



An Audit Report on

**The University of Texas Southwestern
Medical Center's Compliance with
Requirements Related to the
Historically Underutilized Business and
State Use Programs**

April 2018

Report No. 18-026



An Audit Report on

The University of Texas Southwestern Medical Center's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs

SAO Report No. 18-026
April 2018

Overall Conclusion

Compliance with Historically Underutilized Business (HUB) Program Requirements

The University of Texas Southwestern Medical Center (Medical Center) 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 2017 the **Medical Center's processes for reporting HUB program data** had the following weaknesses:

- The Medical Center did not report required supplemental information on the total number of HUB bids/proposals received and the total number of competitive and non-competitive contracts awarded to the **Comptroller's Office during fiscal year 2017** as Texas Government Code, Section 2161.122(c), requires.
- The Medical Center did not have effective processes to help ensure that all of its prime contractors reported their payments to all of their subcontractors on a monthly basis as Title 34, Texas Administrative Code, Section 20.287(b), requires. Monitoring those payments is necessary for the Medical Center **to monitor prime contractors' compliance** with their HUB subcontracting plans as Texas Government Code, Section 2161.253 (c), requires.

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 2017, the Office of the Comptroller of Public Accounts (**Comptroller's Office**) reported that, of the approximately \$20.3 billion that the State spent in procurement categories that were eligible for HUB participation, the State paid approximately \$2.4 billion (approximately 12 percent) to HUBs.

The State Use Program

Under the Purchasing from People with Disabilities (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 State Use Program was governed by the Texas Council on Purchasing from People with Disabilities through August 31, 2015. As of September 1, 2015, the oversight of the State Use Program was transferred to the Texas Workforce Commission. The State Use Program was created by Texas Human Resources Code, Chapter 122, and the **program's rules are defined in Title 40, Texas Administrative Code, Chapter 806.**

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

This audit was conducted in accordance with the General Appropriations Act (84th Legislature), Section 7.07, page IX-38; Texas Government Code, Section 2161.123; and Texas Human Resources Code, Section 122.029.

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

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

- Adopt HUB rules.
- Participate in HUB forums.
- Receive in-house marketing presentations from HUBs.
- Establish a mentor-protégé program.
- Designate a HUB Coordinator.

Compliance with State Use Program Requirements

The Medical Center is also subject to the requirements of the Purchasing from People with Disabilities (State Use) Program. The Medical Center did not make any purchases or report any exceptions from the State Use Program in fiscal year 2017.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

| Summary of Chapters/Subchapters and Related Issue Ratings | | |
|---|---|---------------------------|
| Chapter/ Subchapter | Title | Issue Rating ^a |
| 1-A | The Medical Center Did Not Report All Required HUB Program Information to the Comptroller's Office | High |
| 1-B | The Medical Center Did Not Have Effective Processes to Monitor Prime Contractors' Compliance with HUB Subcontracting Plans | High |
| 1-C | The Medical Center Had Effective Controls Over Automated Systems That Produced HUB Data | Low |
| 2-A | The Medical Center Complied with Two of the Three HUB Planning Requirements, But It Should Establish Entity-specific HUB Goals | Medium |
| 2-B | The Medical Center Complied with HUB Outreach Requirements | Low |
| 2-C | The Medical Center Should Implement Consistent HUB Contracting Policies and Procedures and Improve Its Contract and Subcontract Documentation | Medium |
| 3 | The Medical Center Did Not Make Any Purchases or Report Exceptions from the State Use Program | Low |
| <p>^a A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> | | |

| Summary of Chapters/Subchapters and Related Issue Ratings | | |
|--|-------|---------------------------|
| Chapter/ Subchapter | Title | Issue Rating ^a |
| <p>A subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p> | | |

Auditors communicated other, **less significant issues to the Medical Center'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. The Medical Center agreed with the recommendations in this report.

Audit Objectives and Scope

The objectives of this audit were to determine whether the Medical Center:

- Complied with statutory requirements and rules that **the Comptroller's Office** established to implement HUB Program requirements.
- Reported **complete and accurate data to the Comptroller's Office.**
- Complied with requirements related to the State Use Program.

The scope of this audit covered the Medical Center's **HUB activities for fiscal year 2017** and State Use Program activities for fiscal year 2017. Auditors selected the Medical Center for audit based on a risk assessment and audited for compliance with:

- HUB Program requirements for planning, outreach, subcontracting, and reporting defined in Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20.
- State Use Program requirements defined in Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 806.

Contents

Detailed Results

| | |
|---|----|
| Chapter 1 | |
| The Medical Center Should Strengthen Its Processes for Reporting HUB Program Data | 1 |
| Chapter 2 | |
| The Medical Center Complied with Most HUB Planning, Outreach, and Contracting Requirements | 9 |
| Chapter 3 | |
| The Medical Center Did Not Make Any Purchases or Report Exceptions from the State Use Program | 15 |

Appendices

| | |
|--|-----------|
| Appendix 1 | |
| Objectives, Scope, and Methodology | 16 |
| Appendix 2 | |
| Issue Rating Classifications and Descriptions | 20 |
| Appendix 3 | |
| The Medical Center’s Fiscal Year 2017 HUB Goals and Performance | 21 |
| Appendix 4 | |
| Related State Auditor’s Office Work | 22 |

Detailed Results

Chapter 1

The Medical Center Should Strengthen Its Processes for Reporting HUB Program Data

The University of Texas Southwestern Medical Center (Medical Center) did not report all required Historically Underutilized Business (HUB) Program information for fiscal year 2017 to the Office of the Comptroller of Public Accounts (Comptroller's Office). In addition, the Medical Center did not have effective processes to monitor prime contractors' compliance with HUB subcontracting plans. However, the Medical Center implemented effective controls over automated systems that produced HUB data.

Chapter 1-A

The Medical Center Did Not Report All Required HUB Program Information to the Comptroller's Office

The Medical Center did not report all required information for its HUB Program in its *Fiscal 2017 Annual Report for the Statewide Historically Underutilized Business (HUB) Program* submitted to the Comptroller's Office. Specifically, the Medical Center did not report required supplemental information on the total number of HUB bids/proposals received and the total number of competitive and non-competitive contracts awarded during fiscal year 2017, as required by Texas Government Code, Section 2161.122(c). Medical Center management asserted that the Medical Center did not have a centralized mechanism to track that information.

Additionally, there were weaknesses in the Medical Center's processes for reporting its fiscal year 2017 HUB expenditures in its annual report to the Comptroller's Office. Auditors identified a net error amount of \$27.0 million (3.2 percent) that was not included or supported in the \$845.0 million in HUB-eligible² expenditures the Medical Center reported.

Chapter 1-A
Rating:
High¹

Fiscal Year 2017 HUB Expenditures

The Medical Center reported the following amounts to the Comptroller's Office for inclusion in the *Fiscal 2017 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*:

- HUB-eligible expenditures - \$845.0 million.
- Expenditures with HUBs - \$71.8 million (8.49 percent).
- Expenditures with HUB subcontractors - \$6.3 million (those expenditures are part of the expenditures with HUBs).

Source: *Fiscal 2017 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*.

¹ The risks related to the issues discussed in Chapter 1-A were rated as High because they present risks or results that if not addressed could substantially affect the audited entity's ability to effectively administer the program audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

² HUB-eligible expenditures are payments in the six procurement categories, which are listed in Appendix 3. The Comptroller's Office requires state entities to report their expenditures in those categories.

The errors that auditors identified³ included the following:

- The Medical Center reported \$6.3 million in payments to HUB subcontractors. However, because it did not have processes to ensure that data was complete or accurate, \$1.7 million (27.0 percent) of that amount was either unsupported by accounting records, understated, or reported in the wrong fiscal year, as discussed further in Chapter 1-B.
- The Medical Center did not report \$29.3 million of its fiscal year 2017 HUB-eligible expenditures.
- The automated program that the Medical Center used to translate accounting data to the required format did not convert \$9.4 million of expenditures. Of those expenditures, \$1.3 million were HUB-eligible expenditures that the Medical Center should have reported.

Recommendations

The Medical Center should:

- Track and report the total number of HUB bids/proposals received and total number of competitive and non-competitive contracts awarded.
- Correct its automated program for translating its accounting data to the required format, and test its solution to ensure that the translation is complete and accurate.
- Create supporting schedules that document its creation of required HUB data, and review those schedules for accuracy and completeness.

Management's Response

UTSW makes every effort to submit accurate and complete information. The noted issues are primarily due to the Medical Center's integration of Supply Chain infrastructure and related system upgrades, both of which were in process during this review. Discrepancies found in reporting expenditures were due to the Medical Center's methodology used. UTSW utilized a different method to exclude payments from vendors. We excluded payments at the vendor level systematically within our accounting system instead of utilizing the Object Code for exclusions. Going forward, we will update the

³ Texas Government Code, Section 2161.122(c)(1), requires state entities to report the total dollar amount of purchases they make from HUBs. Title 34, Texas Administrative Code, Section 20.287(a), requires state entities to report their payments for the purchase of goods and services paid from non-Treasury funds to the Comptroller's Office.

process to report using the Object Code for exclusions instead of utilizing the vendor exclusion process.

In FY2016, Supply Chain Management (SCM) launched Vision 20/20, a five-year strategic plan to create an integrated Supply Chain infrastructure utilizing market leading technologies, performance metrics, optimized processes, and strategic partnerships with a goal to save \$20M by 2020. The SCM team has accomplished several strategic elements of the Vision 20/20 strategy, including infrastructure alignment and consolidation of disparate academic, research, facilities management, and hospital procurement under one function. The reorganization aligns buyers with specific departments, which improves the overall control environment, quality client services, and procurement cycle time. Key metric and savings dashboards were also implemented in the current fiscal year. Implementation of a new eProcurement platform is in process, replacing other tools currently in use, and includes modules to integrate and improve requisition, sourcing, contracting, and procurement processes. The last module to be implemented is Requisition Manager, which will go live in FY2019. This module provides a requisition and ordering system for all forms of procurement, including contracts.

Additionally, with the recent status changes regarding the HUB Coordinator role, we are consolidating responsibilities of the HUB department into SCM. This will allow for greater collaboration of the HUB program with Procurement and Contracting, streamline processes and procedures, and centralize all spend reporting functions.

- 1. UTSW will implement a process for tracking and reporting the total number of HUB bids/proposals and total number of competitive and non-competitive contracts awarded. We will utilize the new procurement/sourcing system to track and report this information in an automated manner.*
- 2. A workgroup has been organized to review the data inputs to the HUB report and ensure State Object Codes are updated in the system as needed. Vendor and Object Code exclusions will be routinely reviewed and updated.*
- 3. The HUB team will develop standard operating procedures (SOPs) for semi-annual and annual reporting to include the creation of supporting schedules to document source and analysis performed to ensure accuracy and completeness.*

Action Plan Owners:

HUB Coordinator/ AVP Supply Chain

Manager, Supplier Diversity / HUB

Assistant Vice President, Facilities Planning and Construction

Assistant Vice President IR Operations / Compliance

Assistant Vice President Accounting & Fiscal Services

Target Completion Dates:

1. *June 30, 2018*
2. *Completed*
3. *June 30, 2018*

Chapter 1-B

The Medical Center Did Not Have Effective Processes to Monitor
Prime Contractors' Compliance with HUB Subcontracting Plans

Chapter 1-B
Rating:
High⁴

The Medical Center did not have effective processes to help ensure that prime contractors reported their payments to all of their subcontractors on a monthly basis, as Title 34, Texas Administrative Code, Section 20.287(b) requires. Monitoring those payments is necessary for the Medical Center to monitor prime contractors' compliance with their HUB subcontracting plans, as required by Texas Government Code, Section 2161.253(c). Incomplete subcontractor data was part of the significant inaccuracies in the Medical Center's reported \$6.3 million in subcontractor expenditures discussed in Chapter 1-A.

The Medical Center did not enter accurate or complete data from prime contractors' monthly HUB *Progress Assessment Reports* (monitoring reports) into the Medical Center's accounting system because it did not ensure that the department responsible for entering that data—its Office of Diversity and Inclusion and Equal Opportunity (HUB Office)—received all finalized HUB subcontracting plans. Without those plans, the HUB Office could not create a master list of subcontractors against which it could compare the monitoring reports it received to verify that it received all monitoring reports.

⁴ The risks related to the issues discussed in Chapter 1-B are rated as High because they present risks or results that if not addressed could substantially affect the audited entity's ability to effectively administer the program audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

HUB Office personnel entered payment data from the monitoring reports it received into the subcontracting module of the Medical Center's accounting system and then filed the monitoring reports by fiscal year. The HUB Office had 253 monitoring reports in its fiscal year 2017 files. Of those:

- Sixty-three supported fiscal year 2017 payments.
- The Medical Center did not report another 22 fiscal year 2017 monitoring reports that were in its fiscal year 2018 files.
- Fourteen were for fiscal year 2016 payments that the Medical Center incorrectly reported as fiscal year 2017 payments.

The remaining monitoring reports did not include reportable data because they either documented only payments to non-HUB subcontractors or were duplicates of other monitoring reports.

The Medical Center also provided auditors with four additional monitoring reports that had been located in a different part of the Medical Center and documentation that one of the Medical Center's contractors prepared in January 2018 to support the reported subcontractor expenditures.

Auditors identified additional weaknesses or inaccuracies in the Medical Center's data. Specifically, the Medical Center:

- Incorrectly included \$958,773 (15.2 percent⁵) in duplicate expenditures.
- Had no corresponding documentation or monitoring reports to support \$367,231 (5.8 percent⁵) in fiscal year 2017 expenditures.
- Incorrectly included \$982,417 (15.6 percent⁵) in fiscal year 2016 expenditures in fiscal year 2017 expenditures.
- Incorrectly reported \$270,745 (4.3 percent⁵) in subcontractor payments when it should have reported \$0.
- Did not report \$630,506 in fiscal year 2017 expenditures because it did not input the data for those expenditures into the accounting system for fiscal year 2017.
- Incorrectly reported contract expenditures as \$55,871 when it should have reported \$329,632 in contract expenditures.

⁵ This is the percentage of reported subcontractor expenditures.

The issues discussed above resulted in \$1.7 million (27.0 percent) of the reported \$6.3 million in subcontractor payments being either incorrectly included, understated, or unsupported by monitoring reports.

Recommendations

The Medical Center should:

- Monitor prime contractors' payments to their subcontractors to help ensure prime contractors' compliance with their HUB subcontracting plans.
- Accurately record payments from prime contractors to HUB subcontractors into its accounting system.
- Create a list of all subcontracting commitments from HUB subcontracting plans.
- Ensure that each prime contractor submits accurate monthly monitoring reports.

Management's Response

The noted issues are primarily due to the Medical Center's integration of Supply Chain infrastructure and related system upgrades, both of which were in process during this review.

In FY2016, SCM launched Vision 20/20, a five-year strategic plan to create an integrated Supply Chain Management infrastructure. To date, the SCM team has accomplished several strategic elements of the Vision 20/20 strategy, including consolidation of all procurement activity under one function. Requisition Manager, which provides a requisition and ordering system for all forms of procurement, including contracts, will be implemented in FY2019.

Additionally, we are consolidating responsibilities of the HUB Coordinator position and HUB department into the SCM team, which will allow for greater collaboration of the HUB program with Procurement and Contracting, streamline processes and procedures, and centralize all spend reporting functions.

1. *The HUB team, in conjunction with the Sourcing and Contract Management teams will develop SOPs to include improved tracking of active HSPs/PARs so that timely monitoring can be in place.*

2. *The HUB team has updated HUB subcontractor tracking procedures to include all active HSPs to aid in tracking monthly reporting of subcontractor plans. SOPs will be updated to include monthly entry of subcontractor reported amounts and comparison to subcontractor PARs for accuracy and completeness of amounts entered.*
3. *As noted in the previous action item (#2), the HUB team has updated the HUB subcontractor tracking procedures to include all active HSPs to aid in tracking and monitoring of subcontractor reports.*
4. *The HUB team will include in the SOPs, routine audits of prime contractor reports to monitor the accuracy of the monthly reports submitted.*

Action Plan Owners:

HUB Coordinator/AVP Supply Chain

Manager, Supplier Diversity / HUB

Director, Contracts Management

Target Completion Dates:

1. *June 30, 2018*
2. *June 30, 2018*
3. *June 30, 2018*
4. *June 30, 2018*

The Medical Center Had Effective Controls Over Automated Systems That Produced HUB Data

Chapter 1-C
Rating:

Low⁶

To ensure that it had effective controls over the automated systems that produced HUB data, the Medical Center appropriately restricted access to its contract and accounting systems and related hardware to authorized individuals. Individuals' access to those systems and hardware was consistent with their job duties.

In addition, the Medical Center's accounting system processed purchasing authorization documents in a manner that ensured that the Medical Center had proper authorization for purchases.

Medical Center management also:

- Generally ensured that only appropriate individuals were able to approve purchasing authorization documents.
- Ensured that the Medical Center appropriately documented, authorized, and tested changes to its accounting system.
- Limited access to update programs in the production environment to appropriate individuals.

⁶ 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 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 audited.

The Medical Center Complied with Most HUB Planning, Outreach, and Contracting Requirements

During fiscal year 2017, the Medical Center had processes to ensure compliance with most HUB planning, outreach, and contracting requirements.

Chapter 2-A

The Medical Center Complied with Two of the Three HUB Planning Requirements, But It Should Establish Entity-specific HUB Goals

Chapter 2-A
Rating:
Medium ⁷

The Medical Center complied with two of the three HUB planning requirements during fiscal year 2017. Specifically, it:

- Adopted HUB rules required by Texas Government Code, Section 2161.123(d)(1).
- Created a HUB strategic plan that met all the requirements of Texas Government Code, Section 2161.123(b).

However, the Medical Center did not establish annual procurement utilization goals (HUB goals) that were specific to the Medical Center. Title 34, Texas Administrative Code, Section 20.284(c), requires state entities to set entity-specific HUB goals for each of six procurement categories and to base those goals on specific factors, including the availability of HUBs to the entity for each procurement category. The Medical Center adopted the statewide HUB goals as its entity-specific HUB goals without considering the required factors.

Recommendations

The Medical Center should:

- Identify the data it needs to set HUB goals and put adequate controls in place to help ensure that the data is accurate.
- Establish HUB goals for each HUB procurement category using the required factors.

⁷ The risks related to the issues discussed in Chapter 2-A are rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer the program audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Management's Response

UTSW has historically adopted the state wide HUB goals. With improved data reporting, we were able to determine more entity-specific goals for FY 2018.

In FY2016, SCM launched Vision 20/20, a five-year strategic plan to create an integrated Supply Chain Management infrastructure. To date, the SCM team has accomplished several strategic elements of the Vision 20/20 strategy, including consolidation of disparate procurement activity under one function. Requisition Manager, which provides a requisition and ordering system for all forms of procurement, including contracts, will be implemented in FY2019.

Additionally, we are consolidating responsibilities of the HUB Coordinator position and HUB department into SCM, which will allow for greater collaboration of the HUB program with Procurement and Contracting, streamline processes and procedures, and centralize all spend reporting functions.

The HUB Office, in coordination with SCM leadership, has documented the methodology for internal goal assessment to include procedures to compile, analyze, and develop annual review and monitoring of goal attainment. Review and approval of annual goals will be performed by Facilities Management, SCM, and the President's Council on Diversity and Inclusion.

Action Plan Owners:

HUB Coordinator/AVP Supply Chain

Manager, Supplier Diversity / HUB

Vice President Facilities Management

Assistant Vice President Budget and Resource Planning

Target Completion Dates:

Completed

Chapter 2-B

The Medical Center Complied with HUB Outreach Requirements

Chapter 2-B
Rating:
Low⁸

The Medical Center complied with all four HUB outreach requirements in fiscal year 2017. Specifically, it:

- Participated in HUB forums.
- Received in-house marketing presentations from HUBs.
- Established a mentor-protégé program.
- Substantially complied with the HUB coordinator requirements.

Chapter 2-C

The Medical Center Should Implement Consistent HUB Contracting Policies and Procedures and Improve Its Contract and Subcontract Documentation

Chapter 2-C
Rating:
Medium⁹

The Medical Center did not have consistent HUB contracting policies and procedures. It also did not consistently maintain documentation of its contracts and subcontracts. The Medical Center asserted that those issues occurred because it was updating and consolidating its procurement processes and reorganizing its procurement function.

Policies and Procedures. The Medical Center did not have consistent policies and procedures regarding its use of HUBs in contracts and subcontracts.

The Medical Center had differing HUB policies and procedures in multiple places. For example, all of the Medical Center's policies and procedures required a minimum of three bids for purchases between \$15,000 and \$50,000, but the Medical Center had differing requirements for obtaining bids from HUBs for those purchases. Specifically:

- The Medical Center's fiscal management policy for HUBs required solicitation of at least three vendors active on the Centralized Master Bidders List (CMBL).

⁸ The risks related to the issues discussed in Chapter 2-B are rated as Low because the audit identified strengths that support the audited entity's ability to administer the program 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 audited.

⁹ The risks related to the issues discussed in Chapter 2-C are rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

- The Medical Center's *Procurement & Contract Management Handbook* strongly encouraged obtaining two HUB price quotes.
- The Medical Center's procurement guidelines¹⁰ contained no requirement to contact HUBs.

Contract Documentation. The Medical Center was unable to provide sufficient supporting documentation to show the reasons it awarded 7 (21 percent) of 34 contracts sampled to non-HUB vendors.¹¹ Texas Government Code, Section 441.1855, requires state entities to retain all solicitation documents related to contracts.

During fiscal year 2017, the Medical Center implemented a new automated contracting system and began to upgrade its automated accounting system. As part of that effort, the Medical Center began storing more of its documents electronically in the contracting system. However, the Medical Center was not yet consistently storing complete contract documentation on its storage media.

Subcontract Documentation. The Medical Center was inconsistent in documenting its compliance with HUB subcontracting requirements. It complied with the requirement in Texas Government Code, Section 2161.252(a), to determine whether there were subcontracting opportunities for contracts with expected values exceeding \$100,000 by requiring bidders to submit HUB subcontracting plans with all such procurements. Of the 20 contracts exceeding \$100,000 that auditors tested, 18 (90 percent) had HUB subcontracting plans.

However, of those 20 contracts, auditors tested 6 contracts for which at least 1 of the subcontracts was with a HUB. Two (33.3 percent) of those 6 contracts did not include a HUB subcontracting plan as Texas Government Code, Section 2161.253(a), required.

¹⁰ The procurement guidelines allowed a single bid if the purchaser used certain group purchases or an exclusive acquisition justification.

¹¹ The Medical Center awarded 5 (15 percent) of those 34 contracts to HUBs.

Recommendations

The Medical Center should:

- Establish and implement consistent HUB contracting policies and procedures.
- Establish and implement documentation requirements that specify the proper location for specific solicitation and contract documents.
- Establish and implement monitoring tools, such as detailed checklists, to help ensure that it completes and stores all relevant HUB contract and subcontract documentation appropriately.

Management's Response

In FY2016, SCM launched Vision 20/20, a five-year strategic plan to create an integrated Supply Chain Management infrastructure. To date, the SCM team has accomplished several strategic elements of the Vision 20/20 strategy, including consolidation of disparate procurement activity under one function. Requisition Manager, which provides a requisition and ordering system for all forms of procurement, including contracts, will be implemented in FY2019.

Additionally, we are consolidating responsibilities of the HUB Coordinator position and HUB department into SCM, which will allow for greater collaboration of the HUB program with Procurement and Contracting, streamline processes and procedures, and centralize all spend reporting functions.

1. *UTSW established a HUB Workgroup to review inconsistencies in HUB contracting policies and procedures. In addition to changes already implemented, the workgroup will continue to establish and implement changes to existing processes and procedures to ensure compliance.*
2. *The Medical Center implemented a new sourcing module, which maintains correspondence and materials submitted from bidders in a central repository. The Sourcing team will be responsible for reviewing all solicitation materials maintained in this repository to ensure all documents required by the UTSW Procurement Manual are maintained.*
3. *The Sourcing and Contracts Management team has updated its checklist to ensure HUB contract and subcontractor documents are obtained and stored appropriately in the centralized contracting module.*

Action Plan Owners:

HUB Coordinator/AVP Supply Chain

Manager, Supplier Diversity / HUB

Director, Contracts Management

Target Completion Dates:

1. *June 30, 2018*
2. *May 31, 2018*
3. *Completed*

The Medical Center Did Not Make Any Purchases or Report Exceptions from the State Use Program

Chapter 3
Rating:
Low ¹²

The Medical Center did not make any purchases or report any exceptions from the State Use Program in fiscal year 2017. None of the Medical Center's purchases tested that were subject to the State Use Program were for items available through the State Use Program.

Only the Medical Center's state-appropriated funds are subject to the State Use Program. The Medical Center reported that, in fiscal year 2017, it received \$2,575.2 million in operating revenues. Additionally, it reported it received \$479.3 million of non-operating revenues in fiscal year 2017; \$188.2 million of that amount was state appropriations.

The Medical Center spent nearly all of its state-appropriated funds on salaries and salary-related expenses. The Medical Center spent \$1.0 million of its state appropriations in an area in which State Use Program goods and services are available: materials and supplies. Auditors tested a sample of 12 of those expenditures totaling \$107,931 and determined that all expenditures sampled were for specialty research items that were not available through the State Use Program.

¹² The risks related to the issues discussed in Chapter 3 are rated as Low because the audit identified strengths that support the audited entity's ability to administer the program 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 audited.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the University of Texas Southwestern Medical Center (Medical Center):

- Complied with statutory requirements and rules that the Office of the Comptroller of Public Accounts (Comptroller's Office) established to implement Historically Underutilized Business (HUB) Program requirements.
- Reported complete and accurate data to the Comptroller's Office.
- Complied with requirements related to the Purchasing from People with Disabilities Program (State Use) Program.

Scope

The scope of this audit covered the Medical Center's HUB activities and State Use Program activities for fiscal year 2017. Auditors selected the Medical Center for audit based on a risk assessment and audited for compliance with:

- HUB Program requirements for planning, outreach, subcontracting, and reporting defined in Texas Government Code, Chapter 2161, and Title 34, Texas Administrative Code, Chapter 20.
- State Use Program requirements defined in Texas Human Resources Code, Chapter 122, and Title 40, Texas Administrative Code, Chapter 806.

Methodology

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

Data Reliability and Completeness

Auditors used expenditure information from the Medical Center's PeopleSoft Financial Management Solutions (FMS) to verify the accuracy of the HUB data that the Medical Center reported to the Comptroller's Office.

Auditors performed general controls testing on FMS and determined that the expenditure data for prime contractors was sufficiently reliable for the purposes of this audit. However, auditors concluded that FMS subcontractor expenditure data was incomplete, inaccurate, and not sufficiently reliable for the purposes of this audit. The Medical Center's collection and input processes for that data differed from its collection and input processes for other FMS expenditure data.

The Medical Center's contract management system, Total Contract Manager (TCM), was a service cloud software suite hosted by an external vendor. The Medical Center used TCM to store contract information and documentation. Auditors tested Medical Center user access to TCM. Auditors also relied on an external auditor's *Type 2 Independent Service Auditor's Report on a Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls* reports for general controls evaluation of that system. The external auditor determined that general controls and controls over the vendor's data center for TCM were adequately designed and effectively implemented, ensuring the integrity of TCM data and processes.

Auditors determined that the data in TCM, which was the most complete population of contracts applicable to HUB requirements, was sufficiently reliable for the purposes of this audit.

Sampling Methodology

To test compliance with HUB requirements, auditors selected a nonstatistical sample of Medical Center contracts through random selection. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project the test results to the population.

To test compliance with State Use Program exception reporting, auditors selected a nonstatistical, stratified, risk-based sample of non-State Use Program purchases that the Medical Center made from appropriated funds. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Semi-annual and annual HUB reports and supporting dataset.
- State Use Program reports and exception reports.
- The Medical Center's and the University of Texas System's HUB rules and HUB-related policy and procedures.

- The Medical Center’s HUB forum and marketing advertisements and emails.
- The Medical Center’s HUB coordinating group meeting minutes.
- Documentation related to the Medical Center’s mentor-protégé program.
- The Medical Center’s contracts, invoices, and other contract documentation.
- Expenditure data from the Medical Center’s PeopleSoft accounts payable operating expenditures, general ledger, and capital expenditure reports for fiscal year 2017.
- Current Statement on Standards for Attestation Engagements 16 (*Type 2 Independent Service Auditor’s Report on a Description of a Service Organization’s System and the Suitability of the Design and Operating Effectiveness of Controls*) reports for TCM and the host data center.

Procedures and tests conducted included the following:

- Reviewed the Medical Center’s HUB utilization goals.
- Interviewed the Medical Center’s HUB coordinator and other Medical Center staff.
- Reviewed the job description and associated responsibilities for the Medical Center’s HUB coordinator.
- Tested the Medical Center’s contracts with effective dates between January 2017 and August 2017, which was after implementation of the Medical Center’s contracting system.
- Tested the Medical Center’s non-State Use Program, non-payroll expenditures from appropriated funds for fiscal year 2017.
- Compared fiscal year 2017 annual HUB report information to underlying PeopleSoft expenditure data.
- Compared data in the Medical Center’s *Legislative Appropriations Request* with source data.

Criteria used included the following:

- Texas Government Code, Chapter 2161.
- Texas Government Code, Chapter 441.

- 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 (84th Legislature).
- Fiscal 2017 Annual Statewide Historically Underutilized Business (HUB) Reporting Procedures.

Project Information

Audit fieldwork was conducted from August 2017 through February 2018. 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:

- Greg Adams, CPA, MPA, CGFM (Project Manager)
- Joe Kozak, CPA, CISA (Assistant Project Manager)
- Mike Gieringer, MS, CFE
- Alana Montoro
- Jonathan Morris, MBA
- Michelle Rodriguez
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Cesar Saldivar, CGAP (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. |

The Medical Center’s Fiscal Year 2017 HUB Goals and Performance

Table 3 shows the University of Texas Southwestern Medical Center’s (Medical Center) fiscal year 2017 goals and actual performance for its Historically Underutilized Business (HUB) Program for each procurement category. The Medical Center adopted the statewide HUB goals as its projected HUB goals.

Table 3

| The Medical Center’s HUB Goals and Performance Fiscal Year 2017 ^a | | |
|---|---|---|
| HUB Procurement Category | The Medical Center’s Projected HUB Goal | The Medical Center’s Actual HUB Performance |
| Heavy construction contract utilization goal | 11.2% | 0.0% |
| Building construction contract utilization goal | 21.1% | 0.5% |
| Special trade construction contract utilization goal | 32.9% | 19.4% |
| Professional services contract utilization goal | 23.7% | 0.0% |
| Other services contract utilization goal | 26.0% | 7.5% |
| Commodities contract utilization goal | 21.1% | 11.2% |
| ^a Auditors did not perform procedures to validate the information in this table. | | |

Source: *Fiscal 2017 Annual Report for the Statewide Historically Underutilized Business (HUB) Program*, Office of the Comptroller of Public Accounts.

Related State Auditor's Office Work

| Related State Auditor's Office Work | | |
|-------------------------------------|--|----------------|
| Number | Product Name | Release Date |
| 17-030 | An Audit Report on the Texas Facilities Commission's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs | April 2017 |
| 17-028 | An Audit Report on the University of Texas Medical Branch at Galveston's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs | March 2017 |
| 17-008 | An Audit Report on the Department of Public Safety's Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs | October 2016 |
| 16-002 | An Audit Report on Selected Business Opportunity Programs at the Department of Transportation | September 2015 |
| 15-036 | An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program | July 2015 |
| 15-006 | An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program | October 2014 |

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

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

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

The University of Texas System

Members of the University of Texas System Board of Regents

Ms. Sara Martinez Tucker, Chair

Mr. Paul L. Foster, Vice Chair

Mr. Jeffery D. Hildebrand, Vice Chair

Mr. Ernest Aliseda

Mr. David J. Beck

Mr. Jaciel Castro

Mr. Kevin Eltife

Mr. R. Steven Hicks

Ms. Janiece Longoria

Mr. Rad Weaver

Admiral William H. McRaven, Chancellor

The University of Texas Southwestern Medical Center

Dr. Daniel K. Podolsky, President



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

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

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

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