

UT Southwestern Medical Center

Historically Underutilized Business (HUB) Process Review

Internal Audit Report 23:11

October 20, 2023

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Executive Summary - Background, Project Scope, and Objectives

The Historically Underutilized Business (HUB) Program in Texas was established to promote equal business opportunities for historically underutilized businesses, including minority, women, and service-disabled veteran-owned businesses. The program aims to ensure fair and equal access to state government contracts for these businesses, fostering economic growth and diversity within the state.

The HUB program is overseen by the Texas State Comptroller of Public Accounts and operates under Chapter 2161 of the Texas Government Code and regulated by the Texas Administrative Code, Chapter 20, Subchapter D. The regulations outline guidelines and requirements for state agencies and institutions of higher education to encourage HUB participation in procurement activities. State agencies and institutions of higher education are required to make a good faith effort to utilize HUBs in contracts for heavy construction, building construction, special trade, professional services, other services, and commodities. They must establish HUB participation goals and report progress annually to the Comptroller's office.

To meet the University of Texas Systems' Statewide Policy (Policy UTS137 HUB Program), UT Southwestern Medical Center (UTSW) restructured its HUB program, which originally reported to the Diversity and Inclusion Division, to report directly to the Assistant Vice President of Supply Chain Management to better align the HUB infrastructure with the organization's procurement activities and meet its mission and goals. The Director of Supplier Diversity / HUB was designated as the HUB Coordinator to advise and assist the institution management and staff in implementing and carrying out HUB program functions, including (a) facilitating compliance with agency good faith effort criteria, (b) HUB program reporting, (c) marketing and outreach, and (d) contract administration as it related to HUB program compliance. The Director of Supplier Diversity / HUB has two direct reports to assist in the HUB program responsibilities. The Supply Chain Management Department utilizes the Jaggaer Procurement System as its end-to-end supply chain management system.

The Supplier Diversity / HUB Department actively includes certified HUBs in its contracting opportunities. For bids of \$100K or more, UTSW Supplier Diversity / HUB requires that a potential contractor / vendor must submit a completed Historically Underutilized Business Subcontracting Plan (HSP) and demonstrate a good faith effort to incorporate certified HUBs where possible. For proposals under \$100K, a completed HSP is not required; however, the use of certified HUB suppliers or subcontractors is strongly encouraged. From an outreach perspective, the Supplier Diversity / HUB focuses on strategic internal and external efforts to increase recognition in the HUB program emphasizing emergent opportunities. UTSW continues to build lasting relationships with advocacy organizations in the Dallas / Fort Worth metroplex to maximize visibility in the community. Examples of outreach and marketing activities include twice-monthly bid opportunities distributed to advocacy organizations for dissemination to their membership, various webinars, training sessions, and workshops.

The Office of Institutional Compliance and Audit Services has completed its Historically Underutilized Business (HUB) Process Review. This was a risk-based audit and part of the fiscal year 2023 Audit Plan.

The audit scope period included activities of the Supplier Diversity / HUB from September 1, 2022, to August 31, 2023. The audit evaluated current processes and procedures in place related to the HUB Program to assess compliance with policy and state regulatory requirements. UTSW Supply Chain, Supplier Diversity / HUB, and Purchasing Departments are in scope for this review. The UTSW HUB award processes and metrics around the volume of HUB vendors were out of scope for this review. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, and limited testing.

As part of the review, Internal Audit reviewed various Texas State HUB regulations, policies and procedures, including the Texas Government Code (Chapter 2161), Texas Administrative Code (Chapter 20, Subchapter D), UTSW HUB Procedures SCM, University of Texas Systems' Statewide Policy (Policy UTS137 HUB Program), Supply Chain Management (SCM) Guideline, UTSW Exhibit H - Policy on Utilization HUBs, and HUB Strategic Plan 2022-2023. We sampled 6 active contracts from a population of 15 active contracts from the period of September 1, 2022, to August 31, 2023.

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Executive Summary - Background, Project Scope, and Objectives

Fieldwork was initiated, performed, and completed during July, August, and September 2023 and consisted of the following primary objectives:

- HUB Regulatory Compliance: Assess the sufficiency of HUB policies and procedures for minority, women, and service-disabled veteran-owned businesses including review of the verification of eligibility criteria as outlined by the Small Business Administration (SBA) (e.g., location of the businesses, ownership structure required percentage of employees residing in HUBZone areas, etc.) against key HUB state regulatory requirements, UT System requirements, and leading practices.
- HUB Processes: Perform limited testing to verify HUB processes and key controls (e.g., verification and eligibility, certification and documentation, procurement planning, market research, outreach and communication, subcontracting, contractor and sub-contractor monitoring, state reporting and compliance, internal training and awareness, etc.) are designed and operating in alignment with key policy and regulatory requirements.
- HUB Marketing and Outreach: Assess the reasonableness of marketing and outreach activities that are designed to elicit HUB responses to projects, including evaluation and utilization of strategic partnerships (e.g., Statewide HUB sponsored event, supplier development councils, chambers of commerce, etc.).

Executive Summary - Conclusion and Improvement Opportunities

Overall, the current UTSW HUB Program processes appear to be compliant with Texas Administrative Code, Chapter 20, Subchapter D and Texas Government Code, Chapter 2161 state regulatory requirements; however, the Outreach Events section of UTSW’s HUB website and procedures and policies were not updated timely. This could result in failure to demonstrate a good faith effort and inconsistent practices and misalignment with organization’s objectives.

Included in the table below is a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

| | | | | |
|--------------|----------|------------|---------|-----------|
| Priority (0) | High (0) | Medium (0) | Low (2) | Total (2) |
|--------------|----------|------------|---------|-----------|

Key observations are listed below.

- **Marketing and Outreach** - The Outreach Events section of UTSW’s HUB website has not been updated for at least two years.
- **HUB Program Policies and Procedures** - The UTSW Supplier Diversity / HUB policies were not updated to match current practices until after this audit commenced in July 2023. HUB policies were last updated in September 2019.

Management has plans to address the issues identified in the report and in some cases have already implemented corrective actions. Action Plan Owners are designated individuals responsible for implementing the issue resolution. Action Plan Executives are individuals responsible for overseeing or managing the issue resolution. Executive Sponsors are Senior Leadership members who are responsible for ensuring the identified issue is resolved. These responses along with additional details for the key improvement opportunities identified above are listed in the Observations and Action Plans Matrix (Matrix) section of this report.

Observations and Action Plans Matrix

| Observation | Recommendation | Management Response |
|--|---|--|
| <p>Risk Rating: Low ●</p> <p>1. Marketing & Outreach</p> <p>The Outreach Events section of UTSW’s HUB website has not been updated for at least two years, due to lack of HUB resources to provide updated information to the Website Administrator.</p> <p>Although this is not a regulatory requirement, marketing and outreach initiatives, which inform vendors of the community of upcoming Supplier Diversity / HUB and Sourcing events, are strongly encouraged by the Texas HUB Program.</p> <p>Additionally, this requires agencies to demonstrate a good faith effort in HUB marketing and outreach efforts; per the Texas Administration code Title 34, Part 1, Chapter 20, Subchapter D, Division 1, Rule 20.296(b), a state agency shall provide the HUB coordinator with the necessary and sufficient resources to achieve all responsibilities of a HUB coordinator which include marketing and outreach efforts for HUB participation.</p> | <p>1. HUB leadership should:</p> <ul style="list-style-type: none"> a. Maintain and update calendar of upcoming Supplier Diversity / HUB and Sourcing events, at least monthly. b. Update UTSW’s HUB website outreach activities, at least monthly. | <p><u>Management Action Plans:</u></p> <ul style="list-style-type: none"> 1. HUB Leadership met with the Website Administrator on September 13, 2023, to develop a plan to regularly update the website. <ul style="list-style-type: none"> a. The Supplier Diversity / HUB Team worked with the Website Administrator to ensure that the website links were fully functional as of September 15, 2023. b. The Supplier Diversity / HUB Team will provide an updated calendar of events to the Website Administrator by October 31, 2023, and will meet monthly with the Website Administrator to ensure the website is updated and operating as intended. <p><u>Target Completion Dates:</u></p> <ul style="list-style-type: none"> 1a. Completed September 15, 2023 1b. October 31, 2023 <p><u>Action Plan Owner(s):</u></p> <p>Darcel Webb, Director, Supplier Diversity / HUB</p> <p><u>Action Plan Executive(s):</u></p> <p>Charles Cobb, Associate Vice President, Supply Chain Management</p> <p><u>Executive Sponsor(s):</u></p> <p>Michael Serber, Vice President, Finance and Institutional Chief Financial Officer</p> |

Observations and Action Plans Matrix

| Observation | Recommendation | Management Response |
|---|--|--|
| <p>Risk Rating: Low ●</p> <p>2. HUB Program Policies and Procedures</p> <p>The UTSW Supplier Diversity / HUB policies were not updated to match current practices until after this audit commenced in July 2023. HUB policies were last updated in September 2019.</p> <p>Outdated policies and procedures may result in inconsistent practices, inefficiencies, and misalignment with organization’s objectives.</p> | <p>1. HUB leadership should review, and update polices, at a minimum once a year, to ensure that they are aligned with Texas HUB program guidelines, organizational objectives, and current practices.</p> | <p><u>Management Action Plans:</u></p> <p>1. HUB Leadership will update current policies and procedures, and on an ongoing basis, will review and update the policies annually, at a minimum.</p> <p><u>Target Completion Dates:</u></p> <p>1. October 31, 2023</p> <p><u>Action Plan Owner(s):</u></p> <p>Darcel Web, Director, Supplier Diversity / HUB</p> <p><u>Action Plan Executive(s):</u></p> <p>Charles Cobb, Associate Vice President, Supply Chain Management</p> <p><u>Executive Sponsor(s):</u></p> <p>Michael Serber, Vice President, Finance and Institutional Chief Financial Officer</p> |

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Appendix A - Risk Classifications and Definitions

Each observation has been assigned a risk rating according to the perceived degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management. The following chart is intended to provide information with respect to the applicable definitions, color coded depictions, and terms utilized as part of our risk ranking process:

| Degree of Risk and Priority of Action | |
|---------------------------------------|--|
| Priority | An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. |
| High | A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college / school / unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization. |
| Medium | A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college / school / unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level. |
| Low | A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college / school / unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization. |

It is important to note that considerable professional judgment is required in determining the overall ratings. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.