

FOLLOW-UP REPORT

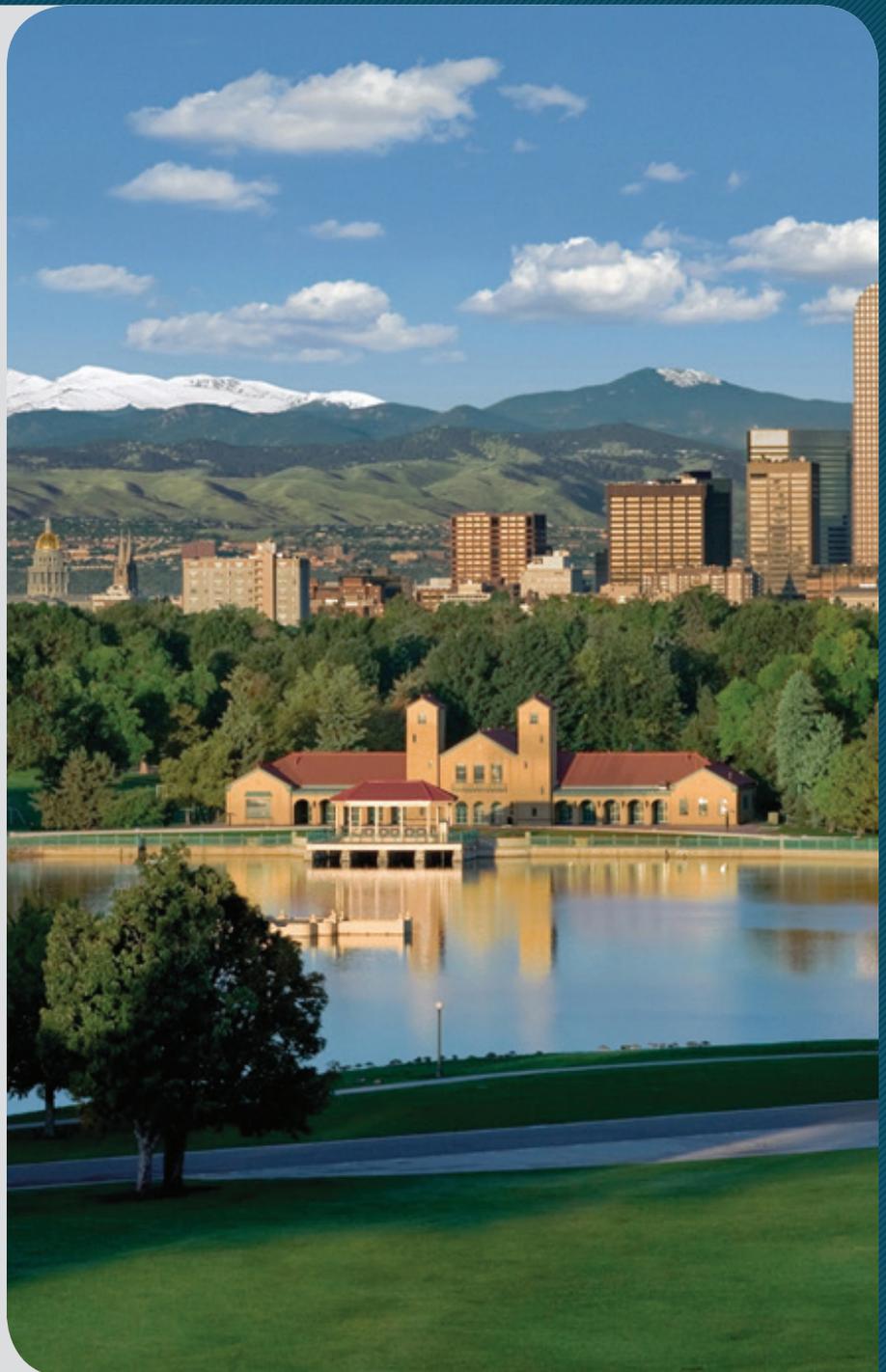
Minority/Women Business Enterprise Program

June 2016

Office of the Auditor
Audit Services Division
City and County of Denver



Timothy M. O'Brien, CPA
Denver Auditor



The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver's government. He also chairs the City's Audit Committee.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City's finances and operations, including the integrity of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

Audit Committee

Timothy M. O'Brien, CPA, Chairman
Rudolfo Payan, Vice Chairman
Jack Blumenthal
Leslie Mitchell
Florine Nath
Charles Scheibe
Ed Scholz

Audit Management

Valerie Walling, CPA, CMC®, Deputy Auditor
Kip Memmott, MA, CGAP, CRMA, Director of Audit Services

Audit Staff

Robyn Lamb, Audit Supervisor
Nancy Howe, MPA, CRMA, Lead Auditor

You can obtain copies of this report by contacting us:



Office of the Auditor

201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000 ♦ Fax (720) 913-5247

Or download and view an electronic copy by visiting our website at: www.denvergov.org/auditor
Report number: **A2014-013**



Timothy M. O'Brien, CPA
Auditor

City and County of Denver

201 West Colfax Avenue, #705 • Denver, Colorado 80202

720-913-5000 • Fax 720-913-5253 • www.denvergov.org/auditor

June 2, 2016

Mr. Paul Washington, Director
Office of Economic Development
City and County of Denver

Re: Audit Follow-Up Report

Dear Mr. Washington:

In keeping with generally accepted government auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Minority/Women Business Enterprise Program audit issued on December 18, 2014. Our review determined that the Division of Small Business Opportunity (DSBO) has implemented all nineteen of the recommendations made in the audit report.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to Office of Economic Development and DSBO personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Robyn Lamb, Internal Audit Supervisor, at 720-913-5046.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



Minority/Women Business Enterprise Program June 2016

Status

The Division of Small Business Opportunity (DSBO) has implemented all nineteen recommendations made in the December 2014 audit report.

Background

The City and County of Denver's Minority/Women Business Enterprise (M/WBE) program is administered by the DSBO within the Office of Economic Development.

The M/WBE program is one of six disadvantaged business programs administered by DSBO. It was developed to address identified disparity in the utilization of M/WBE firms on construction projects.

DSBO certifies applicant firms as M/WBE and places certified firms in a directory that helps these firms compete for construction-related contracting opportunities funded by the City, including contracting opportunities at DIA.

Purpose

The purpose of the audit was to assess the effectiveness of the M/WBE program. Auditors reviewed DSBO's methodologies for counting work towards M/WBE goals and other practices that provide assurance on program effectiveness.

REPORT HIGHLIGHTS

Highlights from Original Audit

The audit found that DSBO could not demonstrate whether the M/WBE program was effective in meeting its intended purpose, which was apparent in the following areas.

First, DSBO had not established sufficient performance measures to ensure that the objective of the M/WBE program was being achieved. Audit work found that most of the M/WBE work was awarded to a small percentage of M/WBE-certified firms and few firms had graduated from the program in recent years.

Second, DSBO could not provide assurance that the M/WBE program was serving its intended purpose because DSBO had not produced all required reporting information on the M/WBE program, and some of the reporting that had been done was inaccurate. Further, the data maintained by DSBO was not sufficient to make an assessment about the health and quality of the M/WBE program because it was incomplete.

Additionally, we found DSBO needed to enhance its complaint-handling process and use lessons learned from recent complaint investigations to enhance its certification and renewal processes.

Findings at Follow-up

Auditors concluded that DSBO implemented all nineteen recommendations made in the audit report. For example, DSBO clarified its mission and enhanced performance measures to provide information on progress towards program goals. Further, DSBO implemented the mentor-protégé program, enhanced processes to ensure goal achievement is accurately calculated for its Annual Report, produced and posted required reports, implemented changes to enhance the accuracy of project data in its systems, and enhanced complaint and compliance processes.

For a complete copy of this report, visit www.denvergov.org/auditor
Audit Contact Person: Robyn Lamb | 720.913.5046 | Robyn.Lamb@denvergov.org

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status	
Finding: The Division of Small Business Opportunity Cannot Demonstrate the Efficacy of the Minority/Women Business Enterprise Program			
1.1	Mission and Objectives – The DSBO Director should define and formalize a clear mission and objectives to capture what the M/WBE program is working to achieve.	DSBO developed a mission statement specific to the division, which can be found in its 2015 Annual Report.	Implemented
1.2	Goals & Performance Measures - The DSBO Director should develop goals for the M/WBE program that align with the mission and objective of DSBO and a varied set of performance measures that provide information on progress towards the goals.	DSBO is now tracking and reporting a variety of performance information in its quarterly and annual reports. Performance information includes the number and percentage of M/WBE certified firms awarded contracts, the number of M/WBE certified firms that bid on contracts, and the bonding capacity of certified firms. In addition, DSBO developed a tracking log for projects exceeding \$8 million. This log is used for internal tracking purposes and provides DSBO with information on the progress of these projects toward reaching their goals.	Implemented
1.3	Goal Alignment – The DSBO Director should evaluate how DSBO might better align M/WBE project goals and the annual aspirational goal.	DSBO evaluated this recommendation through discussions with its Federal Aviation Administration (FAA) representative and other organizations. Based on these discussions, DSBO determined that the aspirational goal does not have to be linked to project goals and that no other programs align project goals with the aspirational goal.	Implemented

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.4 Goal Mechanism – The DSBO Director should add a mechanism for considering the annual goal in the methodology for setting project goals, as required by ordinance.</p>	<p>DSBO staff reported that, after discussing this recommendation with the FAA and other organizations, they determined that the program’s focus is on how certified firms perform on established project goals. Thus, there does not need to be alignment between annual and project goals. Because DSBO took steps to address the recommendation and the aspirational goal is informally considered when setting project goals, we consider this recommendation implemented.</p>	<p>Implemented</p>
<p>1.5 Goal Adjustment – The DSBO Director should develop a methodology for adjusting the annual goal based on economic conditions, such as the level of planned City-funded construction, and availability of certified firms.</p>	<p>DSBO changed the aspirational goal for construction in 2016, indicating that the goal is not based solely on the disparity study. Further, DSBO plans to document the process for setting the annual goal when it sets the 2017 goal.</p>	<p>Implemented</p>
<p>1.6 Firm Concentration & Graduation Rates – The DSBO Director should evaluate whether concentration of firms awarded M/WBE work and graduation rates should be formal performance measures to help determine program effectiveness.</p>	<p>DSBO evaluated whether concentration of firms receiving M/WBE work and graduation rates should be formal performance measures. DSBO concluded that, while this information would be useful for identifying firms for targeted assistance efforts, concentration and graduation information does not directly relate to DSBO's purpose, and thus will not be used as a formal measure of program performance.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
1.7	Mentor-Protégé Program – The DSBO Director should fully implement the mentor-protégé program required by City ordinance to provide another opportunity for M/WBE-certified firms to grow and thrive.	DSBO finalized the mentor-protégé program in July 2015. Information on the Office of Economic Development website and in DSBO’s 2015 Annual Report, issued in February 2016, identifies nine firms currently participating in the program, four as mentors and five as protégés.
1.8	Data Calculation – The DSBO Director should adjust the methodology for calculating data reported in DSBO’s Annual Report to ensure accuracy.	DSBO adjusted its data compilation methodology for the Annual Report so that M/WBE project payments that were previously double-counted are now accurate.
1.9	2013 Annual Report – The DSBO Director should finalize and publish DSBO’s 2013 Annual Report.	DSBO published a revised edition of its 2013 Annual Report in November 2014. In addition, DSBO’s Annual Reports for 2010 through 2015 are on the Office of Economic Development website.
1.10	Annual Reports – The DSBO Director should ensure that future years’ annual reports are published by March 1 in line with other DSBO reporting requirements.	DSBO’s 2015 Annual Report is dated February 29, 2016, and was accessed by auditors from the Office of Economic Development website in March 2016.
1.11	Quarterly Reports – The DSBO Director should develop and provide quarterly reports as required by City ordinance.	DSBO’s first-, second-, and third-quarter reports for 2015 are available on the Office of Economic Development website. DSBO’s 2015 Annual Report serves as the 2015 fourth-quarter report.
1.12	Executive Order 101 Reporting – The DSBO Director should complete performance reporting in compliance with Executive Order 101 requirements.	DSBO developed a 2014 Diversity and Inclusiveness Report that includes information on the second, third, and fourth quarters of 2014. DSBO also developed two bi-annual Diversity and Inclusiveness Reports for 2015.

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.13 Contractor Letter of Intent – The DSBO Director should increase efforts to ensure prime contractor compliance with all documentation submission requirements in the Compliance Plan and carry out accurate and timely counting of M/WBE participation.</p>	<p>DSBO has increased efforts to ensure prime contractor compliance and obtained better results through its use of available system tools such as B2G. Further, DSBO plans to implement the merger of the B2G system with another system, Textura, in 2016, which will result in more current participation information.</p>	<p>Implemented</p>
<p>1.14 System Information – The DSBO Director should utilize information available in LCPTTracker to identify all firms working on City-funded construction projects and enter this information into B2G.</p>	<p>DSBO staff have access to and are expected to use LCPTTracker to identify firms working on City-funded projects. Further, DSBO now has additional tools to help staff identify firms working on City-funded projects.</p>	<p>Implemented</p>
<p>1.15 Complaint Process – The DSBO Director should develop a way to make it easier for interested parties to file a third-party complaint related to the M/WBE program by allowing verbal complaints.</p>	<p>DSBO worked with the City Attorney’s Office to clarify complaint requirements. The City’s program requires that third-party challenges regarding the eligibility of an applicant business enterprise for certification be in writing. Other types of complaints can be, and are made, verbally.</p>	<p>Implemented</p>
<p>1.16 Complaint & Concern Web-Filing – The DSBO Director should establish an accessible link for filing complaints or concerns on DSBO’s website.</p>	<p>DSBO established a web link for filing complaints.</p>	<p>Implemented</p>
<p>1.17 Complaint Tracking – The DSBO Director should reassess the manner of recording complaints or issues about the M/WBE program to simplify log maintenance.</p>	<p>DSBO developed a single log to track complaints.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
1.18	DSBO On-Site Questionnaire – The DSBO Director should reassess and make changes to increase the effectiveness of DSBO’s internal on-site questionnaire that is used as part of the M/WBE certification and complaint investigation process.	Implemented
1.19	Certification Review – The DSBO Director should develop a sampling methodology to periodically conduct in-depth reviews of certification documents.	Implemented

Conclusion

We found that DSBO has implemented all recommendations and adequately mitigated the risk identified during the original audit. As a result, we conclude our follow-up effort related to the Minority/Women Business Enterprise (M/WBE) Program.

However, follow-up activities performed to determine the status of recommendation 1.8 revealed a current practice worth noting in the event this program is reviewed in a future audit. This recommendation related to adjusting the methodology for calculating M/WBE participation data reported in DSBO's Annual Report and was deemed implemented because the calculation error identified in the 2014 audit report was corrected. However, auditors' review of the data reported in DSBO's 2015 Annual Report identified an additional matter. We found that DSBO combined payment data for all of its disadvantaged business programs and used this data to calculate and report on whether it met the M/WBE annual aspirational goal (annual goal). The law pertains specifically to the M/WBE program; therefore, only M/WBE project payments should be included to determine whether DSBO met the annual goal. Using just M/WBE payment data, auditors found that DSBO met the 2015 annual goal. DSBO personnel indicated they will report M/WBE participation separately in future annual reports.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Division of Small Business Opportunity for their cooperation during our follow-up effort and their dedicated public service.