Building and Procurement Commission (Commission) included in its annual HUB report for fiscal year 2005. The State Auditor's Office did not audit the accuracy of this information.

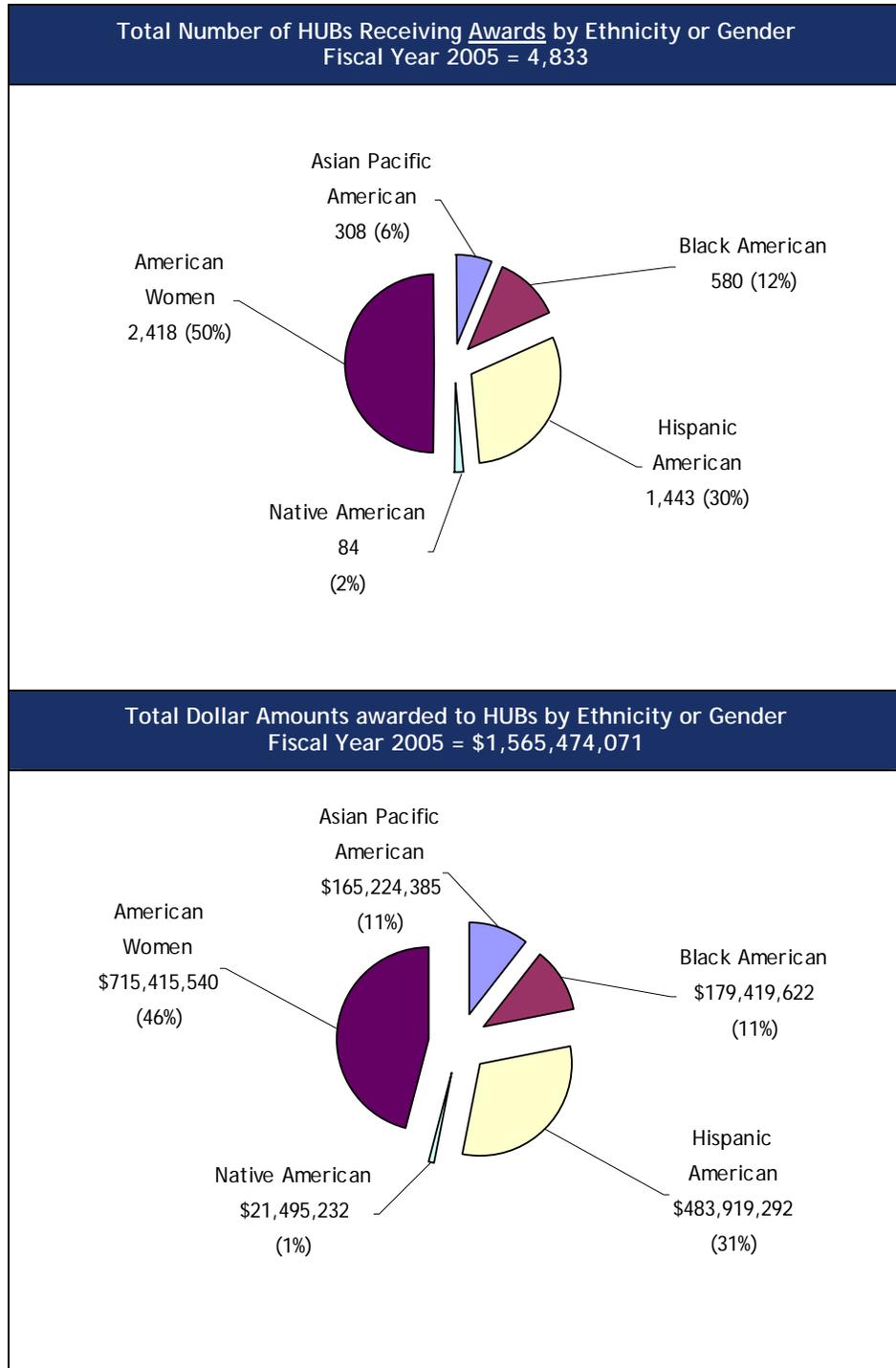
Figure 1



Source: The Commission's annual HUB report for fiscal year 2005.

Figure 2 presents statewide HUB awards and total dollar amounts awarded to HUBs by ethnicity or gender from the Commission's annual HUB report for fiscal year 2005. The State Auditor's Office did not audit the accuracy of this information.

Figure 2



Source: The Commission's annual HUB report for fiscal year 2005.

Table 1 presents information on statewide expenditures and HUB expenditures and the total number of HUBs. The Commission included this information in its annual HUB report for fiscal year 2005. The State Auditor's Office did not audit the accuracy of this information.

Table 1

Statewide Total Expenditures and HUB Expenditures Fiscal years 2003 through 2005					
Fiscal Year	Total Expenditures Statewide	Total HUB Expenditures	Percent of Expenditures to HUBs	Number of Certified HUBs	Number of HUBs That Received Awards
2005	\$11,275,596,658	\$1,565,474,071	13.88%	15,051	4,833
2004	\$9,860,536,256	\$1,434,177,099	14.54%	13,032	4,418
2003	\$9,013,971,755	\$1,174,918,905	13.03%	11,310	4,009

Source: The Commission's annual HUB report for fiscal year 2005. The State Auditor's Office did not audit the accuracy of this information.

Table 2 presents information on the 10 Texas counties with the highest number of HUBs as of fiscal year 2005.

Table 2

Ten Texas Counties with the Highest Number of HUBs As of Fiscal Year 2005 <sup>a</sup>	
County	Number of HUBs
Harris	3,377
Dallas	1,860
Travis	1,594
Bexar	922
Tarrant	764
El Paso	440
Fort Bend	349
Collin	345
Williamson	292
Hidalgo	257
<b>Total for Counties</b>	<b>10,200</b>

<sup>a</sup> As of fiscal year 2005, there were 13,626 HUBs, 74.86 percent of which were located in these counties.

Source: The Commission's HUB database. The State Auditor's Office did not audit the accuracy of this information.

Table 3 presents information on the 25 HUBs paid the highest amounts in fiscal year 2005.

Table 3

Twenty-five HUBs Paid the Highest Amounts in Fiscal Year 2005 <sup>a</sup>			
HUB	City	Ethnicity/Gender	Total State Payments to HUB
Summus Industries Inc.	Sugar Land	Black	\$ 54,554,893.14
SHI Government Solutions, Inc.	Austin	Asian Pacific	33,398,738.62
Texas Electronic Information & Computer	Houston	Asian Pacific	25,063,113.68
Alpha Building Corporation	San Antonio	Woman-Owned	22,541,953.55
Austin Ribbon & Computer Supplies, Inc.	Austin	Woman-Owned	21,353,803.46
D'ambra Steel Service Inc.	Houston	Woman-Owned	20,710,917.22
Breda Company, Inc.	Houston	Hispanic	19,202,220.74
Burgoon Company	Galveston	Woman-Owned	17,141,560.58
The Ward Group	Dallas	Woman-Owned	16,758,063.89
Sherry Matthews Inc.	Austin	Woman-Owned	14,144,435.78
Star Operations Inc	Corpus Christi	Woman-Owned	13,350,046.25
Striping Technology, L.P.	Tyler	Woman-Owned	12,874,051.87
Tricon Precast, Ltd.	Houston	Hispanic	11,686,941.37
Silva Contracting Co	Richmond	Hispanic	11,348,550.80
Silva Inc	Richmond	Hispanic	11,331,630.54
Carleton Construction, LTD	Dallas	Black	10,915,113.10
Ant Enterprises, Inc	Humble	Hispanic	10,884,720.00
Rodbusters, Inc.	Irving	Hispanic	10,715,058.25
J&M Contracting Company, Inc.	Huntsville	Black	9,438,841.32
OFIS By Powell	Houston	Woman-Owned	9,430,631.70
HBI Office Solutions Inc.	Huntsville	Woman-Owned	9,089,921.46
E-Z Bel Construction	San Antonio	Hispanic	8,740,425.82
Pinto Construction Company, Inc.	Nacogdoches	Woman-Owned	8,454,379.79
Gold Star Petroleum	Spring	Hispanic	8,450,667.07
Aaron Concrete Contractors, L.P.	Austin	Hispanic	8,285,922.71
<b>Total</b>			<b>\$399,866,602.71</b>
<sup>a</sup> Payments to all HUBs totaled \$1,565,474,071 in fiscal year 2005; 25.54 percent of those payments were made to these 25 HUBs.			

Source: Data provided by the Commission. The State Auditor's Office did not audit the accuracy of this information.

## Management's Responses



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### Texas Building and Procurement Commission

August 21, 2006

Nicole Guerrero  
Audit Manager  
State Auditor's Office

Dear Mrs. Guerrero,

TBPC appreciates the courtesy and professionalism showed by SAO staff in conducting the audit of the HUB program. Below please find the TBPC management's response to the issues noted in your audit report.

### Management's Response

#### Overall Conclusion

[Management Response]:

TBPC appreciates the diligent work performed by the State Auditor's Office, and is reassured by the relatively narrow scope of the findings when compared to the broad scope of the study. It can be inferred by what is not mentioned in the findings that the vast majority of HUB program activities are in compliance with statutory requirements. In particular, the SAO audit covered 4,990 HUB certifications yet did not report an instance of an incorrect HUB determination.

TBPC believes the audit findings could be strengthened by some improvements to the audit methodology. In some cases, the findings should be considered in their proper context given the limited scope of the surveying and sampling techniques employed by SAO.

**Chapter 1 The certified HUBs, state agencies and higher educations institutions surveyed reported overall satisfaction with the HUB program, but they suggested certain opportunities for improvement.**

**Section 1- A Most HUBs that responded to our survey are satisfied with the HUB program, but the Commission should improve assistance regarding state procurement procedures and the availability of state contracts.**

[Management Response]:

TBPC Management and the Statewide HUB Program generally agree with SAO's recommendations. The survey results provided are considered to be a valuable tool to assist TBPC in implementing SAO's recommendations.

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SAO found that fifty percent of HUBs participate in or are aware of the HUB directory, CMBL, Mentor-Protégé Program, and program forums. TBPC believes that this level of awareness is a strong foundation from which we will strive to achieve even higher levels.

TBPC increased outreach event attendance by 75% from 53 events in FY 05 to approximately 93 events in FY 06. The Statewide HUB Program ensured event attendance consisted of not only mere exhibitor booth presence but negotiated with event organizers to include one-on-one vendor meetings and/or captive audience presentations. A segment of the onsite audit is dedicated to training and educating the HUB on how to access information regarding available state contract opportunities and information on procurement procedures. The Statewide HUB Program increased the number of onsite audits performed during FY 06 by approximately 41% from 566 in FY05 to approximately 800 performed in FY06. To improve one-on-one interface with vendors, further training was provided to Statewide HUB certification compliance staff on procurement practices, CMBL/ESBD database usage, HB 1516, HUB Reporting and customer service.

Statewide HUB Program outreach presentations include detailed information on procurement procedures and how to access available state contract opportunities. Presentations include information on how to market businesses to state agencies using the Centralized Master Bidders List (CMBL). Also, there are presentations that explain how to search for statewide bid opportunities using the Electronic State Business Daily (ESBD), Catalog Information Systems Vendor (CISV), state term contracts, TXMAS, Mentor-Protégé program, and the HUB Subcontracting Plan (HSP). These presentations also include information on how to identify subcontracting opportunities, identify networking opportunities using TBPC's calendar of events, and to identify opportunities and target agencies by using the HUB report.

All certified and recertified HUBs receive an orientation package containing information on CMBL registration, how to access available state contract opportunities, information on the CISV program, information on the availability of a Mentor-Protégé Program, HUB Subcontracting Plan, Key contacts, identifying opportunities using the HUB Report, the calendar of events and other HUB resources. TBPC's contact information is also provided to all HUBs, and TBPC has staff resources constantly dedicated and available to answer calls, emails or letters, should a HUB wish to ask for information or assistance.

Survey results will be utilized to determine improvements in outreach and education efforts.

**Section 1-B Most State agencies and higher education institutions that responded to our survey are satisfied with the HUB Program and the assistance the commission provides.**

[Management Response]:

TBPC will utilize the survey results to determine the outreach and education efforts necessary to assist state agencies and institutions of higher education.

The Statewide HUB Program has focused on improving communication and relations with state agencies and institutions of higher education. In FY 06 TBPC worked closely with state agencies and institutions of higher education in providing training, guidance and updates. The Statewide HUB Program collaborates on an ongoing basis with agencies regarding specific needs such as training, policy making and guidance. TBPC meets consistently with groups such as The Texas Universities HUB Coordinators Alliance, HUB Discussion Work Group and others to provide updates, guidance and assistance.

**Chapter 2 The Commission's monitoring and certification processes should ensure that only qualified businesses receive HUB certification.**

**Section 2-A The Commission should monitor third party entities that determine HUB eligibility to ensure that these entities' meet and maintain the commission's certification standards.**

[Management Response]:

TBPC agrees with SAO's recommendation to regularly monitor third-party entities' processes to ensure that they meet HUB certification standards and to consider auditing HUBs certified by third-party entities. TBPC enters into agreements with local governments or nonprofit certification programs that certify

historically underutilized businesses, minority business enterprises, women's business enterprises or disadvantaged business enterprises. The SAO findings that some businesses certified by third parties did not have the required documentation in their file to become certified by the State date back to 2004. Beginning in FY 2006, new management at TBPC began reviewing every single file from third party entities and only certifying those that meet the State's criteria and provide the supporting documentation. Monitoring will ensure the parties maintain standards set forth in the agreements. TBPC is also systematically reviewing older files.

**Section 2-B The Commission should ensure that only qualified HUBs receive certification**

[Management Response]:

TBPC agrees with SAO's recommendation that only qualified HUBs receive certification, and the extent to which our record keeping can not substantiate this is unacceptable to management. TBPC agrees with the finding that 7 of the 71 files tested during the audit lacked certain documentation and we have made changes to address our lack of file-management processes. In January 2006, TBPC management implemented a new agency-wide records management program consisting of new filing and records-retention processes at the program level and training specifically for HUB program staff.

TBPC agrees with SAO's recommendation to include third-party certified HUBs in the current audit process.

Audit schedules are reviewed by the supervisor to ensure that the schedules encompass high-risk businesses and that resources and time are being maximized. TBPC will consider performing additional reviews and approvals. TBPC increased the number of onsite audits performed during FY 06 approximately 41% from 566 in FY05 to almost 800 performed in FY06.

**Chapter 3 The Commission should improve its reporting of statewide HUB information**

**Section 3-A The Commission should report only the number of unique certified HUBs in its annual report.**

[Management Response]:

In a proactive effort to prevent identity theft, TBPC required vendors to begin using Federal Employers Identification (EIN) numbers and refrain from using personal Social Security Numbers for CMBL registration and HUB certification. CMBL registrants and HUB applicants were asked to obtain and utilize EIN numbers. This initiative was an ongoing process that began in FY04, and ended in FY 05. To ensure TBPC accurately captured agency HUB expenditures during this transition period, both EIN and Social Security numbers were maintained in the database causing the over-reporting of the number of certified HUBs for that period only. This is an unacceptable mistake on the part of TBPC. TBPC agrees with SAO's recommendations to report only the number of unique certified HUBs to ensure information is reliable. Future HUB reporting will accurately reflect the number of HUBs certified.

**Section 3-B The Commission relies on self-reported data about HUB expenditures for its semi-annual and annual HUB reports.**

[Management Response]:

TBPC agrees with SAO's recommendation to clearly state that the information in its semi-annual and annual HUB report is self-reported by the agencies and higher education institutions and not verified by the TBPC. TBPC will alert the agencies and institutions that the audit findings strongly suggest a pervasive failure to provide supporting documentation for expenditures with non-treasury funds.

**Technical Observations**

Potential Survey Bias

The group of HUBs surveyed had control over whether or not to participate. Potential respondents chose to complete or disregard the mail-in survey. HUBs with stronger opinions (or other traits not common to the HUB population as a whole) could have been more willing to respond. In the fields of statistics and social sciences this phenomenon is called self-selection bias. Self-selection bias is possible whenever the group of people being studied has any form of control over whether to participate. Participants' decision to participate may be correlated with traits that affect the study, making the participants a non-representative sample. For example, people with strong opinions or substantial knowledge may be more willing to spend time answering a survey than those who don't.

SAO mailed 11,613 surveys to certified HUBs. Only about eight percent of those surveyed completed and returned the survey. Responses indicated that only 44 percent of the HUBs surveyed rated the assistance the Commission provides regarding state procurement procedures as either satisfactory, or better than satisfactory. This result may simply be an outcome of self-selection bias.

#### Sample Size

SAO sampled HUB certification determinations made by both third-party entities and also by the TBPC HUB office. In both cases, the sample proportions indicating a percentage of certifications lacking adequate supporting documentation were cited by SAO without the corresponding margin of error which usually accompanies such sample statistics.

The margin of error is a range over and above the observed percentage within which the true value might be, reported with a certain level of confidence. For example, in the case of the sample of determinations by third-party entities, 70 of the 1,509 HUBs were included. It was observed that 19% lacked adequate supporting documentation. However, it can not be concluded that this is representative of all third-party entity files because the margin of error for this sample is over 9% at a 95% confidence level<sup>1</sup>. Accordingly, it can be assumed with 95% confidence that the true percentage lacking documentation could be as low as 10%. The margin of error for the sample of HUBs certified by the TBPC HUB Office is 7%. So, with 95% confidence the true percentage could be as low as 3% of determinations lacking in supporting documentation.

TBPC believes it should be clarified that there is no finding that these businesses are not actually eligible for their HUB certification. Rather, there is merely a finding that TBPC's file did not have the appropriate documentation. Nonetheless, TBPC agrees with SAO, and has taken action to avoid this since September 2005.

#### End Notes:

<sup>1</sup> The formula for margin of error is as follows:

$$M.E. = z * \sqrt{\frac{p(1-p)}{n-1}} * \sqrt{1 - \frac{n}{N}}$$

Where:

- z is the value from the standard normal distribution corresponding with the desired level of confidence (z is equal to 1.96 for a 95% level of confidence).
- p is the sample population proportion (the observed percentage value from the sample).
- n is the sample size. And,
- N is the population size.



Edward L. Johnson  
Executive Director  
Texas Building and Procurement Commission

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The Honorable Tom Craddick, Speaker of the House, Joint Chair  
The Honorable Steve Ogden, Senate Finance Committee  
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The Honorable Jim Pitts, House Appropriations Committee  
The Honorable Jim Keffer, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Texas Building and Procurement Commission**

Members of the Texas Building and Procurement Commission  
Mr. Edward L. Johnson, Executive Director



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