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**An Audit Report on Compliance With  
Revised Historically Underutilized  
Business Requirements**

August 30, 2000

Members of the Legislative Audit Committee:

All 18 entities we reviewed in fiscal year 2000 report that they are in the process of implementing or have implemented basic elements of the revised Historically Underutilized Business (HUB) rules. These rules were revised based on Senate Bill 178, and the last revisions went into effect in June 2000. The strategic plans of 14 entities met all HUB reporting criteria. (See Table 6 on page 8 for entities that did not meet all criteria.) Additionally, 13 entities publish HUB-related information on their websites to help meet vendor outreach objectives. (For a summary of results, see Table 1 on page 1.)

The entities we reviewed spent about \$283 million with HUB vendors in fiscal year 1999, while the State spent approximately \$900 million with HUB vendors. (For more detailed statistical data about entity HUB expenditures, see Table 4 on page 6.)

We appreciate the cooperation of the internal auditors, HUB coordinators, and other staff members in responding to our information requests. We will continue to coordinate with the General Services Commission in monitoring the HUB program.

If you have any questions about this report, please contact Elizabeth S. Arnold, CIA, CGFM, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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**Objective, Scope, and  
Methodology**

The objective of the reviews was to determine the entities' efforts to comply with the revised HUB rules. We conducted reviews at selected entities using surveys and existing (published) information. Each entity we selected for review spent over \$40 million total on all HUB expenditure categories. We conducted the reviews in accordance with Texas Government Code, Chapters 321 and 2161, and *Government Auditing Standards*.

cc: Mr. Jim Muse, Executive Director, General Services Commission  
The Honorable Carole Keeton Rylander, Comptroller, Comptroller of Public Accounts  
Mr. Billy Hamilton, Deputy Comptroller, Comptroller of Public Accounts  
Executive Directors, Presidents, Commissioners, Board Chairs and Members, and  
Chancellors of the agencies and universities included in this report

SAO Report No. 00-043  
Rev. 8/31/00

# Eighteen Entities Are Implementing HUB Requirements

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## Overall Conclusion

All 18 entities we reviewed in fiscal year 2000 report that they are in the process of implementing or have implemented basic elements of the revised Historically Underutilized Business (HUB) rules. These rules were revised based on Senate Bill 178, and the last revisions went into effect in June 2000. The strategic plans of 14 entities met all HUB reporting criteria. Additionally, 13 entities publish HUB-related information on their websites to help meet vendor outreach objectives. Table 1 below shows the results for each entity reviewed.

Table 1

Compliance With HUB Rules at the Entities Reviewed				
Entity Number and Name	Implementation Status as Reflected by Survey <sup>1</sup>	Entity's Strategic Plan Meets Government Code, Chapter 2161, Criteria <sup>2</sup>	Entity Uses Website for HUB Outreach <sup>3</sup>	
303 General Services Commission	Implemented	5 of 5	Yes	
304 Comptroller of Public Accounts	In Process	5 of 5	Yes	
313 Department of Information Resources	In Process	5 of 5	Yes	
320 Texas Workforce Commission	Implemented	5 of 5	Yes	
324 Department of Human Services	In Process	5 of 5	Yes	
362 Texas Lottery Commission	In Process	5 of 5	No	
405 Department of Public Safety	In Process	4 of 5	Yes	
501 Department of Health	In Process	5 of 5	Yes	
582 Natural Resource Conservation Commission	Implemented	5 of 5	Yes	
655 Department of Mental Health and Mental Retardation	Implemented	5 of 5	No	
694 Texas Youth Commission	In Process	5 of 5	Yes	
696 Department of Criminal Justice	Implemented	5 of 5	Yes	
710 Texas A&M University System Administrative and General Offices	In Process	5 of 5	Yes	
720 The University of Texas System Administration	Implemented	5 of 5	Yes	
730 University of Houston	In Process	2 of 5	Yes	
733 Texas Tech University	In Process	2 of 5	No	
752 University of North Texas	In Process	5 of 5	No	
802 Parks and Wildlife Department	In Process	4 of 5	No	

<sup>1</sup> Implementation status is based on survey responses and has not been audited or otherwise verified for accuracy. Status is current as of July 2000. See Table 5 on page 7 for entities' responses to survey questions.

<sup>2</sup> Strategic plan assessment shows the number of criteria met in the entity's fiscal year 2001-2005 strategic plan as of July 2000. See Table 6 on page 8 for entities that did not meet all criteria.

<sup>3</sup> Website usage is as of July 2000 and may have since been updated or revised.

## HUB Performance at the Entities Reviewed in Fiscal Year 2000

Table 2 below shows each entity's HUB usage compared to the Statewide Actual HUB usage and the State's HUB Goal for five of the six expenditure categories. (Note: The Heavy Construction category does not appear in this table because the entities reviewed generally had no expenditures in this category.) The data is based on General Services Commission's annual HUB report for fiscal year 1999. The bars in each entity's cell reflect how close the entity is to the Statewide Actual and State Goal for that expenditure category. For example, in the Building Construction category, the Department of Public Safety spent 28.6 percent with HUB vendors, whereas the State as a whole spent 10.9 percent with HUB vendors. Furthermore, the Department of Public Safety exceeded the State's goal of 26.1 percent in the Building Construction category.

Table 2

Entities HUB Usage Compared to Statewide HUB Usage and State Goal for Fiscal Year 1999					
Entity Name	Total HUB Expenditures				
	Building Construction	Special Trade Construction	Professional Services	Other Services	Commodity Purchases
<b>STATE GOAL</b>	26.10%	57.20%	20.00%	33.00%	12.60%
<b>STATEWIDE ACTUAL</b>	10.90%	19.50%	15.80%	12.90%	13.90%
General Services Commission	24.91%	16.88%	2.06%	15.74%	23.41%
Comptroller of Public Accounts	N/A	15.39%	59.15%	48.48%	17.03%
Department of Information Resources	N/A	N/A	N/A	41.73%	55.92%
Texas Workforce Commission	N/A	32.81%	81.31%	14.74%	31.01%
Department of Human Services	N/A	18.00%	N/A	18.33%	46.13%
Texas Lottery Commission	N/A	8.22%	4.30%	7.30%	15.87%
Department of Public Safety	28.56%	39.65%	42.44%	3.09%	18.89%
Department of Health	N/A	20.83%	0.26%	15.69%	16.16%
Natural Resource Conservation Commission	N/A	8.80%	13.75%	17.58%	39.18%
Department of Mental Health and Mental Retardation	N/A	11.84%	6.76%	6.65%	6.97%
Texas Youth Commission	3.23%	5.95%	8.30%	9.49%	32.87%
Department of Criminal Justice	2.20%	27.02%	2.04%	7.16%	8.36%
Texas A&M University System Administrative and General Offices	5.91%	N/A	24.64%	2.84%	7.02%
The University of Texas System Administration	12.99%	0.81%	13.07%	22.35%	33.79%
University of Houston	7.16%	20.68%	13.43%	4.89%	8.32%
Texas Tech University	8.40%	2.61%	N/A	5.52%	8.02%
University of North Texas	0.56%	14.94%	2.69%	3.77%	12.05%
Parks and Wildlife Department	10.68%	3.22%	N/A	6.83%	3.62%

Source: The amounts were calculated using data in the General Services Commission's fiscal year 1999 annual HUB report. The data are unaudited.

ATTACHMENT

## Objective, Scope, and Methodology

This report is the State Auditor's Office's fifth report on compliance with state HUB requirements. Each of the entities selected for review spent over \$40 million total expenditures for all six HUB expenditure categories,<sup>1</sup> as identified in Table 4 on page 6.

The objective of the reviews this year was to determine each entity's efforts to comply with the revised HUB requirements. During fiscal year 2000, the General Services Commission revised the HUB rules based on Senate Bill (SB) 178, 76th Legislature. The last of the revisions went into effect in June 2000. As a result, during this fiscal year, entities had to adjust their policies and procedures to comply with the new HUB requirements. Therefore, we focused on identifying each entity's progress in implementing the revised rules.

The reviews were conducted in accordance with Texas Government Code, Chapter 321, and Chapter 2161 (as modified by SB 178), Texas Administrative Code, Part 5, Chapter 111, Subchapter B, and *Government Auditing Standards*.

The reviews included three major areas:

- A survey of the entity's status in implementing basic elements of the revised rules. We developed survey questions for rules that affect organizational structure, executive management, human resources management, policies and procedures, and communication. For survey questions and results, see Table 5 on page 7.
- An assessment of compliance with Government Code, Chapter 2161, Subchapter C, Sec. 2161.123, which requires each state entity to prepare a strategic plan that includes a plan to increase the entity's use of HUB vendors in purchasing and public works contracts. Each entity is required to include the following elements in its strategic plan:
  - A policy or mission statement relating to the use of HUB vendors
  - A plan for increasing the entity's use of HUB vendors in purchasing and public works contracts
  - The goals to be met by the entity in carrying out the stated policy or mission
  - Specific programs to be conducted by the entity to meet the stated goals
  - A specific program to encourage contractors to use HUB vendors as business partners

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<sup>1</sup> The Department of Transportation was excluded from our review because the bulk of its expenditures are subject to federal procurement regulations. Also, as all components of a given university system have the same governing board, only the system-level components that met the \$40 million criterion were reviewed.

- A review of each entity's website for HUB-related information. This is an innovative way for entities to help meet vendor outreach objectives. Helpful websites contained at least one of the following:
  - A user-friendly design (for instance, HUB information could be found within three mouse clicks)
  - Links to lists of certified HUB vendors
  - Links to General Services Commission's website
  - A section for HUB vendors on the entity's home page
  - The name and phone number of the entity's contact for potential contracting opportunities

The following members of the State Auditor's Office conducted the audit work:

- Ann K. Huebner, CIA, CGFM (Project Manager)
- Courtney R. Ambres-Wade (Assistant Project Manager)
- Fred Bednarski III
- Adriana Buford, CPA
- Lori A. Field
- Linda J. Cox
- Elizabeth S. Arnold, CIA, CGFM (Audit Manager)
- Deborah L. Kerr, Ph.D. (Audit Director)

## An Overview of the State HUB Program

### What is the HUB Program?

The Historically Underutilized Business (HUB) program encourages state entities to make state contracting opportunities available to businesses owned by women and minorities. The program is legislated in Texas Government Code, Chapter 2161, and is governed by rules in Texas Government Code, Part 5, Chapter 111, Subchapter B.

### How is HUB participation measured?

The General Services Commission sets statewide goals and measures HUB participation according to the six procurement categories, shown in Table 3 below. (Note: These goals are based on the December 1994 *State of Texas Disparity Study* conducted by National Economic Research Associates, Inc. This disparity study was mandated by the 73rd Legislature.)

Table 3

State Goals by HUB Expenditure Categories <sup>1</sup>			
Category	Unadjusted HUB Goal <sup>2</sup>	Other HUB Goal <sup>3</sup>	Adjusted HUB Goal <sup>4</sup>
Heavy Construction	11.9%	5.3% (WO)	6.6% (BL, HI, AS, AI)
Building Construction	26.1%	1.0% (AS, AI)	25.1% (BL, HI, WO)
Special Trade Construction	57.2%	10.2% (AS, AI, WO)	47.0% (BL, HI)
Professional Services	20.0%	1.9% (AS, AI)	18.1% (BL, HI, WO)
Other Services	33.0%	N/A	33.0% (BL, HI, AS, AI, WO)
Commodity Purchases	12.6%	1.1% (AS, AI)	11.5% (BL, HI, WO)
AI Native American (American Indian), AS Asian Pacific American, BL Black American, HI Hispanic American, WO Women (excluding AI, AS, BL, and HI women)			
<sup>1</sup> The General Services Commission excludes the following disbursements from HUB calculations: payments for claims and judgments, interfund transfers, interagency payments, investments, interest payments, principal payments, public assistance payments, rentals and leases, utilities, salaries, wages, benefits, travel, grants, scholarships, real estate purchases, rights-of-way, and bonds. <sup>2</sup> The Unadjusted HUB Goal consists of all minority vendors in that category. (Other HUB vendors plus Adjusted HUB vendors.) <sup>3</sup> The Other HUB Goal consists of vendor groups that are used more often than other minority vendors in that procurement category. For example, women vendors are used more often in Heavy Construction than other minority vendors. <sup>4</sup> The Adjusted HUB Goal is the result of subtracting the Other HUB Goal from the Unadjusted HUB Goal.			

Source: General Services Commission's *Annual Historically Underutilized Business (HUB) Report for Fiscal Year 1999*

For HUB reporting purposes, treasury expenditures are captured through the Uniform Statewide Accounting System. State entities self-report non-treasury expenditures and subcontract data.

## Summary of HUB Expenditures at the Entities Reviewed

Table 4 below provides an overview of each entity's total applicable expenditures for all HUB categories (as identified in Table 3 on page 5) and related HUB expenditures. Together, the 18 entities spent about \$283 million with all (unadjusted) HUB vendors for fiscal year 1999, or about 31 percent of the State's HUB expenditures. Overall, the State spent \$900 million, or 12.98 percent of total applicable expenditures, with HUB vendors.

Table 4

Summary of HUB Expenditures for Fiscal Year 1999							
Entity Name	Total Applicable Expenditures	Adjusted HUB Expenditures		Other HUB Expenditures		Unadjusted (All) HUB Expenditures	
General Services Commission	\$ 102,871,923	\$ 20,868,650	20.29%	\$ 1,515,260	1.47%	\$ 22,383,910	21.76%
Comptroller of Public Accounts	\$ 48,690,508	\$ 18,796,350	38.60%	\$ 568,790	1.17%	\$ 19,365,139	39.77%
Department of Information Resources	\$ 68,279,080	\$ 17,789,609	26.05%	\$ 17,448,592	25.55%	\$ 35,238,202	51.61%
Texas Workforce Commission	\$ 46,318,888	\$ 6,865,985	14.82%	\$ 4,028,503	8.70%	\$ 10,894,488	23.52%
Department of Human Services	\$ 110,627,128	\$ 19,093,924	17.26%	\$ 10,163,905	9.19%	\$ 29,257,829	26.45%
Texas Lottery Commission	\$ 147,985,941	\$ 11,075,625	7.48%	\$ 181,661	0.12%	\$ 11,257,286	7.61%
Department of Public Safety	\$ 72,485,781	\$ 7,314,986	10.09%	\$ 1,671,657	2.31%	\$ 8,986,643	12.40%
Department of Health	\$ 260,162,748	\$ 36,007,824	13.84%	\$ 5,146,325	1.98%	\$ 41,154,149	15.82%
Natural Resource Conservation Commission	\$ 65,443,909	\$ 9,805,590	14.98%	\$ 4,052,107	6.19%	\$ 13,857,697	21.17%
Department of Mental Health and Mental Retardation	\$ 133,512,472	\$ 7,749,837	5.80%	\$ 2,548,242	1.91%	\$ 10,298,079	7.71%
Texas Youth Commission	\$ 44,511,635	\$ 5,053,058	11.35%	\$ 1,058,814	2.38%	\$ 6,111,872	13.73%
Department of Criminal Justice	\$ 368,966,047	\$ 20,292,469	5.50%	\$ 3,774,077	1.02%	\$ 24,066,546	6.52%
Texas A&M University System Administrative and General Offices	\$ 84,724,549	\$ 5,282,896	6.24%	\$ 548,490	0.65%	\$ 5,831,386	6.88%
The University of Texas System Administration	\$ 178,341,972	\$ 20,053,676	11.24%	\$ 5,317,491	2.98%	\$ 25,371,167	14.23%
University of Houston	\$ 58,883,458	\$ 4,713,274	8.00%	\$ 1,481,603	2.52%	\$ 6,194,877	10.52%
Texas Tech University	\$ 94,670,475	\$ 5,797,155	6.12%	\$ 957,025	1.01%	\$ 6,754,180	7.13%
University of North Texas	\$ 40,255,209	\$ 2,465,020	6.12%	\$ 1,370,703	3.41%	\$ 3,835,724	9.53%
Parks and Wildlife Department	\$ 47,480,178	\$ 2,170,852	4.57%	\$ 408,888	0.86%	\$ 2,579,740	5.43%
<b>Total</b>	<b>\$ 1,974,211,901</b>	<b>\$ 221,196,782</b>	<b>11.20%</b>	<b>\$ 62,242,132</b>	<b>3.15%</b>	<b>\$ 283,438,914</b>	<b>14.36%</b>
<b>Statewide Totals</b>	<b>\$ 6,938,249,409</b>	<b>\$ 624,105,792</b>	<b>9.00%</b>	<b>\$ 276,328,650</b>	<b>3.98%</b>	<b>\$ 900,434,442</b>	<b>12.98%</b>

Source: The amounts were calculated using data in the General Services Commission's fiscal year 1999 annual HUB report. The data are unaudited.

# HUB Survey Results as Reported by the Entities Reviewed

Table 5

Survey Questions	Entity Name and Number																	
	General Services Commission 303	Comptroller of Public Accounts 304	Department of Information Resources 313	Texas Workforce Commission 320	Department of Human Services 324	Texas Lottery Commission 362	Department of Public Safety 405	Department of Health 501	Natural Resource Conservation Commission 582	Department of Mental Health and Mental Retardation 655	Texas Youth Commission 694	Department of Criminal Justice 696	Texas A&M University System Administrative and General Offices 710	The University of Texas System Administration 720	University of Houston 730	Texas Tech University 733	University of North Texas 752	Parks and Wildlife Department 802
1. Has the entity adopted General Services Commission rules as the entity's own?	Yes	Part	Part	Yes	Part	Part	Part	Part	Yes	Yes	Part	Yes	Part	Yes	Yes	Yes	Yes	Part
2. Does the entity have a HUB coordinator?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3. Does the HUB Coordinator have a job description?	Yes	Part	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
4. Has the entity trained all procurement staff on HUB rules?	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5. Is the entity sponsoring or attending any HUB forums in the next 90 days?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
6. Does the entity maintain established contract administration policies and procedures?	Yes	Yes	Yes	Yes	Yes	Part	Part	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Part	Yes
7. Do the contract policies include procedures regarding contract monitoring?	Yes	Yes	Yes	Yes	Yes	Part	Part	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Part	Yes	Part	Yes
8. Does the entity prepare monthly HUB reports for internal use?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Overall Entity Implementation Status</b>	<b>Imp</b>	<b>Part</b>	<b>Part</b>	<b>Imp</b>	<b>Part</b>	<b>Part</b>	<b>Part</b>	<b>Part</b>	<b>Imp</b>	<b>Imp</b>	<b>Part</b>	<b>Imp</b>	<b>Part</b>	<b>Imp</b>	<b>Part</b>	<b>Part</b>	<b>Part</b>	<b>Part</b>
Key: Yes or Imp = Implemented; No = Not Implemented; Part = Partially Implemented/In Process. Note: Status is as of July 2000 and is subject to change.																		



## Entities That Did Not Meet Strategic Plan Criteria

Table 6

Strategic Plan Criteria (Government Code, Chapter 2161, Section 123)	Entity Number and Name			
	405 Department of Public Safety	730 University of Houston	733 Texas Tech University	802 Parks and Wildlife Department
1. Does the plan include a policy or mission statement that relates to HUB usage?	Yes	Yes	Yes	Yes
2. Does the plan have a provision for increasing use of HUB vendors?	Yes	Yes	Yes	Yes
3. Does the plan include HUB goals?	Yes	No	No	Yes
4. Does the plan include specific programs the entity will use to meet the HUB goals?	Yes	No	No	Yes
5. Does the plan include a specific program to encourage contractors to use HUB vendors as business partners?	No	No	No	No
<b>Number of Criteria Met</b>	<b>4 of 5</b>	<b>2 of 5</b>	<b>2 of 5</b>	<b>4 of 5</b>
Note: Status is current as of July 2000 and may change as entities update their strategic plans.				