



An Audit Report on

Lamar State College Port Arthur's Compliance with Historically Underutilized Business and State Use Program Requirements

- The College did not have effective processes to ensure that it complied with HUB Program requirements for contracting and reporting, and it did not implement the HUB Mentor Protégé Program.
- The College did not comply with requirements of the State Use Program.

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State Auditor

Lamar State College Port Arthur (College) did not have effective processes to comply with contracting and reporting requirements designed to (1) ensure that eligible vendors have the opportunity to participate in the Historically Underutilized Business (HUB) Program and (2) track progress toward statewide goals for HUBs.

The College complied with HUB planning requirements and most outreach requirements, but it did not implement the Mentor Protégé Program as required.

In addition, the College did not comply with State Use Program requirements.

• *Audit Objectives* | p. 15

This audit was conducted in accordance with Texas Human Resources Code, Section 122.029; Texas Government Code, Section 2161.123; and Article IX, Section 7.07, of the General Appropriations Act (87th Legislature).

HIGH

HUB CONTRACTING AND REPORTING

The College's processes were not adequate to ensure compliance with requirements for HUB contracting and reporting.

[Chapter 1-A | p. 4](#)

MEDIUM

HUB PLANNING AND OUTREACH

The College complied with HUB planning requirements and most outreach requirements, but it did not implement the Mentor Protégé Program as required.

[Chapter 1-B | p. 9](#)

For more information about this audit, contact Audit Manager Michael Clayton or State Auditor Lisa Collier at 512-936-9500.

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PRIORITY**STATE USE PROGRAM**

The College did not comply with State Use Program requirements.

[Chapter 2 | p. 11](#)

LOW**INFORMATION SYSTEMS**

The College had adequate information technology controls to restrict user access to HUB data.

[Chapter 3 | p. 13](#)

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. The College agreed with the recommendations.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

PRIORITY: 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(s) and reduce risks to the audited entity.

HIGH: 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(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could *moderately affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks *or* effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see [Report Ratings](#) in Appendix 1.



HIGH

Chapter 1-A HUB Contracting and Reporting

Lamar State College Port Arthur (College) did not have effective processes to comply with contracting and subcontracting requirements designed to ensure that eligible vendors have the opportunity to participate in the State's Historically Underutilized Business (HUB) Program. In addition, the College did not accurately report HUB data for the fiscal year 2023 annual HUB report.

The College included HUB vendors in its solicitation process for most contracts.

The College complied with requirements to include HUB vendors in its solicitation process for 14 (93 percent) of 15 contracts tested that were executed in fiscal year 2023. For the remaining contract tested, the College did not solicit bids from HUB vendors because it incorrectly determined that the value of the contract fell below the applicable threshold.

The College did not consistently comply with HUB subcontracting requirements.

Texas Government Code, Section 2161.252, requires each state agency that considers entering a contract with an expected value of \$100,000 to determine whether there will be subcontracting opportunities under the contract, and if so, to ensure that each bid or other expression of interest includes a HUB subcontracting plan (HSP). However, the College was unable to provide documentation to show that vendors included HSPs for 3 of the 8 contracts tested that were executed during fiscal year 2023 and that included

subcontracting opportunities.¹ Once the College determined that a contract included subcontracting opportunities, it was required under Texas Government Code, Section 2161.252(b), to disqualify any vendor that did not submit an HSP. In addition, the College did not evaluate whether subcontracting opportunities were available for one contract tested.

Monitoring Vendors' Compliance. The College did not adequately monitor its vendors' compliance with the requirements of Title 34, Texas Administrative Code, Rule 20.285. For 8 (73 percent) of the 11 contracts tested that had payments during fiscal year 2023, the College did not maintain sufficient documentation to evaluate whether it monitored the vendor's HSP compliance as required.

The College did not accurately report its HUB data.

The Office of the Comptroller of Public Accounts (Comptroller's Office) requires complete and accurate reporting from all agencies to adequately monitor statewide progress toward HUB goals. However, the College did not have adequate processes for identifying and classifying HUB-related expenditures. As a result, it submitted inaccurate and incomplete information to the Comptroller's Office. Specifically, of the \$14.4 million in total expenditures and \$1.48 million in HUB expenditures reported, the College:

- Could not provide adequate documentation to verify that the \$566,118 it reported for group purchases contained all group purchase activity.
- Incorrectly included \$16,794 in non-HUB expenditures and incorrectly excluded \$46,762 in employee reimbursements.
- Misclassified \$30,535 in credit card purchases.
- Incorrectly omitted accounting adjustments of \$5,801.

In addition, the College should strengthen its process for compiling and reporting required supplemental data. The College used expenditure data to report the number of bids, proposals, and contracts awarded, which did not reflect all procurement activity required to be reported. For example, the

¹ The College determined that no subcontracting opportunities were available for one of the nine contracts tested.

College's expenditure data did not include the number of bids received for an individual solicitation.

The College also did not compile and maintain monthly HUB vendor use information required by Texas Government Code, Section 2161.122(a).

The College complied with other HUB reporting requirements.

For fiscal year 2023, the College had processes to ensure that it complied with certain HUB requirements tested. Specifically, the College (1) submitted annual and semi-annual HUB reports by the due dates; (2) included the required information in its Legislative Appropriations Request; and (3) reported internal assessment information and compliance with HUB policies as required.

Recommendations

The College should improve its processes to ensure that it:

- Obtains all required documentation based on the bidding guidelines and contract value thresholds in its purchasing policies.
- Performs subcontracting opportunity analysis and ensures that contractors submit all required HUB and HSP documentation.
- Strengthens its HUB expenditure reporting processes to report all required accounting activities, ensure that exclusions are appropriate, and identify group purchases.
- Strengthens its process to compile and report accurate supplemental HUB information.
- Maintains and compiles accurate monthly information related to its use of HUBs, as required by Texas Government Code, Section 2161.122(a).

Management's Response

Lamar State College Port Arthur agrees with the recommendation.

LSCPA Corrective Action Plan

As the result of management change over at the start of FY24, Lamar State College Port Arthur has implemented new processes, procedures, and forms to help improve and ensure compliance. One such document is a Procurement Services Reference Sheet which details steps to take for various purchasing functions, such as requisition requirements, issuing a PO or change order, contract reviews, checklist and supporting documentation requirements.

- LSCPA will review the bidding process and implement process improvements. LSCPA has adopted the TSUS Administration Procurement & Contract Processing Checklist for all purchases/contracts over \$15,000. The checklist includes sections for informal/formal bids, contract risk/management, HSP/HUB requirements, to name a few. LSCPA will review the checklist for further improvements to ensure better management of all required documentation for bids, contracts, and HUB Subcontracting Plans.
- LSCPA will implement processes to better document subcontracting opportunity reviews. In September 2023, LSCPA implemented a new process to create a HSP/PAR folder for each purchase order meeting a subcontracting requirement. LSCPA will review the process for additional improvements and efficiencies to ensure all required HUB/HSP documentation is being submitted in a timely manner by contractors.
- LSCPA utilizes a Texas Connection Consortium (TCC) developed HUB report specifically for TCC member schools who utilize the Ellucian Banner finance system. In September 2023, LSCPA discovered the TCC report does not include journal vouchers processed by Finance which is a shortfall to the current HUB expenditure reporting process. LSCPA has contacted TCC for possible corrections to the TCC report. LSCPA also utilizes a third-party reporting system, ARGOS, for some HUB expenditure reporting. Discrepancies have since been identified between the ARGOS data and the Banner data extracts.

LSCPA is working with IT to identify and correct the ARGOS report to ensure accuracy.

- LSCPA implemented a spreadsheet for formal bid opportunities which captures solicitation details, respondent information, as well as contract/bond award information to improve accuracy of supplemental HUB reporting.
- In September 2023, LSCPA implemented Procurement Services Reporting Procedures which includes actions to take daily, weekly, and monthly to ensure compliance. LSCPA will review practices for improvements and efficiencies.

Anticipated Completion Date: Corrective action measures started in September 2023. Updates to the checklist and review of the HSP/PAR process have started with improvements to be completed by August 2024. Work with TCC and IT has begun and improvements to these reports continue through August 2025. Review of the reporting procedures will be complete by August 2024.

Individual Responsible

Executive Director Procurement Services

MEDIUM

Chapter I-B HUB Planning and Outreach

The College complied with HUB planning requirements.

For fiscal year 2023, the College had processes to comply with the HUB planning requirements tested. Specifically, the College:

- Adopted HUB rules.
- Adopted statewide HUB goals in its Legislative Appropriations Request for the 2024–2025 biennium.
- Developed a written HUB plan that included the required elements, such as strategies to increase its use of HUBs.

The College complied with most outreach requirements.

The College complied with two of the three HUB outreach requirements tested. Specifically, the College:

- Designated a HUB coordinator.
- Participated in HUB forums and designed in-house marketing presentations.

However, the College did not comply with requirements to implement the Mentor Protégé Program, which is intended to provide professional guidance and support to HUBs and increase their opportunities to contract and subcontract with the State.

Texas Government Code, Section 2161.065, requires each state agency with a biennial appropriation that exceeds \$10 million to implement the Mentor Protégé Program. The College's appropriation first exceeded the threshold during the 2000–01 biennium.

Recommendation

The College should implement the Mentor Protégé Program as required.

Management's Response

Lamar State College Port Arthur agrees with the recommendation.

LSCPA Corrective Action Plan

Lamar State College Port Arthur will implement a Mentor Protégé Program.

Anticipated Completion Date: Corrective action measure will begin summer 2024 with implementation by September 2025.

Individual Responsible

Executive Director Procurement Services

PRIORITY

Chapter 2

State Use Program

The College did not comply with State Use Program requirements.

The College did not have processes in place to comply with requirements for use of the Purchasing from People with Disabilities Program (State Use Program; see text box for information about requirements). This program is designed to provide employment opportunities for individuals with disabilities. While the College's purchasing guidelines appropriately referred to the State Use Program as exempt from competitive bidding and cited the program as a best value consideration, the College did not designate an employee to ensure compliance with State Use Program requirements. The College asserted that it was in the process of designating an employee after auditors brought the issue to its attention.

In addition, the College did not submit monthly reports to the Comptroller's Office and the Texas Workforce Commission. The most recent State Use Program report that the College provided was submitted in February 2016. The Comptroller's Office requires monthly reports to adequately monitor the program's use and to improve state agency compliance with the program.

State Use Program Requirements

Texas Human Resources Code, Chapter 122, requires state agencies to purchase goods or services available through the State Use Program from vendors in this program unless certain exceptions are met. Any exceptions must be reported to the Comptroller's Office and the Texas Workforce Commission, including cost paid and reason for a qualifying exception to purchasing from the program. Exceptions:

- When the product or service available through the set-aside program does not meet the reasonable requirement of the institution or agency.
- The requisitions made cannot be reasonably complied with through provision of products or services produced by persons with disabilities.

In addition, each state agency shall designate an agency employee to ensure that it complies with State Use Program requirements.

Sources: Texas Human Resources Code, Chapter 122, and the Comptroller's Office.

Recommendations

The College should implement processes to comply with all State Use Program requirements, including:

- Designating an employee to ensure compliance.
- Reporting required information to the Comptroller's Office and the Texas Workforce Commission.

Management's Response

Lamar State College Port Arthur agrees with the recommendation.

LSCPA Corrective Action Plan

Lamar State College Port Arthur will implement processes to comply with State Use Program requirements.

- LSCPA will designate an employee to ensure compliance.
- Designated LSCPA employee will ensure required information is accurately reported.

Anticipated Completion Date: Corrective action measure will begin summer 2024. The designated employee will be identified by August 31, 2024, with procedural implementation by September 2025.

Individual Responsible

Executive Director Procurement Services

LOW

Chapter 3 Information Systems

The College properly restricted access to HUB data.

The College's policies and procedures complied with Title 1, Texas Administrative Code, Chapter 202, which requires higher education institutions to implement information technology controls in accordance with the Department of Information Resources' *Security Control Standards Catalog*. In addition, the College's network user authentication and password parameters complied with those policies.

The College also appropriately limited access to Banner Finance and the Uniform Statewide Accounting System (USAS), which it uses in its HUB activities. While the College had reviewed its user access for USAS as required, it had not performed a documented annual user access review for Banner Finance since July 2021.

Recommendation

The College should review user access to Banner Finance annually as required by its policies.

Management's Response

Lamar State College Port Arthur agrees with the recommendation.

LSCPA Corrective Action Plan

Lamar State College Port Arthur plans to initiate semi-annual reviews in May and November each year to ensure proper access.

Anticipated Completion Date: Corrective action measure to initiate a semi-annual review will begin November 2024.

Individual Responsible

Payroll Director



Appendix I

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether Lamar State College Port Arthur (College):

- 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 College’s HUB activities and State Use Program activities from September 2022 through August 2023, including a review of significant internal control components related to (1) HUB planning, outreach, contracting, subcontracting, monitoring, and reporting activities and (2) State Use Program purchasing and reporting activities.

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



- Jennifer Lehman, MBA, CIA, CISA, CFE, CGAP (Project Manager)
- Lilia C. Srubar, CPA (Assistant Project Manager)
- Rogelio De La Fuente Jr., CPA
- Sarah Ore Ogunmayin, CC, CISA
- Sarah Puerto, CIA, CFE (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Methodology

We conducted this performance audit from August 2023 through May 2024 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. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to the College's management for consideration.

Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed College management and staff to gain an understanding of the processes and controls related to the College's HUB Program activities and State Use Program activities.
- Identified the relevant criteria:
 - Texas Government Code, Chapters 2155 and 2161.
 - Texas Education Code, Chapter 51.
 - Texas Human Resources Code, Chapter 122.
 - Title 1, Texas Administrative Code, Chapter 202.
 - Title 34, Texas Administrative Code, Chapter 20.
 - Title 40, Texas Administrative Code, Chapter 806.
 - Article IX, Sections 7.06 and 7.07, the General Appropriations Act (87th Legislature).
 - The College's policies and procedures.
 - Texas State University System's policies and procedures.
 - Texas Comptroller of Public Accounts, *Fiscal 2023 Annual Statewide Historically Underutilized Business (HUB) Reporting Procedures*.

- Department of Information Resources' *Security Control Standards Catalog*, Version 2.0.
- Reconciled the College's annual HUB report submitted for fiscal year 2023 to the College's Banner financial expenditure data and to Uniform Statewide Accounting System (USAS) data. Tested the differences to determine if the College followed requirements in the Texas Comptroller of Public Accounts' *Fiscal 2023 Annual Statewide Historically Underutilized Business (HUB) Reporting Procedures*.
- Reviewed the College's Legislative Appropriations Request, HUB goals, HUB rules, and HUB forum and marketing presentations to determine whether the College complied with HUB planning and outreach requirements.
- Tested samples of the College's contracts to determine if HUB solicitation, contracting, and subcontracting and HUB subcontracting plan (HSP) monitoring activities were performed in accordance with applicable requirements (see Figure 1 on the next page for sample information).
- Reviewed reports in the Comptroller's Office's Texas Purchasing from People with Disabilities system to determine if the College complied with State Use Program reporting requirements.
- Tested user access to the College's Banner financial accounting system, USAS, and the Comptroller's Office's HUB reporting portal.

Figure 1

Populations and Samples Selected for Testing ^a

Description	Population	Sample Size	Sampling Methodology
Vendors with contracts over \$15,000 executed in fiscal year 2023	70	15	Selected risk-based sample to gain coverage of purchase types, contract amounts, and procurement method, and to review whether purchase thresholds were circumvented.
Vendors with contracts over \$100,000 executed in fiscal year 2023	12	9	Selected risk-based sample to gain coverage of purchase types, contract amounts, and procurement method.
Payments in fiscal year 2023 for vendors with contracts over \$100,000 ^b	1,087	60	Population was stratified by vendor. Selected risk-based sample to gain coverage of vendors, payment amounts, payment dates, and programs.

^a These samples were not representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

^b Auditors selected payments to test whether the College monitored the vendors’ compliance with the HSP requirements. The 60 payments were associated with 41 vendors. During testing, auditors determined that there were 11 contracts to which the HSP monitoring requirements applied.

Data Reliability and Completeness

Auditors determined that certain data sets were sufficiently reliable for the purposes of the audit by (1) observing College staff extract requested data populations, (2) extracting data directly from USAS, (3) reviewing data queries and report parameters, (4) analyzing the populations, (5) comparing corroborating data populations, and (6) testing selected general controls over the information systems. Auditors determined the following data sets were reliable and used for this audit:

- Expenditures and accounting data from Banner.
- Expenditures and accounting data from USAS.
- HUB expenditures report from Banner.
- User access lists from Banner and USAS.

Auditors determined that the contract list provided by the College was not sufficiently reliable for reporting purposes by comparing the list to the College's contracts in the Legislative Budget Board (LBB) contract database and to contract information on the College's website. To select samples of contracts for testing, auditors compiled a list of contracts using (1) the list from the College, (2) the LBB contract database, and (3) contract information from the College's website.

Report Ratings

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.



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The Honorable Morgan Meyer, House Ways and Means Committee

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The Honorable Greg Abbott, Governor

Lamar State College Port Arthur

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