

THE UNIVERSITY OF TEXAS SYSTEM



*HISTORICALLY UNDERUTILIZED
BUSINESS
(HUB)*

PROGRAM REVIEW

SUPPLEMENTAL REPORT
FY 1997



FEBRUARY 12, 1998

**The University of Texas System
Historically Underutilized Business (HUB) Program**

FY 1997 SUPPLEMENTARY REPORT TO THE BOARD OF REGENTS

February 12, 1998

Mr. Chairman, Members of the Board:

The consolidated System report to you on the HUB program at the November 1997 meeting revealed a significant decline in FY1997: approximately \$28M (19.4%) from the FY 1996 level of purchases with HUB firms breaking a consistent year-to-year increasing trend in the U. T. System since FY 1992 (see Attachment 1).

It should be noted (1) that not all System components experienced a decline (Brownsville, Pan American, San Antonio, HSC - San Antonio) and (2) a general decline was experienced statewide: approximately \$151M (16.2%).

Following the November report, Dr. Cunningham directed that a System-wide HUB program evaluation be conducted (1) to determine causes for decline/increases in HUB purchases, and (2) to identify efforts to be undertaken to enhance progress toward achievement of

adjusted good faith effort goals. Attachment 2 is the activity calendar of the review process.

The major cause for declining expenditures has been identified as HUB vendor failure to renew certification. On a statewide basis, 6282 HUB vendors certified in FY 1996 failed to renew their certifications in FY 1997. 1789 of these firms received payments (\$109.3M) that are not reflected in reported performance results (see Attachment 3). In U. T. System, 1259 non-certified firms received payments totaling \$25.8M (see Attachment 4).

In Attachment 5, FY 1997 data is adjusted by adding payments to non-certified HUB vendors and the FY 1996-1997 change is re-computed. On that basis, several additional System components (Dallas, Permian Basin, Galveston, HSC-Houston, and MDACC) experienced increases rather than declines. The consolidated System measure changes from a \$28M (18.7%) decline to a \$1.8M (1.2%) decline.

Additional causes for decline are listed in Attachment 6. Reasons for increases are listed in Attachment 7.

Recommendations for program improvements are listed in Attachment 8.

Chancellor Cunningham's letter of January 22, 1997 to Chief Administrative Officers (Attachment 9) announces the expectation that HUB programs meeting all applicable standards of good faith (Attachments 6a and 6b) will be fully operational or on a definite course toward effective operation by the end of the review period.

The Chancellor's letter also calls for an annual report on HUB program operations by October 15 each year.

This concludes the supplemental report.

**THE UNIVERSITY OF TEXAS SYSTEM
HUB PROGRAM PERFORMANCE
(Fiscal Year 1997)**

COMPONENT	TOTAL HUB PURCHASES						CHANGE	
	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1996 - 1997 (%)	
Arlington	\$847,579	\$1,640,944	\$1,867,943	\$3,771,910	\$3,888,458	\$2,826,644	-\$1,061,814	(27.3)
Austin	2,229,040	6,486,355	16,899,566	18,428,840	18,005,478	13,966,412	-4,039,066	(22.4)
Brownsville ¹	-----	231,378	1,047,550	987,961	1,295,920	1,394,017	98,097	(7.6)
Dallas	1,544,770	1,854,803	1,528,449	1,430,086	2,411,746	2,356,141	-55,605	(2.3)
El Paso	1,472,968	2,406,555	1,970,557	2,096,497	4,076,243	2,673,894	-1,402,349	(34.4)
Pan American	109,210	640,091	1,892,043	1,902,129	2,373,372	2,493,807	120,455	(5.1)
Permian Basin	147,477	125,168	203,030	521,269	449,715	445,309	-4,406	(1.0)
San Antonio	919,218	2,553,293	2,333,192	3,224,748	2,777,669	3,765,181	987,512	(35.6)
Tyler	167,940	172,521	568,149	687,269	554,189	432,326	-121,863	(22.0)
SUB-TOTAL	\$7,438,202	16,161,108	\$28,310,479	33,050,709	35,832,790	\$30,353,731	-\$5,479,059	(15.3)
SWMC-Dallas	4,845,887	6,675,943	8,206,179	10,493,442	14,221,346	12,919,150	-1,302,196	(9.2)
UTMB-Galveston	4,684,577	6,308,732	19,587,937	21,866,090	22,290,718	21,341,931	-948,787	(4.3)
HSC-Houston	3,453,886	4,772,476	4,882,912	3,855,866	2,712,845	2,465,084	-247,761	(9.1)
HSC-San Antonio	1,136,578	2,747,805	3,754,623	4,093,318	3,693,380	3,838,261	144,881	(3.9)
MDA Cancer Center	5,548,149	10,634,922	11,016,114	15,678,641	14,556,947	14,395,269	-161,678	(1.1)
Tyler Health Center	942,979	1,315,396	2,997,499	8,638,011	6,564,502	3,845,648	-2,718,854	(41.4)
SUB-TOTAL	\$20,612,058	\$32,455,274	\$50,445,264	\$64,625,368	\$64,039,738	\$58,805,343	-\$5,234,395	(8.2)
System Administration	\$4,054,282	\$11,206,836	11,579,044	\$14,383,258	\$44,700,510	27,383,167	-17,317,343	(38.7)
TOTAL	32,104,540	\$59,823,218	\$90,334,787	\$112,059,335	\$144,573,038	116,542,241	-28,030,797	(19.4)
STATE	-----	\$370,734,509²	\$592,512,108	\$888,874,277	\$935,844,846	\$784,397,787	-\$151,447,059	(16.2)

¹ U. T. Brownsville included in U. T. Pan American until 1-1-92

² Calendar year data

U. T. SYSTEM
SYSTEM COUNCIL - JANUARY 21, 1998
FY 1997 HUB PROGRAM REVIEW PROCESS

- **November 13, 1997 - Regents expressed concern about declining purchases with HUB firms.**
- **November 17, 1997 - Business Managers' Conference - established requirement for component HUB program evaluation report.**
- **December 2, 1997 - System Purchasing Directors/HUB Coordinators Conference held in Austin.**
- **January 9, 1998 - Component evaluation reports received.**
- **January 16-17, 1998 - System review comments on component reports returned to components.**
- **January 20, 1998 - Business Managers' Conference - outcome of program review process discussed (minute record of meeting on file).**
- **January 21, 1998 - System Council Meeting - outcome of program review process discussed (minute record of meeting on file).**
- **January 22, 1998 - Chancellor's letter to Chief Administrative Officers.**
- **February 13, 1998 - Supplemental HUB Report to the Board.**
- **April 15, 1998 - Review FY 1998 semi-annual program results.**
- **January - May 8, 1998 - Develop HUB strategic/action plans.**
- **October 15, 1998 - Review FY 1998 annual program results.**
- **May-December 1998 - Continue HUB Program enhancement initiatives.**

HUB VENDOR FAILURE TO RENEW CERTIFICATION

STATE-WIDE ANALYSIS - FY 1997

Reason	Number of Vendors	Number Receiving Payments	Percent Receiving Payments	Payment Amounts
Mail/No Response	5077	1381	27.2	\$ 69.6M
Audit Removal	610	294	48.2	16.0M
Graduated	58	23	39.7	14.0M
TxDot Inactive	230	9	3.9	2.6M
Vendor Request	307	82	26.7	7.1M
TOTALS	6282	1789	28.5	\$109.3M

THE UNIVERSITY OF TEXAS SYSTEM

Payments to Non-Certified Vendors (Fiscal Year 1997)

	Mall No Response	Audit Removal	Graduated	TxDOT Inactive	Vendor Request	Total Receiving Payments	Payment Amounts
Arlington	46	11	2	-----	4	63	\$ 1,064,457
Austin	224	42	4	1	14	285	3,284,007
Brownsville	32	5	1	-----	-----	38	-----
Dallas	34	8	5	-----	5	52	726,703
El Paso	62	15	1	-----	-----	78	262,451
Pan American	44	5	-----	-----	2	51	201,581
Permian Basin	11	9	-----	-----	-----	20	41,461
San Antonio	50	11	3	-----	2	66	633,204
Tyler	13	6	-----	-----	-----	19	58,220
SWMC-Dallas	45	11	5	-----	8	69	1,266,155
UTMB-Galveston	108	33	1	-----	4	146	1,377,908
HSC-Houston	55	13	2	1	2	73	381,886
HSC-San Antonio	80	13	2	-----	3	98	413,820
MDACC	107	17	2	-----	3	129	3,906,881
HC-Tyler	27	8	-----	-----	-----	35	404,956
U.T. System	25	9	2	-----	1	37	11,740,038
TOTALS	963	216	30	2	48	1259	\$25,763,728

**THE UNIVERSITY OF TEXAS SYSTEM
HUB PROGRAM PERFORMANCE
(Fiscal Year 1997)**

Note: FY 1997 data is adjusted by adding payments to HUB vendors who were certified in FY 1996 but failed to renew certification in FY 1997.

COMPONENT	TOTAL HUB PURCHASES						CHANGE	
	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1996 - 1997 (%)	
Arlington	\$847,579	\$1,640,944	\$1,867,943	\$3,771,910	\$3,892,089	\$3,891,101	-\$	988 (0.0)
Austin	2,229,040	6,486,355	16,899,566	18,428,840	17,620,366	17,350,419	-	269,947 (1.5)
Brownsville ¹	-----	231,378	1,047,550	987,961	1,295,920	1,394,017		98,097 (7.6)
Dallas	1,544,770	1,854,803	1,528,449	1,430,086	2,411,746	3,082,844		671,098 (27.8)
El Paso	1,472,968	2,406,555	1,970,557	2,096,497	4,076,243	2,936,345	-	1,139,898 (28.0)
Pan American	109,210	640,091	1,892,043	1,902,129	2,373,372	2,695,388		322,016 (13.6)
Permian Basin	147,477	125,168	203,030	521,269	449,715	486,770		37,055 (8.2)
San Antonio	919,218	2,553,293	2,333,192	3,224,748	2,777,669	4,398,385		1,620,716 (58.4)
Tyler	167,940	172,521	568,149	687,269	554,189	490,546	-	63,643 (11.5)
SUB-TOTAL	\$7,438,202	16,161,108	\$28,310,479	33,050,709	35,451,309	36,725,815		\$1,274,506 (3.6)
SWMC-Dallas	4,845,887	6,675,943	8,206,179	10,493,442	14,221,346	14,185,305	-	36,041 (0.3)
UTMB-Galveston	4,684,577	6,308,732	19,587,937	21,866,090	22,290,718	22,719,839		429,121 (1.9)
HSC-Houston	3,453,886	4,772,476	4,882,912	3,855,866	2,712,845	2,846,970		134,125 (4.9)
HSC-San Antonio	1,136,578	2,747,805	3,754,623	4,093,318	3,693,380	4,252,081		558,701 (15.1)
MDA Cancer Center	5,548,149	10,634,922	11,016,114	15,678,641	14,556,947	18,302,150		3,745,203 (25.7)
Tyler Health Center	942,979	1,315,396	2,997,499	8,638,011	6,564,502	4,250,604	-	2,313,898 (35.3)
SUB-TOTAL	\$20,612,058	\$32,455,274	\$50,445,264	\$64,625,368	\$64,039,738	\$66,556,949		2,517,211 (3.9)
System Administration	\$4,054,282	\$11,206,836	\$11,579,044	\$14,383,258	\$44,700,510	\$39,123,205	-	5,577,305 (12.5)
TOTAL	32,104,540	\$59,823,218	\$90,334,787	\$112,059,335	\$144,191,557	\$142,405,969		-1,785,588 (1.2)
STATE	-----	\$370,734,509²	\$592,512,108	\$888,874,277	\$935,844,846	\$893,397,787		-\$42,447,059 (4.5)

¹ U. T. Brownsville included in U. T. Pan American until 1-1-92

² Calendar year data

The University of Texas System

FY 1997 HUB Program Review

Causes of Declining or Slow Growth in Expenditures with HUB Firms

External

- **Marketplace environment**
 - **Non-HUB sole source/proprietary suppliers**
 - **HUB non-availability/non-capacity**
 - **Non-competitive HUB vendors**
- **Administrative processes environment**
 - **Purchasing Credit Cards (PCC) system failure to report HUB purchases**
 - **HUB vendor failure to renew certification**
 - **Difficult certification process**
 - **HUB vendors not notified of expiration of certification**
 - **Unreconciled vendor ID number differences in Comptroller and General Services Commission files**
- **General Societal Environment**
 - **Anti-preference/pro-affirmative action**
- **Legal Environment**
 - **Hopwood effect spillover to the HUB program**
 - **City of Richmond v. J. A. Croson**

Causes of Declining or Slow Growth in Expenditures with HUB Firms
(cont'd)

Internal

- **Need for stronger top management support**
- **Need to implement the program throughout all mission areas**
- **Need to enhance effectiveness of HUB strategic/action plans**
- **Need to strengthen implementation of 1 TAC Section 111.14 pertaining to contractor good faith effort**
- **Need to strengthen HUB Staff Coordinating Group (SCG) function**
- **Need to strengthen compliance with 1 TAC Section 111.13 pertaining to agency good faith effort**
- **Absence of full-time HUB Coordinator**
- **Inconsistent year-to-year HUB expenditure reporting**
- **Payments to incorrect Vendor Identification Number**

AGENCY GOOD FAITH EFFORT CRITERIA

(1 TAC Section 111.13c)

- **Prepare and distribute information on procurement procedures in a manner that encourages participation in state contracts by all businesses;**
- **Divide proposed requisitions into reasonable lots in keeping with industry standards and competitive bid requirements;**
- **Assess bond and insurance requirements and design such requirements to reasonably permit more than one business to perform the work;**
- **Specify reasonable, realistic delivery schedules consistent with an agency's actual requirements;**
- **Ensure that specifications, terms, and conditions reflect an agency's actual requirement, are clearly stated, and do not impose unreasonable or unnecessary contract requirements;**
- **Provide contractors with referenced list of certified HUBs for subcontracting;**
- **Determine whether specific agency-wide goals are appropriate under the Disparity Study because some HUB groups have not been underutilized within applicable contracting categories and should not be included in the HUB goals for that category.**
- **Submit supplemental letter with semi-annual and annual reports.**

AGENCY GOOD FAITH EFFORT CRITERIA (cont'd)

(State Auditor)

- **Established rules and procedures for increasing HUB utilization.**
- **Documented outreach efforts, including identification of available HUBs, marketing effort, and dissemination of information to HUBs**
- **Written specifications that encourage use of HUB contractors and subcontractors**
- **Designation of an agency HUB coordinator**
- **Compliance with HUB reporting requirements (monthly internal reporting and semiannual and annual external reporting)**

CONTRACTOR GOOD FAITH EFFORT CRITERIA

(1 TAC Section 111.14 - Condition for Contract Award)

- **An agency shall ensure that a contractor has complied with this section as a condition of awarding any contract.**
- **Apparent contract awardee shall complete a checklist including at least the following:**
 - **Whether the contractor provided written notices to at least five qualified HUBs or the contractor advertised in general circulation, trade association, and/or minority/women focus media concerning subcontracting opportunities.**
 - **Whether the contractor provided written notice to at least five qualified HUBs allowing sufficient time for HUBs to participate effectively.**
 - **Whether the contractor divided the contract work into reasonable portions in accordance with standard industry practices.**
 - **Whether the contractor documented reasons for rejection or met with the rejected HUB to discuss the rejection.**
 - **Whether the contractor provided qualified HUBs with adequate information about bonding, insurance, the plans, the specifications, scope of work and requirements of the contract.**
 - **Whether the contractor negotiated in good faith with qualified HUBs, not rejecting qualified HUBs who are also the lowest responsive bidder.**
- **State agencies shall review the checklist and attached documentation submitted by the contractor and issue a written notice of acceptance or deficiency of a good faith effort within 14 days of the agency's receipt. The notice of deficiency shall state the reasons for deficiency.**

Reasons for Increasing Expenditures

Internal

- Support of top management
- Coordinated purchasing department/HUB Coordinator functions
- Aggressive and effective internal education program

External

- Effective HUB outreach

Recommendations for Program Improvements

RESPONSIBILITY	TASKS	COMPLETION DATE
System	<ul style="list-style-type: none"> • Publish a HUB Program Business Procedures Memorandum (BPM) with emphasis on 1 TAC Section 111.14 procedures. • Circulation Draft 	March 1998
System	<ul style="list-style-type: none"> • Petition GSC/Comptroller to reconcile their VID number files. 	March 1998
System	<ul style="list-style-type: none"> • Petition GSC to simplify certification process and to accept other-agency certifications. 	March 1998
System	<ul style="list-style-type: none"> • Petition GSC to improve quality of CMBL. 	March 1998
System	<ul style="list-style-type: none"> • Publish HUB Program Business Procedures Memorandum 	April 1998
System/Arlington	<ul style="list-style-type: none"> • Review GSC purchasing credit card (PCC) HUB reporting procedure/system. 	April 1998
All	<ul style="list-style-type: none"> • Revise/update HUB strategic/action plans. 	May 1998
All	<ul style="list-style-type: none"> • Evaluate and improve, as necessary, HUB program management information and external reporting systems. 	August 1998
All	<ul style="list-style-type: none"> • Strengthen Staff Coordinating Group (SCG) function. 	Continuing
All	<ul style="list-style-type: none"> • Encourage HUB vendor certification (HUB Directory) and registration (CMBL). 	Continuing
All	<ul style="list-style-type: none"> • Involve HUB vendors in competition for large dollar purchases. 	Continuing
Health Components	<ul style="list-style-type: none"> • Continue development of teaming relationships between Group Purchasing Organizations (GPOs) and HUBs. 	Continuing
Health Components	<ul style="list-style-type: none"> • Continue mentoring programs for HUB vendors. 	Continuing
All	<ul style="list-style-type: none"> • Aggressively implement internal HUB program education. 	Continuing
All	<ul style="list-style-type: none"> • Strengthen compliance with provisions of 1 TAC Section 111.13 (c) 	Continuing
All	<ul style="list-style-type: none"> • Require strong justifications for sole source procurements. 	Continuing
All	<ul style="list-style-type: none"> • Review and ensure effective implementation of GSC HUB rules pertaining to delegated purchasing authority. 	Continuing

Academic Component Institutions:
 The University of Texas at Arlington
 The University of Texas at Austin
 The University of Texas at Brownsville
 The University of Texas at Dallas
 The University of Texas at El Paso
 The University of Texas Pan American
 The University of Texas of the Permian Basin
 The University of Texas at San Antonio
 Institute of Texan Cultures
 The University of Texas at Tyler



Health Component Institutions:
 The University of Texas Southwestern Medical Center at Dallas
 The University of Texas Medical Branch at Galveston
 The University of Texas Health Science Center at Houston
 The University of Texas Health Science Center at San Antonio
 The University of Texas M.D. Anderson Cancer Center
 The University of Texas Health Center at Tyler

THE UNIVERSITY OF TEXAS SYSTEM

601 COLORADO STREET AUSTIN, TEXAS 78701-2982

January 22, 1998

Office of the Chancellor
 (512) 499-4200

MEMORANDUM

TO: Chief Administrative Officers

Dr. Robert E. Witt
 Dr. Peter T. Flawn
 Dr. Juliet V. Garcia
 Dr. Franklyn Jenifer
 Dr. Diana S. Natalicio
 Dr. Miguel Nevárez
 Dr. Charles A. Sorber
 Dr. Samuel A. Kirkpatrick
 Dr. George F. Hamm

Dr. Kern Wildenthal
 Dr. John D. Stobo
 Dr. M. David Low
 Dr. John Prentice Howe, III
 Dr. John Mendelsohn
 Dr. Ronald F. Garvey

FROM: William H. Cunningham

In my November 4, 1997, memorandum I asked for your commitment and good faith effort to achieve the goals of the Historically Underutilized Business (HUB) program. Subsequently, following presentation of the System-wide FY 1997 HUB report to the Board of Regents, during which the Board expressed concern about declining purchases from HUB firms, a comprehensive management review of the HUB program was initiated and will continue through the strategic planning period January - May 1998.

The HUB program is concerned with economic development in which a high level of System effort is no less compelling than that in educating Texas's future leadership and workforce. Both of these efforts are essential in their contribution to the future prosperity of the state. This is a high-priority System-wide program.

Administration of an effective HUB program involves motivating both line and staff employees to work through the challenge of size and complexity of organization, and through the challenge of establishing and maintaining technically proficient operations in the functions of planning, budgeting, procurement, accounting, legal, and information resources as they relate to HUB program administration. Collectively and fully coordinated, these tasks must be accomplished in a manner that credibly can be called a good faith effort. Motivation begins with enthusiastic and focused direction by the senior leadership of the institution. This is especially

Chief Administrative Officers
January 22, 1998
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important in the current environment of debate on the efficacy of affirmative action programs. Every organizational unit, whether teaching, research, or administrative, that procures goods and services in its mission operations is impacted by, and accountable under, this program.

I applaud those of you who have established, and continue to maintain, strong HUB programs, and I admonish those whose programs are not as productive as they could be. The purpose of our ongoing program review is to enhance the effectiveness and efficiency of HUB programs throughout the System as measured by positive assessment against good faith effort criteria and program goals attainment. My expectation is that successful HUB programs which meet hallmarks of innovation and creativity that, more generally, are applicable to program operations within the U. T. System will be fully established, or will be on a definite course toward full establishment, on your campuses by the end of the HUB program review period. Accordingly, I request that you summarize, in a letter to me by October 15 each year, HUB program operations for the preceding fiscal year, addressing the degree of program goal accomplishment and attesting that a good faith effort HUB program is operating on your campus.

The System Administration staff will continue to assist you in every way possible, particularly in connection with this critical initiative. Please call me if you have questions or need additional information. Thank you.

WHC:jpm

cc: U. T. System Executive Officers
Mr. Arthur H. Dilly