

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

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**AUDIT OF DISTRICT OF COLUMBIA  
AGENCIES' COMPLIANCE WITH  
SMALL BUSINESS ENTERPRISE  
EXPENDITURE GOALS**



**OIG**

**DANIEL W. LUCAS  
INSPECTOR GENERAL**



# OIG

## Why OIG Did This Audit

The Office of the Inspector General (OIG) performed this audit to address a council member's concerns about the significant decline in agencies' expendable budgets reported by the Department of Small and Local Business Development (DSLBD) during fiscal year (FY) 2014.

D.C. Code § 2-218.41(a) requires District agencies to exercise their contracting and procurement authority so as to meet, on an annual basis, the goal of procuring and contracting 50 percent of their expendable budgets to qualified Small Business Enterprises (SBEs). Accordingly, the council member asked the OIG to examine processes for establishing District agencies' expendable budgets and DSLBD's monitoring of agency compliance with the reporting requirements.

This report describes: (1) whether DSLBD provided adequate management oversight over agencies' compliance with SBE spending goals; (2) the reasons for declines in agencies' SBE spending goals; and (3) whether DSLBD established adequate internal controls over the agencies' expendable budget goal-setting process.

## What OIG Recommends

The OIG made 18 recommendations to strengthen management controls over the SBE program to assure effective compliance with District laws, rules, and regulations. DSLBD agreed with all 18 recommendations made in the report.

## AUDIT OF THE DISTRICT OF COLUMBIA'S COMPLIANCE WITH SMALL BUSINESS ENTERPRISE EXPENDITURE GOALS

### What OIG Found

DSLBD did not provide adequate management oversight over agencies' SBE spending goals as required by Title 27 District of Columbia Municipal Regulations (DCMR). Specifically, DSLBD did not: (1) monitor agency compliance with quarterly and annual reporting requirements; (2) direct agencies to track only expenditure reporting against their approved expendable budgets; and (3) require all budget codes, as identified in the OCFO budget book, to be included in SBE compliance reporting. As a result, agencies reported expenditures that were inaccurate, incomplete, and unverifiable to the general ledger.

Also, during FY 2014, agencies' SBE spending goals declined because DSLBD failed to establish agencies' expendable budgets in a timely fashion as required by DCMR. We found that, prior to the beginning of FY 2014, DSLBD did not:

- provide each agency with a list of comptroller object codes that should be excluded from the agency's appropriated budget;
- ensure that each agency provided DSLBD with the excludable dollar amount in each comptroller object code, along with the amount of the total appropriated budget; and
- establish and provide agencies with their respective expendable budget amounts.

As a result, agencies reported significant amounts of budget exclusions during the 3rd and 4th quarters of FY 2014 that reduced agencies' SBE spending goals from \$779 million to \$229 million and DSLBD provided District stakeholders with inaccurate information regarding the expendable budgets available to SBEs during the same period. Reporting inaccurate information may lead stakeholders to make erroneous conclusions.

Finally, DSLBD did not establish adequate internal controls over the agencies' expendable budget goal-setting process because DSLBD did not: (1) establish standard operating procedures; (2) provide adequate staff to support the process; (3) adhere to submission deadlines for budget changes; and (4) establish adequate management authorizations and approvals in the DSLBD Agency Certified Small Business Enterprise (CSBE) Compliance Reporting application used to collect and report expendable budgets and spending activities. As a result, accurate SBE goals were not established in a timely and consistent manner.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

**Inspector General**



June 4, 2015

Ana Recio Harvey  
Director  
Department of Small and Local Business Development  
One Judiciary Square  
441 4<sup>th</sup> Street N. W., Suite 850 North  
Washington, D.C. 20001

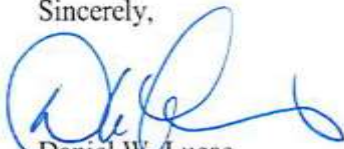
Dear Ms. Harvey:

Enclosed is our final report of *Audit of District of Columbia Agencies' Compliance With Small Business Enterprise Expenditure Goals* (OIG No. 15-2-03EN). My Office performed this audit to address a council member's concerns about the significant decline in agencies' expendable budgets, as reported by the Department of Small and Local Business Development (DSLBD) during fiscal year (FY) 2014.

As a result of our audit, we directed 18 recommendations to DSLBD for actions necessary to correct the described deficiencies. On May 20, 2015, DSLBD provided a response to a draft of this report and agreed with all 18 recommendations made in the report. DSLBD actions taken and/or planned are considered to be responsive and meet the intent of the recommendations. However, DSLBD did not provide planned completion dates for Recommendations 1, 4, and 12. Therefore, we request that DSLBD provide us with completions dates for these recommendations by June 18, 2015. The complete text of DSLBD's response is included at Appendix C.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions concerning this report, please contact me or LaDonia Wilkins, Acting Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Daniel W. Lucas  
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

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Ms. Ana Recio Harvey  
Director, DSLBD  
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June 4, 2015  
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The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial Services and General Government, Attention: Shalanda Young (via email)

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The Honorable Chris Coons, Ranking Member, Senate Subcommittee on Financial Services and General Government, Attention: Marianne Upton (via email)

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# Introduction

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## Overview

The Office of Inspector General (OIG) completed its *Audit of District of Columbia Agencies' Compliance With Small Business Enterprise Expenditure Goals (OIG No. 15-2-03EN)*. The audit addressed a council member's concerns about the significant decline in agencies' expendable budgets reported by the Department of Small and Local Business Development's (DSLBD) during fiscal year (FY) 2014.

## Objectives, Scope, and Methodology

The audit objectives were to determine: (1) whether DSLBD provided adequate management oversight over agencies' compliance with SBE spending goals; (2) the reasons for declines in agencies' SBE spending goals; and (3) whether DSLBD established adequate internal controls over the agencies' expendable budget goal-setting process. Our scope covered all District agencies' expendable budgets and reported expenditures during FY 2014.

To obtain a general understanding of the processes used to establish District agencies' expendable budgets and monitor agencies' compliance with reporting requirements, we conducted interviews with DSLBD officials and agency certified business enterprise (CBE) compliance officers.

We relied on computer-processed data from the System of Accounting and Reporting (SOAR) to obtain detailed information on vendor spending for FY 2014. We performed no formal reliability assessment of the computer-processed data because the SOAR application reliability testing was performed previously during the audit of the Comprehensive Annual Financial Report (CAFR) and found to be reliable.<sup>1</sup>

While we did not perform formal reliability tests of computer-processed data, we obtained and compared agencies' expendable budget information from the DSLBD Agency Certified Small Business Enterprises (CSBEs) Compliance Reporting application to the information obtained from the FY 2014 *District Government's Proposed Budget and Financial Plan* (Budget Book) established by the Office of the Chief Financial Officer (OCFO), and noted that the information agreed. We also compared agencies' self-reported expenditures from the CSBEs Compliance Reporting application with actual spending information in the SOAR general ledger and noted that the information did not agree.

This performance audit was conducted 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.

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<sup>1</sup>[Http://oig.dc.gov/service/oig-reports](http://oig.dc.gov/service/oig-reports).

# Introduction

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## Background

DSLBD supports the development, economic growth, and retention of District-based businesses, and promotes economic development throughout the District's commercial districts. DSLBD serves as the District of Columbia's small business services agency and administers the city's Certified Business Enterprise (CBE) program. This program provides District-based firms with advantages for doing business with the District government, and expands the number of District-sponsored development projects that are available to CBEs.

During our research, we obtained various criteria that cover the processes by which District agencies' expendable budgets and SBE spending goals are determined. Primarily, D.C. Code § 2-218.41(a) requires District agencies to exercise their contracting and procurement authority to meet, annually, the goal of procuring and contracting 50 percent of their expendable budgets to qualified small business enterprises.

The CBE program is designed to assist District agencies in meeting the required SBE spending goal by directing spending to DC-based businesses that support and contribute to job creation, expand the city tax base, and stimulate the local economy.

DSLBD uses the DSLBD Agency CSBEs Compliance Reporting application to monitor each District agency's annual goal of spending 50 percent of its expendable budget with CSBEs. The CSBEs Compliance Reporting is a web-based application with automated features that encompass forms and tables for data entry input by designated agency representatives.

DSLBD monitors all agencies in the annual *District Government's Proposed Budget and Financial Plan* issued by OCFO. Each agency director must appoint a CBE compliance officer (CCO) to represent their agency in the SBE goal-setting and expenditure-reporting processes. CCOs use the CSBEs Compliance Reporting application to submit annual and quarterly information to DSLBD, such as the procurement annual plan, Annual Allocation Letter (AAL), Operating Expense Checklist (OEC), expendable budget, CSBE goal, and any changes that may occur regarding the goal.

Each FY, and as part of the SBE goal-setting process, DSLBD provides a baseline CSBE goal for each agency in the CSBEs Compliance Reporting application. DSLBD also works with District agencies to determine each's "expendable budget," or the "total budget of the agency, reduced by funding sources, object classes, objects, and other items identified by the agency and approved by the [DSLBD Director]."<sup>2</sup> At least 60 days before the start of the FY, DSLBD provides each agency with:

- (1) a list of comptroller object codes that each agency must use to exclude certain funding sources from its appropriated budget; and

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<sup>2</sup> 27 DCMR § 830.1.



# Introduction

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- (2) an allocation letter that details the agency's appropriated budget, expendable budget, and expected minimum SBE expenditures for the FY.<sup>3</sup>

No later than 30 days prior to the beginning of the FY (October 1), each CCO must input into the database: (1) the dollar amount of each comptroller object code with the amount of their agency's total appropriated budget; and (2) their agency's special exceptions, or budget exclusions derived from comptroller object codes not listed by DSLBD.<sup>4</sup> When requesting a special exception, agencies must provide the comptroller source group and object code, with a description of the expenditure, vendor name, and corresponding dollar amount.<sup>5</sup> DSLBD must approve a special exception before an agency may exclude the amount from its expendable budget.<sup>6</sup>

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<sup>3</sup> *Id.* §§ 830.2 and 831.1.

<sup>4</sup> 27 DCMR §§ 830.3 - .4.

<sup>5</sup> *Id.* § 830.4.

<sup>6</sup> *Id.* § 830.7.

# Results

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## Finding 1: Inadequate Management Oversight

### SYNOPSIS

DSLBD did not: (1) monitor agency compliance with quarterly and annual SBE spending goal reporting requirements; (2) direct agencies to only track expenditure reporting against their approved expendable budgets; and (3) require all budget codes, as identified in the OCFO budget book, to be included in SBE compliance reporting.

The lack of management oversight occurred because DSLBD established no effective process to monitor agencies' quarterly and annual self-reporting procedures to determine whether reported expenditures were reliable, accurate, complete, and verifiable. Also, the CSBE Compliance Reporting application that agencies used to itemize expenditures did not have automated controls to ensure that the vendor entered into the application was a qualified SBE on the effective date of the transaction, or require transaction-level detail that would be traceable to the general ledger. Further, during FY 2014, DSLBD did not have sufficient staff to oversee the expenditure-reporting process. As a result, 72 of 82 District agencies that DSLBD monitored in FY 2014 did not accurately report their SBE expenditures.

### DISCUSSION

**Monitoring SBE Spending Goals.** DSLBD did not monitor agency compliance with the statutory reporting requirements governing the SBE program. DSLBD did not monitor compliance with the quarterly and annual agency reporting requirements,<sup>7</sup> require the source of reporting to be the general ledger,<sup>8</sup> or inform agencies of reporting deficiencies within 30 days of receipt of the agencies' reports.<sup>9</sup>

In addition, 27 DCMR § 809.2 states that “[a] CBE<sup>10</sup> that was previously certified but the certification has expired shall not be eligible for any benefits provided under the Act or these regulations until such time as the CBE has been recertified.” Transactions with vendors between certification periods cannot be counted toward SBE spending goals.

The lack of monitoring occurred because the goal-setting and expenditure-reporting processes were handled primarily by one DSLBD employee who could not manage the work volume required to support over 80 District agencies. We also determined that the computerized input form that agencies used to report expenditures did not have a program instruction that tests the validity of the vendor identified was a qualified SBE on the effective date of the transaction. Further, we determined that the computerized input form did not require transaction information that ties to the general ledger.

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<sup>7</sup> D.C. Code § 2-218.53(c).

<sup>8</sup> D.C. Code § 2-218.53(a).

<sup>9</sup> 27 DCMR § 833.5.

<sup>10</sup> To be a qualified Small Business Enterprise, a business is required to be Certified Business Enterprise.

# Results

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To test the accuracy of District agency reports of SBE expenditures, we extracted the self-reported data from the CSBEs Compliance Reporting application and compared it to actual spending reported in the SOAR general ledger. OCFO provided us the general ledger data, which did not include detailed purchase card spending transactions. We obtained this information from the Office of Contracting and Procurement (OCP), and compared it to the purchase card payment information recorded in the general ledger data.

We made our comparison on an aggregate basis using the vendor's federal employer identification number (FEIN), as agencies do not report transaction information to DSLBD. Further, we only considered expenditures with SBE vendors certified as of the effective date of the transaction, as recorded in the general ledger. According to the general ledger data, aggregate spending with SBE vendors during the first three quarters<sup>11</sup> of the audit period was \$189.3 million,<sup>12</sup> whereas, agencies self-reported expenditures in the CSBEs Compliance Reporting application were \$170.0 million during this period.<sup>13</sup>

We analyzed the difference between self-reported amounts and the general ledger and identified the following deficiencies in agencies' self-reported expenditures:

- (1) purchase order values reported as expenditures;
- (2) expenditures via purchase card and direct vouchers excluded;
- (3) expenditures with certain vendors whose periods of SBE certification had lapsed;
- (4) inaccurate information due to manual keying errors;
- (5) various expenditures incurred, but not reported during the reporting period;
- (6) incorrect FEINs; and
- (7) expenditures against subsidies and transfers not included in agencies' expendable budgets.

As a result, 72 of the 82 District agencies did not accurately report their SBE expenditures. We noted a net underreporting of \$19.3 million in CSBE spending through the third quarter<sup>14</sup> of FY 2014. This net underreporting comprised 36 agencies overreporting their SBE expenditures by \$26.3 million and 36 other agencies underreporting their SBE expenditures by \$45.6 million.

**Expenditure Reporting Against Expendable Budgets.** Certain District agencies self-reported expenditures that exceeded their approved expendable budgets.<sup>15</sup> According to the CSBEs Compliance Reporting application, the expendable budgets for all District agencies in FY 2014 totaled \$457 million, but reported expenditures totaled \$1.231 billion, exceeding total expendable budgets by \$774 million. Therefore, approximately two-thirds of the expenditure

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<sup>11</sup> Our analysis was conducted through the third quarter because fourth quarter reporting was not required to be completed until 30 days after the issuance of the CAFR per D.C. Code § 2-218.53(b).

<sup>12</sup> This amount only includes agencies using the SOAR general ledger and does not reflect FY 2014 transactions that were paid after January 22, 2015, accruals, or CAFR adjustments.

<sup>13</sup> This amount excludes the five reporting agencies that do not use the SOAR general ledger.

<sup>14</sup> See *supra* note 10.

<sup>15</sup> Per 27 DCMR § 899.1, "expendable budget" means "the total budget of an agency, reduced by such funding sources, object classes, objects, and other items as shall be identified by [DSLBD]."

# Results

data reported, based on dollar value, were not required for compliance reporting purposes, and should have caused stakeholders to question the validity of the approved expendable budgets.

D.C. Code § 2-218.53(a) states (in part) that each “agency shall list each expenditure as it appears in the general ledger from the expendable budget of the agency during the quarter.” This requirement documents agency compliance with D.C. Code § 2-218.41(a), which states that “[e]ach agency ... shall exercise its contracting and procurement authority so as to meet, on an annual basis, the goal of procuring and contracting 50% of the dollar volume of its expendable budget to qualified small business enterprises.”

We analyzed the \$774 million reported above the total FY 2014 District agencies expendable budget amount and determined that 39 agencies underreported expenditures of \$48 million, and 43 agencies overreported expenditures of \$822 million. We further analyzed the \$822 million in overreported expenditures by evaluating the reporting practices of the four agencies with the highest reported expenditures above their expendable budgets, as shown in Table 1 below.

**Table 1. Agencies With the Highest Reported Expenditures Above Their Expendable Budgets (in millions)**

Agency Name	Approved Annual Expendable Budget (minus exclusions)	Total Annual Expenditures Reported	Reported Expenditures in Excess of Approved Expendable Budget
Department of Behavioral Health	\$21	\$208	\$187
Department of Health	\$12	\$174	\$162
Department of General Services	\$126	\$222	\$96
Department of Transportation	\$11	\$90	\$79
<b>Total</b>			<b>\$524<sup>16</sup></b>

Our analysis indicated that the four District agencies in their quarterly expenditures amounts that were spent from excluded comptroller object codes. The agencies included amounts that should have been reported against their appropriated budgets rather than their expendable budgets.

<sup>16</sup> The total represents 64 percent of the \$822 million in over-reported expenditures.

# Results

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During our visits to selected agencies,<sup>17</sup> we observed inconsistent practices among agency CCOs. Some of the CCOs reported purchase order values without regard to the amount expended. Another CCO excluded expenditures made via the District's purchase card. Agencies' CCOs indicated that the quarterly reporting form that DSLBD provided required agencies to report on total expenditures (rather than on expenditures against expendable budgets), and DSLBD established no process for periodic verification of the quarterly spending data that agencies reported. CCOs indicated that they were not trained on how to report spending against expendable budgets.

DSLBD did not verify that agencies' expenditures were reported against their expendable budgets because staff was not trained on how to extract financial data from SOAR to make this evaluation. However, in late FY 2014, DSLBD compliance staff attended OCFO's CFO Solve Training and, they should be able to access CFO Solve Data to test or compare actual expenditures reported by the CCOs. Also, the agencies' CCOs indicated that DSLBD never came out and looked into the processes they used to capture and report expenditures. Site visits by DSLBD to monitor agency expenditure reporting would have identified the inconsistent reporting practices that existed between the agency CCOs.

As a result, CCOs reported expenditures that were inaccurate and overstated their agencies' combined expendable budgets of \$457 million by \$774 million. Reporting excluded expenditure information may lead stakeholders to make erroneous conclusions.

**Budget Codes Excluded in Compliance Reporting.** DSLBD did not monitor and report on all budget codes as identified in the FY 2014 *District Government's Proposed Budget and Financial Plan* (Budget Book) established by OCFO. The Budget Book identifies planned expenditures by District agency (budget code) and DSLBD requires agencies to use these budget codes to ensure all spending is included and monitored for compliance with SBE spending goals. D.C. Code § 2-218.41(a) states:

Each agency, including an agency that contracts or procures in whole or in part through the Office of Contracting and Procurement, shall exercise its contracting and procurement authority so as to meet, on an annual basis, the goal of procuring and contracting 50% of the dollar volume of its expendable budget to qualified small business enterprises.

The CSBEs Compliance Reporting application states that DSLBD monitors all District government agencies in the annual Budget Book.

For agencies that DSLBD monitors, we compared the FY 2014 Budget Book data with actual spending recorded in the general ledger by agency. We noted that DSLBD did not monitor 24 of the 106 budget codes.<sup>18</sup>

All budget codes were not included in FY 2014 compliance reporting because DSLBD believed that 24 codes were fully excludable because : (1) the corresponding agencies did not have

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<sup>17</sup> Agencies visited are shown in Table 1, page 6 of this report.

<sup>18</sup> We noted that certain budget codes identified in the budget book do not represent physical agencies.

# Results

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contracting/procurement requirements; and (2) some of the codes represented subsidy and transfer funds. DSLBD documents annually why certain budget codes are not monitored and subsequently excludes them from reporting.

We disagree with DSLBD's position that the 24 codes were fully excludable because at least six of the excluded agencies, had contracting and procurement requirements. We also disagree that subsidy and transfer funds should be excluded from the compliance reporting process. DSLBD's failure to include subsidy and transfer funds in compliance reporting contradicts DSLBD's stated policy it monitors all District government spending for agencies in the Budget Book. We noted that subsidy and transfer funds were excluded from the expendable budget of the agency making the transfer but were not accounted for by the receiving agency as part of its expendable budget. Because of this audit, DSLBD told us they agreed with our position and would include all budget codes as identified in the Budget Book in future year's compliance reporting.

DSLBD's failure to include the 24 budget codes in agency compliance reporting resulted in: (1) certain spending not being formally reviewed and approved as excluded; and (2) spending for the associated 24 budget codes not being tracked in the CSBEs Compliance Reporting application.

## CONCLUSION

Because of DSLBD's failure to provide adequate management oversight of District agencies' SBE spending goals: (1) 72 of 82 District agencies inaccurately reported their FY 2014 SBE expenditures; (2) approximately two-thirds of the expenditure data reported were not required for compliance reporting purposes; and (3) all budget codes as reflected in the FY 2014 Budget Book were not included in their compliance reporting.

Therefore, DSLBD's policies and processes should be amended to include all budget codes in compliance reporting and management should monitor the processes to ensure accurate and complete agency reporting. Accurate SBE expenditure reporting should contain spending against the expendable budget, with information traceable to the general ledger and tested for reliability.

## RECOMMENDATIONS

We recommend that the Director, DSLBD:

- (1) Verify agencies' reported expenditures for accuracy, completeness, and compliance with quarterly and annual reporting requirements.
- (2) Track and notify agencies, within 30 days of reporting, of any deficiencies with their expenditure amounts, as identified through the verification process.

# Results

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- (3) Instruct agencies to omit reporting spending with any SBE with expired certification as SBE expenditures.
- (4) Link the CSBEs Compliance Reporting application to SOAR to automate quarterly agency reporting to compare quarterly general ledger activity by fund type, FEIN, and effective date to a listing of CBEs by FEIN and certification dates.
- (5) Require the agency head or designee to review and certify CBE compliance officer activities to assure DSLBD that the reported information is accurate, complete, and current.
- (6) Pending automatic quarterly agency reporting, amend the computerized input form in the CSBEs Compliance Reporting application to include tracking of vendor invoice numbers or other information to identify transactions, and provide a program instruction that tests the validity of the vendor certification status on the effective date of the transaction.
- (7) Establish standard report formats to assist agencies in extracting data from the general ledger for reporting.
- (8) Verify FEINs in SOAR, when certifying or recertifying CBEs to ensure data integrity between the CSBEs Compliance Reporting application and SOAR. Report incorrect FEINs in SOAR to OCFO for correction, with credible supporting evidence.
- (9) Establish a control procedure to ensure that subsidies and transfers between agencies are included in the expendable budget of the receiving agency.
- (10) Modify the CSBE Compliance Report heading from “Total Expenditures” to “Total Expenditures from Expendable Budget” to accurately indicate the information required and depict the information presented.
- (11) Train agency CBE compliance officers on how to report SBE spending against expendable budgets.
- (12) Review agencies’ reported spending on a quarterly basis to ensure compliance with D.C. Code § 2-218.53(a).
- (13) Monitor all budget codes in agency reporting to ensure that SBE compliance includes all monies the District disbursed.

## **DSLBD RESPONSE**

DSLBD officials provided us with a written response to a draft of this report on May 20, 2015, in which it agreed with all 13 recommendations. DSLBD indicated it intends to implement all planned actions by the

# Results

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end of September 2016, with the exception of Recommendations 1, 4, and 12. The complete text of DSLBD's response is included at Appendix C.

## OIG COMMENTS

We consider the actions taken or planned by DSLBD to be responsive and meet the intent of the recommendations. However, DSLBD did not provide planned completion dates for Recommendations 1, 4, and 12. Therefore, we request that DSLBD provide us with completions dates for these recommendations by June 18, 2015.



# Results

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## Finding 2: Decline in Agencies' SBE Spending Goals

### SYNOPSIS

Agencies' SBE spending goals declined by 71 percent<sup>19</sup> during FY 2014 because DSLBD failed to timely establish agencies' expendable budgets as required by Title 27 DCMR. We found that DSLBD did not:

- (1) provide each agency with a list of the comptroller object codes that should have been excluded from each agency's appropriated budget, 60 days prior to the start of FY 2014;
- (2) ensure that each agency provided DSLBD with the excludable dollar amount in each comptroller object code, with the amount of the total appropriated budget, 30 days prior to the start of FY 2014; and
- (3) establish and provide agencies with allocation letters that set forth their expendable budgets at least 60 days prior to the beginning of FY 2014.

SBE spending goals declined primarily because DSLBD was not adequately staffed to establish agencies' expendable budgets in the required timeframe. As a result, the combined SBE spending goal had been overstated by \$550 million, and DSLBD provided District stakeholders with inaccurate information regarding the expendable budgets available to SBEs during the first 7 months of FY 2014. During the 3<sup>rd</sup> and 4<sup>th</sup> quarters of FY 2014, agencies reported significant amounts of exclusions that reduced their combined FY 2014 SBE spending goal from \$779 million to \$229 million (see Appendix B).

### DISCUSSION

To identify specific concerns that the OIG needed to address, we met, in early January 2015, with the council member who requested the audit. During the meeting, the council member provided a document that identified \$1.56 billion as the agencies' total expendable budgets as of April 30, 2014. The same document indicated this amount decreased to \$457 million by the end of FY 2014 on September 30, 2014. We used the CSBEs Compliance Reporting application's breakdown of the total expendable budget by each agency to validate the aforementioned information (see Appendix B).

To reconcile the \$1.1 billion reduction of expendable budgets, we analyzed the information in the CSBEs Compliance Reporting application and identified the following changes or budget exclusions that DSLBD approved:

- The expendable budget for 18 agencies increased by \$54 million.
- The expendable budget for 36 agencies decreased by \$1.154 billion.

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<sup>19</sup> The 71 percent is calculated based on the net reduction of combined SBE spending of \$550 million divided by the base amount of \$779 million.

# Results

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To identify the reasons the expendable budgets for the 36 agencies decreased, we selected for examination the three agencies with the greatest reductions, as detailed in Table 2 below.

**Table 2. Agencies With Greatest Decreases in Expendable Budgets (in millions)**

Agency Name	Approved Annual Expendable Budget at Quarter 1 (Q1)	Approved Annual Expendable Budget at Quarter 4 (Q4)	Decrease from Q1 to Q4
Office of the State Superintendent of Education (OSSE)	\$401	\$2	\$399
Department of Housing and Community Development (DHCD)	\$208	\$3	\$205
District Department of Transportation	\$169	\$11	\$158
<b>Total</b>			<b>\$762<sup>20</sup></b>

To understand DSLBD’s process, we met with DSLBD’s senior compliance specialist who approved changes or exclusions to the agencies’ expendable budgets in the CSBEs Compliance Reporting application. We learned that DSLBD relied exclusively on the explanations that agencies provided in the application to approve the changes or exclusions. We also noted that the application included a section for agencies to upload documentation to support their explanations. However, we noted that agencies did not upload documentation in the CSBEs Compliance Reporting application to support their explanations. Absent supporting documentation to review, the audit team contacted agency CCOs and requested the following items to aid in our analysis:

- a report identifying the submission dates for exclusions;
- a report identifying the dates that the agency learned of the exclusions;
- documentation to support the explanations that agencies provided for the exclusions, except for personnel services; and
- a memorandum from each agency that states, for FY 2014, how each agency complied with the requirements in 27 DCMR § 830 concerning the timing for reporting exclusions to DSLBD.

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<sup>20</sup> Total represents 66 percent of the \$1.154 billion decrease in agencies’ expendable budgets.

# Results

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In the next sections, we present the conditions noted during our review of the processes the three District agencies used when establishing their expendable budgets.

**Excludable List of Comptroller Object Codes.** Prior to the beginning of FY 2014, DSLBD did not establish and provide each agency with a list of the comptroller object codes that should have been excluded from the agency's appropriated budget. Title 27 DCMR § 830.2 states, "Sixty (60) days prior to the beginning of each fiscal year, the Department shall provide each agency with a list of the comptroller object codes that shall be excluded from the agency's appropriated budget." The comptroller object codes are used to classify costs in the District's annual operating budget prepared by OCFO. OCFO classifies the operating costs into two broad categories: personnel and non-personnel services.

To comply with 27 DCMR § 830.2, DSLBD should exclude the comptroller object codes for personnel and benefit costs, fixed operating costs, and federal funds from all agency budgets prior to the beginning of each FY. These elements can be excluded because agencies do not have contracting/procurement authority for these types of costs. During our analysis of the \$762 million decrease in the three agencies' expendable budgets, however, we found that most of DSLBD's approvals after May 1, 2014, were for personnel and benefit costs, fixed operating costs, and federal funds. For example, \$297 million of the \$399 million excluded from OSSE's budget was for federal grant funds that should have been excluded prior to the beginning of the FY (see Table 2 on page 11).

We discussed the late exclusions of the comptroller object codes with a DSLBD official and requested a written explanation of why DSLBD did not comply with 27 DCMR § 830.2. According to the official's statement:

DSLBD did not fully execute this provision due to staffing shortages and improvements needed in [CSBEs Compliance Reporting application]. The initial 2014 goal-setting process was handled primarily by one (1) employee in consultation with DSLBD management. It was not until [the] 3rd Quarter - April 2014 that the agencies were sub-divided among Compliance Specialists, who assumed responsibility for continuing to work with and monitor various assigned agencies.

As a result, DSLBD belatedly approved exclusions for 54 District agencies, decreasing District agencies' combined SBE spending goal by a net amount of \$550 million for the period of May 1, 2014, through September 30, 2014 (see Appendix B).

**Agencies' Excludable Amounts.** Prior to the start of FY 2014, not all District agencies submitted the dollar amount in each comptroller object code and provided their budget exclusion amounts to DSLBD. Title 27 DCMR § 830.3 states, "No later than thirty (30) days prior to the beginning of each fiscal year, each agency shall provide the dollar amount in each comptroller object code along with the amount of the total appropriated budget." Title 27 DCMR § 830.4 provides: "No later than thirty (30) days prior to the beginning of the fiscal year, each agency may request special exceptions under other comptroller object codes not included in the list provided by the Department for exclusion . . . ."

# Results

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Our review of the three agencies' expendable budgets in the CSBEs Compliance Reporting application indicated that the agencies submitted almost all of their budget exclusions in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the year. We found that DHCD submitted none of its budget exclusions until August 2014 (see Table 2 on page 11).

This condition occurred because the timetable that DSLBD established for agencies to submit their budget exclusions contradicted District regulations. District agencies reported significant amounts of exclusions that reduced their combined FY 2014 SBE spending goal from \$779 million to \$229 million during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of FY 2014 (see Appendix B).

We requested a DSLBD official to provide us with a written explanation regarding this issue. The official's response was:

Pursuant to established guidelines, agencies are requested to start providing this information as early as July with an expectation that the process will be completed prior to the beginning of the fiscal year. Agencies that fail to meet established deadlines are identified as delinquent and generally given additional time to submit required information.

DSLBD should limit approval of exclusions during the fiscal year to only exceptions that meet the requirements in 27 DCMR § 830.5, which states, "If an agency receives unanticipated funding, experiences a reduction in funding, or experiences any other change in circumstances that affects its expendable budget or special exceptions, then the agency shall communicate that change to the Department in writing and the Department shall adjust accordingly the expendable budget or special exceptions of the agency."

**Agencies' Expendable Budgets.** DSLBD did not establish and provide agencies with allocation letters that set forth their expendable budgets at least 2 months prior to the beginning of FY 2014, as required by District regulations.

Title 27 DCMR § 831.1 states:

The Department shall provide an agency allocation letter to each agency two (2) months prior to the beginning of each fiscal year that details :

- (a) The name of the agency;
- (b) The fiscal year for which the agency is submitting the allocation letter;
- (c) The budget of the agency approved by Council for the fiscal year;
- (d) The expendable budget of the agency for the fiscal year; and
- (e) The agency's SBE expected minimum expenditures for the fiscal year.

We attribute this condition to DSLBD's failure to establish the agencies' budget exclusions 60 days prior to the beginning of FY 2014, as required by 27 DCMR § 830.2.

As a result, DSLBD reported certain agency appropriated budgets without approved exclusions during the first 7 months of FY 2014. For example, DSLBD reported DHCD's entire

# Results

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appropriated budget of \$208 million—with no exclusions—during the first 7 months of FY 2014 (see Table 2 on page 11). Overall, DSLBD overstated agencies expendable budgets by a net amount of \$1.1 billion and SBE spending goals by a net amount of \$550 million for the same period (see Appendix B).

## CONCLUSION

District agencies' SBE spending goals declined by 71 percent because DSLBD failed to timely establish agencies' expendable budgets as required by District regulations. DSLBD should independently review the District's annual operating budget and capital plan to exclude the comptroller object codes for personnel and benefit costs, fixed operating costs, and federal funds from all agency budgets no later than 60 days prior to the beginning of each FY. This will help DSLBD ensure that 30 days prior to the beginning of each FY, each agency shall confirm the dollar amount in each comptroller object code and submit any needed special exceptions for DSLBD's approval. DSLBD can accurately and completely report agencies' expendable budgets and SBE goals on a timely basis.

Subsequent to the completion of our field work, the DSLBD Director provided a copy of its revised procedures, which include timelines consistent with those contained in Title 27 DCMR. In addition, the revised procedures state that by July 1, 2015, DSLBD will review the Budget Book and develop a list of object codes automatically excluded from all agency budgets.

## RECOMMENDATION

We recommend that the Director, DSLBD:

- (14) Implement the timelines and procedures identified in DSLBD's Revised Procedures for Setting Annual Goals and Reporting Requirements to comply with 27 DCMR §§ 830 and 831.

## DSLBD RESPONSE

DSLBD officials provided us with a written response to a draft of this report on May 20, 2015, in which it agreed with the recommendation. DSLBD indicated it intends to implement all planned actions by the end of September 2015. The complete text of DSLBD's response is included at Appendix C.

## OIG COMMENTS

We consider the actions taken or planned by DSLBD to be responsive and meet the intent of the recommendation.

# Results

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## **Finding 3: Inadequate Internal Controls Over Agencies' Expendable Budget Goal-setting Process**

### **SYNOPSIS**

DSLBD did not establish and implement adequate internal controls over agencies' expendable budget goal-setting process. We determined that DSLBD did not:

- (1) establish and implement Standard Operating Procedures (SOPs);
- (2) provide adequate staff to support the agencies' expendable budget goal-setting process;
- (3) set cut-off dates for establishing SBE goals;
- (4) restrict employees' access to the CSBEs Compliance Reporting application; and
- (5) establish a management authorization and approval process in the CSBEs Compliance Reporting application.

The lack of adequate internal control occurred in part because DSLBD officials did not appear to fully understand the importance of establishing and implementing controls over the expendable budget goal-setting process. During the audit, the OIG requested a DSLBD official to identify the control activities they used to manage the agencies' expendable budget goal-setting process. In response to this request, DSLBD provided 27 DCMR § 830, which does not include policy, procedures, and controls related to agency operations.

Therefore, we conclude that DSLBD did not have adequate control over the agencies' expendable budget goal-setting process to provide reasonable assurance that material errors in reporting SBE goals would be prevented or detected.

### **DISCUSSION**

We used the COSO<sup>21</sup> *Internal Control–Integrated Framework* to evaluate the adequacy of internal controls that DSLBD used when establishing agencies' expendable budgets and SBE goals. COSO identifies components of internal control, including:

- *Control Activities* – The policies and procedures that help ensure management directives are carried out, and necessary actions are taken to address risks to achieve the entity's objectives.
- *Monitoring* – The process that assesses the quality of the internal control system's performance over time, which is accomplished through ongoing and periodic monitoring

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<sup>21</sup> Committee of Sponsoring Organizations of the Treadway Commission

# Results

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activities in operations. Monitoring includes regular management and supervisory activities designed to promptly identify and address internal control deficiencies.<sup>22</sup>

Below, we discuss internal controls weaknesses the audit found in DSLBD's expendable budget goal-setting process.

**Written Policies and Procedures.** DSLBD had not established formal written policies and procedures to ensure DSLBD personnel carry out management directives when establishing agencies' expendable budgets. During the audit, we requested a copy of any written policies and procedures that covered the process for establishing the agencies' expendable budgets to determine SBE spending goals. Subsequent to the meeting, a DSLBD official provided us with a copy of draft procedures for the goal-setting process which were not finalized and formally issued. Since completing our field work, the Director of DSLBD provided us with a copy of new formal procedures implemented to cover the goal-setting process beginning in FY 2016.

Written policies and procedures provide a foundation for the understanding to conduct a sound and effective goal-setting process. Making these formal guidelines available to DSLBD employees will increase the likelihood that performance expectations are understood, uniform standards are applied, and regulatory requirements are appropriately and consistently addressed.

**Inadequate Staffing.** During our review of the CSBEs Compliance Reporting application, we noted that approval of agencies' proposed budget exclusions was primarily handled by one DSLBD senior compliance specialist during the first 7 months of the year.

We discussed this condition with DSLBD officials who confirmed that, during FY 2014, the goal-setting and expenditure-reporting process was primarily handled by one DSLBD employee, and the employee could not manage the work volume required to support over 80 District agencies. During the 3<sup>rd</sup> and 4<sup>th</sup> quarters of FY 2014, DSLBD increased the compliance group to eight full-time positions with two positions vacant. Because of the increased staffing, DSLBD could review and approve significant changes to agencies' expendable budgets during the last 5 months of the FY.

**Failure to Adhere to Submission Deadline for Changes.** District agencies did not submit changes to their expendable budgets at least 30 days prior to the beginning of the FY, as required by Title 27 DCMR § 830.3. According to certain CCOs, failure to adhere to the submission deadline occurred because DSLBD did not enforce the deadline and instead permitted agencies to submit changes to their expendable budgets throughout the year.<sup>23</sup> DSLBD established and reported inaccurate SBE spending goals to District stakeholders for the first 7 months of the FY.

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<sup>22</sup> <http://www.coso.org/documents/internal%20control-integrated%20framework.pdf> (last visited Mar. 25, 2015).

<sup>23</sup> These deadlines do not apply to certain changes in funding as permitted by 27 DCMR § 830.5, which states, "[i]f an agency receives unanticipated funding, experiences a reduction in funding, or experiences any other change in circumstances that affects its expendable budget or special exceptions, then the agency shall communicate that change to the Department in writing and the Department shall adjust accordingly the expendable budget or special exceptions of the agency."

# Results

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**Application Access Controls.** A DSLBD employee had unrestricted access to the CSBEs Compliance Reporting application, including administrative rights. This employee changed data entered by agency CCOs and removed approvals without the agency's knowledge. This condition occurred because DSLBD management did not restrict the assigned user permissions in the application.

According to best practices, permissions within an application should be aligned with a user's job responsibilities to prevent unauthorized addition, modification, deletion, or disclosure of data. Segregation of duties (SOD) divides incompatible functions within a process among different individuals to prevent one individual from having the ability to authorize, perform, and monitor a particular activity or function.

There was a SOD control deficiency user was because the user was allowed to add, modify, and delete data, and execute transactions outside the user's official duties. This deficiency could adversely affect the integrity and availability of the data.

## CONCLUSION

Because DSLBE officials did not understand the necessity of budget goal-setting procedures, we conclude that DSLBD did not implement adequate controls over the agencies' expendable budget goal-setting process to provide reasonable assurance that material errors in reporting agencies' SBE goals would be prevented or detected in a timely manner.

## RECOMMENDATIONS

We recommend that the Director, DSLBD:

- (15) Identify and establish the staff level and skill sets required to support the SBE goal-setting and expenditure-reporting processes, pending the decision to automate the processes.
- (16) Establish cut-off dates for the SBE goal-setting and expenditure-reporting processes to comply with the D.C. Code and Title 27 DCMR requirements.
- (17) Restrict employee access to the DSLBD Agency CSBEs Compliance Reporting application to ensure the integrity and reliability of the information recorded.
- (18) Define and implement an access control policy to establish management authorization and approval levels in the DSLBD Agency CSBEs Compliance Reporting application.



# Results

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## **DSLBD RESPONSE**

DSLBD officials provided us with a written response to a draft of this report on May 20, 2015, in which it agreed with all four recommendations. DSLBD indicated it intends to implement all planned actions by August 1, 2015. The complete text of DSLBD's response is included at Appendix C.

## **OIG COMMENTS**

We consider the actions taken or planned by DSLBD to be responsive and meet the intent of the recommendation.

# Appendix A

## Summary of Audit Findings and Recommendations

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
1. To determine whether DSLBD provided adequate management oversight over agencies' compliance with SBE spending goals.	<b>Monitoring SBE Spending Goals.</b> <i>DSLBD did not monitor agency compliance with quarterly and annual reporting requirements.</i>	(1) Verify agencies' reported expenditures for accuracy, completeness, and compliance with quarterly and annual reporting requirements.	<b>Internal Controls and Compliance.</b> Ensures compliance with the quarterly and annual reporting requirements.	Non-Monetary	TBD	Open
		(2) Track and notify agencies, within 30 days of reporting, of any deficiencies with their expenditure amounts, as identified through the verification process.	<b>Internal Controls and Compliance.</b> Ensures that agencies timely correct reporting deficiencies.	Non-Monetary	9/30/2016	Open
		(3) Instruct agencies to omit reporting spending with any SBE with expired certification as SBE expenditures.	<b>Compliance.</b> Ensures that agencies include only expenditures to certified SBEs.	Non-Monetary	7/31/2015	Open

<sup>24</sup> This column provides the status of a recommendation as of the report date. For final reports, “Open” means management and the OIG are in agreement on the action to be taken, but action is not complete. “Closed” means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management’s response is used. “Unresolved” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
Audit Objective 1 continued.		(4) Link the CSBEs Compliance Reporting application to SOAR to automate quarterly agency reporting to compare quarterly general ledger activity by fund type, FEIN, and effective date to a listing of CBEs by FEIN and certification dates.	<b>Internal Controls, Economy and Efficiency.</b> Improves efficiency of quarterly reporting, and ensures that agencies' reported expenditures are accurate and complete.	Non-Monetary	TBD	Open
		(5) Require the agency head or designee to review and certify CBE compliance officer activities to assure DSLBD that the reported information is accurate, complete, and current.	<b>Internal Controls.</b> Provides reasonable assurance that agencies report expenditures that are accurate, complete, and current.	Non-Monetary	08/01/2015	Open

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
Audit Objective 1 continued.		<p>(6) Pending automatic quarterly agency reporting, amend the computerized input form in the CSBEs Compliance Reporting application to include tracking of vendor invoice numbers or other information to identify transactions, and provide a program instruction that tests the validity of the vendor certification status on the effective date of the transaction.</p>	<p><b>Internal Controls.</b> Ensures transparency and auditability of agencies' spending reports.</p>	Non-Monetary	08/01/2015	Open
		<p>(7) Establish standard report formats to assist agencies in extracting data from the general ledger for reporting.</p>	<p><b>Internal Controls.</b> Ensures that the information in the agency report can be audited and traced to the general ledger.</p>	Non-Monetary	05/20/2015	Closed

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
Audit Objective 1 continued.		(8) Verify FEINs in SOAR, when certifying or recertifying CBEs to ensure data integrity between the CSBEs Compliance Reporting application and SOAR. Report incorrect FEINs in SOAR to OCFO for correction, with credible supporting evidence.	<b>Internal Controls.</b> Ensures the integrity of computer information.	Non-Monetary	5/20/2015	Closed
		(9) Establish a control procedure to ensure that subsidies and transfers between agencies are included in the expendable budget of the receiving agency.	<b>Internal Controls.</b> Ensures that agencies' expendable budgets are accurate and complete.	Non-Monetary	08/01/2015	Open
	<b>Expenditure Reporting Against Expendable Budgets.</b> <i>DSLBD did not direct agencies to track only expenditure reporting against their approved expendable budgets.</i>	(10) Modify the CSBE Compliance Report heading from "Total Expenditures" to "Total Expenditures from Expendable Budget" to accurately indicate the information required and depict the information presented.	<b>Internal Controls, Compliance, and Economy and Efficiency.</b> Ensures that agencies report their spending against expendable budgets.	Non-Monetary	08/01/2015	Open

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
Audit Objective 1 continued.		(11) Train agency CBE compliance officers on how to report SBE spending against expendable budgets.	<b>Internal Controls, Compliance, and Economy and Efficiency.</b> Ensures that agencies report expenditures that are accurate and complete.	Non-Monetary	05/20/2015	Closed
		(12) Review agencies' reported spending on a quarterly basis to ensure compliance with D.C. Code § 2-218.53(a).	<b>Internal Controls and Compliance.</b> Ensures that agencies report expenditures that are accurate and complete.	Non-Monetary	TBD	Open
	<b>Budget Codes Excluded in Compliance Reporting.</b> <i>DSLBD did not monitor and report on all budget codes.</i>	(13) Monitor all budget codes in agency reporting to ensure that SBE compliance includes all monies the District disbursed.	<b>Internal Controls and Compliance.</b> Promotes clarity for reporting agencies and facilitates accurate reporting.	Non-Monetary	08/01/2015	Open

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
<p>2. To determine the reasons for declines in agencies' SBE spending goals.</p>	<p><b>Excludable List of Comptroller Object Codes.</b>  <i>Prior to the beginning of FY 2014, DSLBD did not establish and provide each agency with a list of the comptroller object codes that should have been excluded from the agency's appropriated budget.</i></p>	<p>(14) Implement the timelines and procedures identified in DSLBD's Revised Procedures for Setting Annual Goals and Reporting Requirements to comply with 27 DCMR §§ 830 and 831.</p>	<p><b>Internal Controls and Compliance.</b>            Ensures that agencies' annual SBE spending goals are timely established.</p>	<p>Non-Monetary</p>	<p>09/30/2015</p>	<p>Open</p>
	<p><b>Agencies' Excludable Amounts.</b>  <i>Prior to the start of FY 2014, not all District agencies submitted the dollar amount in each comptroller object code and provided their budget exclusion amounts to DSLBD.</i></p>					

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
Audit Objective 2 continued.	<p><b>Agencies' Expendable Budgets.</b>  <i>DSLBD did not establish and provide agencies with allocation letters that set forth their expendable budgets at least 2 months prior to the beginning of FY 2014, as required by District regulations.</i></p>					
3. To determine whether DSLBD established adequate internal controls over the agencies' expendable budget goal-setting process.	<p><b>Written Policies and Procedures.</b>  <i>DSLBD had not established formal written policies and procedures to ensure DSLBD personnel carry out management directives when establishing agencies' expendable budgets.</i></p>	(14) Implement the timelines and procedures identified in DSLBD's Revised Procedures for Setting Annual Goals and Reporting Requirements to comply with 27 DCMR §§ 830 and 831.	<p><b>Internal Controls and Compliance.</b>            Ensures that agencies' annual SBE spending goals are timely established.</p>	Non-Monetary	08/01/2015	Open



# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
Audit Objective 3 continued.	<p><b>Inadequate Staffing.</b>  <i>DSLBD did not provide adequate staff to support the agencies' expendable budget goal-setting process.</i></p>	<p>(15) Identify and establish the staff level and skill sets required to support the SBE goal-setting and expenditure-reporting processes, pending the decision to automate the processes.</p>	<p><b>Internal Controls and Compliance.</b>            Ensures that agencies comply with DSLBD policies and procedures.</p>	Non-Monetary	5/20/2015	Closed
	<p><b>Failure to Adhere to Submission Deadline for Changes.</b>  <i>District agencies did not submit changes to their expendable budgets at least 30 days prior to the beginning of the FY, as required by Title 27 DCMR § 830.3.</i></p>	<p>(16) Establish cut-off dates for the SBE goal-setting and expenditure-reporting processes to comply with the D.C. Code and Title 27 DCMR requirements.</p>	<p><b>Internal Controls and Compliance.</b>            Strengthens DSLBD's compliance and enforcement roles.</p>	Non-Monetary	04/07/2015	Closed
	<p><b>Application Access Controls.</b>  <i>DSLBD employee had unrestricted access to the CSBEs Compliance Reporting application, including administrative rights.</i></p>	<p>(17) Restrict employee access to the DSLBD Agency CSBEs Compliance Reporting application to ensure the integrity and reliability of the information recorded.</p>	<p><b>Internal Controls and Compliance.</b>            Ensures that agencies' expendable budgets and spending are timely reported.</p>	Non-Monetary	08/01/2015	Open

# Appendix A

Audit Objectives	Findings	Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status <sup>24</sup>
	<p><i>DSLBD did not establish a management authorization and approval process in the CSBEs Compliance Reporting application.</i></p>	<p>(18) Define and implement an access control policy to establish management authorization and approval levels in the DSLBD Agency CSBEs Compliance Reporting application.</p>	<p><b>Internal Controls.</b> Protects computer resources against unauthorized use, damage, loss, or modifications.</p>	<p>Non-Monetary</p>	<p>08/01/2015</p>	<p>Open</p>

# Appendix B

## Summary of Changes to Agencies SBE Goals

	Agency	Expendable Budget as of 9/30/2014 <sup>25</sup>	Expendable Budget as of 4/30/2014 <sup>26</sup>	Increase/(Decrease) In Expendable Budget
1	Office of the City Administrator	\$39,198.00	\$39,198.00	\$0.00
2	Office of the DC Auditor	\$40,277.25	\$40,277.25	\$0.00
3	Public Service Commission	\$692,023.00	\$692,023.00	\$0.00
4	Office of Human Rights	\$147,948.27	\$147,948.27	\$0.00
5	Employees' Compensation Fund	\$99,588.00	\$99,588.00	\$0.00
6	Child and Family Services Agency	\$1,303,769.97	\$489,475.00	\$814,294.97
7	Board of Elections, DC	\$510,175.00	\$510,175.00	\$0.00
8	Office on Latino Affairs	\$99,884.06	\$303,884.00	(\$203,999.94)
9	Special Education Transportation	\$1,419,649.27	\$22,219,462.00	(\$20,799,812.73)
10	DC Board of Ethics & Government Accountability	\$47,222.78	\$46,401.00	\$821.78
11	Office of the Deputy Mayor for Planning and Economic Development	\$4,794,825.28	\$943,770.00	\$3,851,055.28
12	Office of Zoning	\$359,557.00	\$359,557.00	\$0.00
13	Office of the Inspector General	\$92,973.00	\$92,973.00	\$0.00
14	Office of Motion Picture and Television Development	\$163,791.04	\$773,548.00	(\$609,756.96)
15	Fire and Emergency Medical Services Department	\$4,381,287.70	\$13,692,856.00	(\$9,311,568.30)
16	DC Office of Risk Management	\$23,789.00	\$23,789.00	\$0.00
17	Metropolitan Police Department	\$6,553,875.95	\$4,553,876.00	\$1,999,999.95

<sup>25</sup> Source of data was the CSBE Compliance Reporting application database as of September 30, 2014.

<sup>26</sup> Source of data was the CSBE Compliance Reporting application database as of April 30, 2014.

# Appendix B

	Agency	Expendable Budget as of 9/30/2014	Expendable Budget as of 4/30/2014	Increase/(Decrease) In Expendable Budget
18	Alcohol Beverage Regulation Administration	\$314,017.81	\$314,018.00	(\$0.19)
19	Commission on Arts and Humanities	\$502,824.59	\$502,824.59	\$0.00
20	Department on Disability Services	\$615,169.31	\$346,803.00	\$268,366.31
21	Department of General Services	\$125,523,667.60	\$106,929,575.00	\$18,594,092.60
22	Department of Parks and Recreation	\$2,256,113.82	\$2,534,727.00	(\$278,613.18)
23	Office of Campaign Finance	\$255,488.00	\$99,000.00	\$156,488.00
24	Department of Health Care Finance	\$7,285,316.52	\$101,866,379.00	(\$94,581,062.48)
25	Office of Cable Television	\$299,341.00	\$372,801.00	(\$73,460.00)
26	Contract Appeals Board	\$11,615.68	\$11,615.68	\$0.00
27	Department of Housing and Community Development	\$2,417,461.14	\$207,703,000.00	(\$205,285,538.86)
28	DC Department of Human Resources	\$802,433.86	\$1,443,805.00	(\$641,371.14)
29	Department of Corrections	\$18,417,193.00	\$17,903,165.00	\$514,028.00
30	Deputy Mayor for Health and Human Services	\$486,735.17	\$178,382.00	\$308,353.17
31	Office of Finance and Resource Management	\$117,846.00	\$117,846.00	\$0.00
32	Department of Youth Rehabilitation Services	\$2,651,231.44	\$2,651,231.00	\$0.44
33	Office of Police Complaints	\$34,645.58	\$34,646.00	(\$0.42)
34	Washington Convention and Sports Authority	\$22,264,497.00	\$27,895,647.00	(\$5,631,150.00)

# Appendix B

	Agency	Expendable Budget as of 9/30/2014	Expendable Budget as of 4/30/2014	Increase/(Decrease) In Expendable Budget
35	DC National Guard	\$892,393.90	\$892,393.90	\$0.00
36	Department of Human Services	\$2,647,092.00	\$6,658,750.00	(\$4,011,658.00)
37	Department of Behavioral Health	\$21,192,791.58	\$95,681,456.00	(\$74,488,664.42)
38	Public Employee Relations Board	\$33,069.98	\$1,162,000.00	(\$1,128,930.02)
39	Office on Asian and Pacific Islander Affairs	\$153,951.25	\$112,270.00	\$41,681.25
40	Department of Health	\$12,296,097.16	\$2,505,516.00	\$9,790,581.16
41	Department of Transportation	\$11,488,615.61	\$169,450,349.00	(\$157,961,733.39)
42	DC Retirement Board	\$796,695.00	\$796,695.00	\$0.00
43	Office of the Chief Financial Officer	\$16,561,995.00	\$21,724,857.00	(\$5,162,862.00)
44	Office of the State Superintendent of Education	\$2,327,719.84	\$401,443,193.00	(\$399,115,473.16)
45	Homeland Security and Emergency Management Agency	\$82,156.00	\$6,458,156.00	(\$6,376,000.00)
46	Office of the Secretary	\$151,422.00	\$4,151,422.00	(\$4,000,000.00)
47	Office of Contracting and Procurement	\$820,774.00	\$820,774.00	\$0.00
48	Department of Public Works	\$9,879,305.00	\$37,929,586.00	(\$28,050,281.00)
49	Office of Veterans' Affairs	\$13,465.01	\$13,465.00	\$0.01
50	Department of Employment Services	\$4,599,684.55	\$16,097,354.00	(\$11,497,669.45)
51	Department of Small and Local Business Development	\$74,321.00	\$74,321.00	\$0.00
52	DC Public Schools	\$14,789,292.52	\$9,450,002.00	\$5,339,290.52

# Appendix B

	Agency	Expendable Budget as of 9/30/2014	Expendable Budget as of 4/30/2014	Increase/(Decrease) In Expendable Budget
53	Captive Insurance Agency	\$9,929.00	\$9,929.00	\$0.00
54	Office of Employee Appeals	\$103,993.00	\$1,480,000.00	(\$1,376,007.00)
55	DC Lottery & Charitable Games Control Board	\$10,012,911.00	\$10,012,911.00	\$0.00
56	DC Health Benefit Exchange Authority	\$25,656,730.74	\$66,140,000.00	(\$40,483,269.26)
57	Department of Motor Vehicles	\$2,477,024.25	\$1,112,926.00	\$1,364,098.25
58	Office on Aging	\$5,135,480.58	\$2,277,461.00	\$2,858,019.58
59	Office of Planning	\$285,218.05	\$1,183,283.00	(\$898,064.95)
60	Office of the Attorney General for the District of Columbia	\$1,452,487.23	\$1,452,487.23	\$0.00
61	Office of the Mayor	\$542,345.61	\$542,345.61	\$0.00
62	District of Columbia Public Library	\$9,520,771.39	\$15,016,679.00	(\$5,495,907.61)
63	Office of Unified Communications	\$14,502,084.70	\$9,896,085.00	\$4,605,999.70
64	University of the District of Columbia	\$13,828,389.75	\$66,870,000.00	(\$53,041,610.25)
65	Office of Disability Rights	\$44,106.64	\$44,106.64	\$0.00
66	Department of Insurance, Securities and Banking	\$321,652.00	\$819,797.00	(\$498,145.00)
67	Office of the Chief Medical Examiner	\$1,473,109.00	\$607,000.00	\$866,109.00
68	Office of Administrative Hearings	\$560,605.52	\$560,605.52	\$0.00
69	Department of Forensic Sciences	\$311,109.87	\$1,194,884.00	(\$883,774.13)

# Appendix B

	Agency	Expendable Budget as of 9/30/2014	Expendable Budget as of 4/30/2014	Increase/(Decrease) In Expendable Budget
70	District Department of the Environment	\$1,433,330.69	\$84,977.00	\$1,348,353.69
71	Department of Consumer & Regulatory Affairs	\$7,860,032.00	\$7,860,032.00	\$0.00
72	Real Property Tax Appeals Commission	\$28,728.67	\$1,684,000.00	(\$1,655,271.33)
73	Office of the People's Counsel	\$682,994.66	\$744,701.00	(\$61,706.34)
74	District of Columbia Public Charter School Board	\$244,073.77	\$244,074.00	(\$0.23)
75	Deputy Mayor for Education	\$129,153.17	\$386,567.00	(\$257,413.83)
76	Office of the Tenant Advocate	\$80,408.00	\$92,528.00	(\$12,120.00)
77	Deputy Mayor for Public Safety and Justice	\$69,149.22	\$10,367,567.00	(\$10,298,417.78)
78	Office of the Chief Technology Officer	\$49,362,972.43	\$50,441,289.00	(\$1,078,316.57)
79	DC Taxicab Commission	\$2,136,977.32	\$4,200,000.00	(\$2,063,022.68)
80	Advisory Neighborhood Commissions	\$5,312.00	\$902,000.00	(\$896,688.00)
81	Housing Finance Agency	\$3,597,000.00	\$9,689,000.00	(\$6,092,000.00)
82	Not-for-Profit Hospital Corporation (United Medical Center)	\$1,760,000.00	\$110,000.00	\$1,650,000.00
	<b>Total</b>	<b>\$457,454,353.75</b>	<b>\$1,557,384,060.69</b>	<b>(\$1,099,929,706.94)</b>
	<b>SBE Spending Goals (50% of the Expendable Budgets)</b>	<b>\$228,727,176.88</b>	<b>\$778,692,030.35</b>	<b>(\$549,964,853.47)</b>

# Appendix C

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## Department of Small and Local Business Development's Response to the Draft Audit Report



### **Response to Office of the Inspector General (OIG)**

### **Draft Report of Audit of District of Columbia Agencies' Compliance With Small Business Enterprise Expenditure Goals During FY 2014 (OIG No. 15-2-03EN)**

May 20, 2015

#### **Compliance Team:**

Ronnie Edwards, Deputy Director, Compliance and Enforcement Division  
Vonetta Martin, Senior Compliance Specialist  
Audrey Buchanan, Compliance Specialist  
John Fanning, Compliance Specialist  
Cory Jefferson, Compliance Specialist  
Dian Herrman, Compliance Specialist  
Monica McCall-Matey, Compliance Specialist

A Report by the District of Columbia Department of Small and Local Business Development



# Appendix C

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Ana Harvey, Director

May 20, 2015

Daniel W. Lucas  
District of Columbia Inspector General  
Office of the District of Columbia Inspector General  
717 14<sup>th</sup> Street NW  
Washington, DC 20005

Dear Sir:

The Department of Small and Local Business Development (DSLBD) has reviewed information contained in the above referenced Office of the Inspector General (OIG) draft report. The report contains findings and recommendations following an audit of DSLBD's implementation of exclusion and expendable budget review, goal setting and general compliance.

The objectives of the audit were to determine: (1) whether DSLBD provided adequate management oversight over agencies' compliance with SBE spending goals; (2) the reasons for declines in agencies' SBE spending goals; and (3) whether DSLBD established adequate internal controls over the agencies' expendable budget goal setting process.

The draft report concluded generally that DSLBD did not fully comply with established guidelines and identified 18 specific recommendations. Enclosed for your review is our response and status update regarding each recommendation.

As previously indicated, DSLBD welcomes this audit and look forward to working in unity to improve the overall quality of services provided. We agree with the findings and recommendations contained in the report and would like to emphasize, as pointed out in the report, it was not until sometime well into FY 2014, following a reprogramming of funding, DSLBD was able to reconstruct its compliance team and initiate efforts to quantify the economic benefits of both agency contracting and subcontracting and the numerous public-private development projects throughout the city.

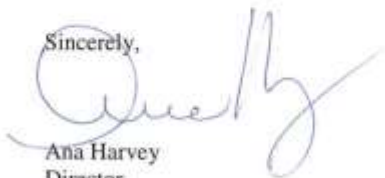
Prior to FY 2014, DSLBD had one (1) employee dedicated to monitoring and enforcement actions for more than 100 government agencies, hundreds of development projects throughout the City, and over 1100 businesses. As such, DSLBD focused on assisting agencies with goal setting and collecting contracting and subcontracting activities reported for later evaluation.

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Many of the recommendations in the report have already been implemented and/or will take effect with the start of FY 2016 starting with the establishment of deadlines and the exclusion review and goal setting process. Clearly established guidelines are being prepared and comprehensive trainings will be conducted continuously thru July 2015. Again, DSLBD appreciates the guidance provided in the report and will continue to work aggressively to rebuild databases, establish clearly defined objectives and develop a transparent system of management accountability.

Sincerely,



Ana Harvey  
Director

Enclosure

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
<p>1. To determine whether DSLBD provided adequate management oversight over agencies' compliance with SBE spending goals.</p>	<p><b>Monitoring SBE Spending Goals.</b>  <i>DSLBD did not monitor agency compliance with quarterly and annual reporting requirements.</i></p>	<p>(1) Verify agencies' reported expenditures for accuracy, completeness, and compliance with quarterly and annual reporting requirements.</p>	<p>Compliance Staff was trained during the latter part of FY 2014 on the utilization of OCFO Solve (reports from citywide SOAR). Quarterly CBE Payments reported by agencies will be compared to DSLBD's CBE certification database (CBEONLINE) status showing for a specified vendor during the period in which work was performed.</p>	<p>Ongoing</p>

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
		(2) Track and notify agencies, within 30 days of reporting, of any deficiencies with their expenditure amounts, as identified through the verification process.	Updated procedures and schedule previously submitted (see attachment #1 Goal Setting Procedures). Updated procedures and schedule previously submitted (see attachment #1). Staff conducting preliminary review of FY 2014 reported data, and will report deficiencies when identified. This process will not be fully implemented until FY 2016.	Within 30 days of receipt of report. Not later than 60 days after end of Quarter.

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Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
		(3) Instruct agencies to omit reporting spending with any SBE with expired certification as SBE expenditures.	All instructions, curriculum, training materials, etc., will be updated to emphasize the importance of verifying and maintaining certification during the term of a contract	Revised Instructions for FY 2015 (June/July)
Audit Objective 1 continued.		(4) Link the CSBEs Compliance Reporting application to SOAR to automate quarterly agency reporting to compare quarterly general ledger activity by fund type, FEIN, and effective date to a listing of CBEs by FEIN and certification dates.	DSLBD agrees with this approach and continue to work with OCFO and OCP regarding linking data. However, coordination with the City Administrator and Deputy Mayor's office will be essential to progress	Ongoing

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
		(5) Require the agency head or designee to review and certify CBE compliance officer activities to assure DSLBD that the reported information is accurate, complete, and current.	Quickbase will be modified to include a section for management approval of information reported	08/01/2015
Audit Objective 1 continued.		(6) Pending automatic quarterly agency reporting, amend the computerized input form in the CSBEs Compliance Reporting application to include tracking of vendor invoice numbers or other information to identify transactions, and provide a program instruction that tests the validity of the vendor certification status on the effective date of the transaction.	Quickbase will be updated to include Vendor Verification (VIN) and Federal Employee Identification (FEIN) numbers.  DSLBD will continue working with OCFO and OCP to link data.	08/01/2015

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
		(7) Establish standard report formats to assist agencies in extracting data from the general ledger for reporting.	DSLBD perform routine system upgrades and modifications to Quickbase in an ongoing effort to made the system more user friendly	Ongoing
Audit Objective 1 continued.		(8) Verify FEINs in SOAR, when certifying or recertifying CBEs to ensure data integrity between the CSBEs Compliance Reporting application and SOAR. Report incorrect FEINs in SOAR to OCFO for correction, with credible supporting evidence.	DSLBD has established an interim verification process. Will continue its efforts, with the support of the Office of the Mayor, to establish a system of communications among procurement related databases maintained by OCFO, OCP, DGS, DCPS and other procuring agencies	Ongoing

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
		(9) Establish a control procedure to ensure that subsidies and transfers between agencies are included in the expendable budget of the receiving agency.	Quickbase will be upgraded to include a "field" to track transfers and receipts	08/1/2015
	<p><b>Expenditure Reporting Against Expendable Budgets.</b>  <i>DSLBD did not direct agencies to track only expenditure reporting against their approved expendable budgets.</i></p>	(10) Modify the CSBE Compliance Report heading from "Total Expenditures" to "Total Expenditures from Expendable Budget" to accurately indicate the information required and depict the information presented.	Existing field will be modified as indicated.	08/01/2015



# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
Audit Objective 1 continued.		(11) Train agency CBE compliance officers on how to report SBE spending against expendable budgets.	Training has continued. "Mandatory" training will continue being conducted for agency representatives. During the first part of this quarter DSLBD met with the Deputy Mayor and all procurement officials within the entire Health Cluster and conducted four (4) separate agency briefings and/or trainings. In preparation for the start of FY 2016, Notifications/Reminders of legislative updates and training session will be submitted late May/early June. Agencies will also be reminded to keep DSLBD informed of all liaison changes so they may be trained as well.	

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
		(12) Review agencies' reported spending on a quarterly basis to ensure compliance with D.C. Code § 2-218.53(a).	SAME AS (1) ABOVE	
	<b>Budget Codes Excluded in Compliance Reporting.</b> <i>DSLBD did not monitor and report on all budget codes.</i>	(13) Monitor all budget codes in agency reporting to ensure that SBE compliance includes all monies the District disbursed.	Staff is currently reviewing the budget books in comparison with existing object codes in the FY 2015 Budget and working with IT to make necessary adjustments to ensure that all budget codes are monitored and evaluated per established requirements	08/1/2015

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
<p>2. To determine the reasons for declines in agencies' SBE spending goals.</p>	<p><b>Excludable List of Comptroller Object Codes.</b>  <i>Prior to the beginning of FY 2014, DSLBD did not establish and provide each agency with a list of the comptroller object codes that should have been excluded from the agency's appropriated budget.</i></p>	<p>(14) Implement the timelines and procedures identified in DSLBD's Revised Procedures for Setting Annual Goals and Reporting Requirements to comply with 27 DCMR §§ 830 and 831.</p>	<p>The objectives outlined in the revised procedures will be fully implemented with the start of FY 2016 Budget and Goal Setting Process.</p>	<p>09/30/2015</p>
	<p><b>Agencies' Excludable Amounts.</b>  <i>Prior to the start of FY 2014, not all District agencies submitted the dollar amount in each comptroller object code and provided their budget exclusion amounts to DSLBD.</i></p>		<p>As of FY 2015, all entities identified in the citywide Annual Operating Budget and Capital Plan will be subjected to compliance obligations unless</p>	

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
	<p><b>Agencies' Expendable Budgets.</b>  <i>DSLBD did not establish and provide agencies with allocation letters that set forth their expendable budgets at least 2 months prior to the beginning of FY 2014, as required by District regulations.</i></p>		<p>specifically exempted by the DSLBD Director. Notices of non-compliant entities will be issued accordingly.</p> <p>Quickbase will be updated to allow for development of Annual Allocation Letters with appropriate electronic signature and verification for agency directors as well as the DSLBD Director.</p>	

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
3. To determine whether DSLBD established adequate internal controls over the agencies' expendable budget goal-setting process:	<p><b>Written Policies and Procedures.</b>  <i>DSLBD had not established formal written policies and procedures to ensure DSLBD personnel carry out management directives when establishing agencies' expendable budgets.</i></p>	<p>(14) Implement the timelines and procedures identified in DSLBD's Revised Procedures for Setting Annual Goals and Reporting Requirements to comply with 27 DCMR §§ 830 and 831.</p>	<p>DSLBD will finalize its procedures manuals (internal and external) in preparation for training and dissemination prior to and during training for implementation of the FY 2016 Goals.</p>	08/01/2015
Audit Objective 3 continued.	<p><b>Inadequate Staffing.</b>  <i>DSLBD did not provide adequate staff to support the agencies' expendable budget goal-setting process.</i></p>	<p>(15) Identify and establish the staff level and skill sets required to support the SBE goal-setting and expenditure-reporting processes, pending the decision to automate the processes.</p>	<p>DSLBD is in the process of hiring two (2) additional compliance specialists resulting in a total of seven (7) specialists and a compliance director. Staff are being identified and trained regarding specific requirements and entitled to report findings accordingly</p>	

# Appendix C

Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
	<p><b>Failure to Adhere to Submission Deadline for Changes.</b>  <i>District agencies did not submit changes to their expendable budgets at least 30 days prior to the beginning of the FY, as required by Title 27 DCMR § 8.30.3.</i></p>	<p>(16) Establish cut-off dates for the SBE goal-setting and expenditure-reporting processes to comply with the D.C. Code and Title 27 DCMR requirements.</p>	<p>Timelines starting with FY 2016 have been established and forwarded to OIG under separate cover</p>	<p>Completed 04/07/2015</p>
	<p><b>Application Access Controls.</b>  <i>DSLBD employee had unrestricted access to the CSBEs Compliance Reporting application, including administrative rights.</i></p>	<p>(17) Restrict employee access to the DSLBD Agency CSBEs Compliance Reporting application to ensure the integrity and reliability of the information recorded.</p>	<p>Quickbase is being modified to ensure compliance with management oversight objectives</p>	<p>08/01/2015</p>

# Appendix C

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Audit Objectives	Findings	Recommendations	DSLBD's Response	Estimated Completion Date
	<i>DSLBD did not establish a management authorization and approval process in the CSBEs Compliance Reporting application.</i>	(18) Define and implement an access control policy to establish management authorization and approval levels in the DSLBD Agency CSBEs Compliance Reporting application.	SAME AS DIRECTLY ABOVE	08/01/2015

# Appendix C



## REVISED PROCEDURES FOR SETTING ANNUAL GOALS AND REPORTING REQUIREMENTS

### ANNUAL GOAL SETTING

**June - July 2015** - NLT than July 1, 2015, in accordance with procedures established by the Director<sup>3</sup>, DSLBD will review the District's Annual Operating Budget and Capital Plan prepared by the Office of the Chief Financial Officer (OCFO) and develop a general list of all object classes that will automatically be excluded from all agency budgets. In addition to this list, if necessary, additional codes may be added on an agency by agency basis depending on historical transactions. Once these lists are finalized, agencies will be notified via Quickbase of their DSLBD proposed Expendable Budgets.

#### **Expendable Budget –**

The **total** appropriated budget of an agency, reduced by such funding sources, object classes, objects, and other items, including any contract, the value of which does not lend itself to performance by a small or certified business enterprise, as shall be identified by the Department through rulemaking.

**July 30** – NLT July 30, DSLBD will issue electronic reminder notifications (under the Director's signature) to agency directors, budget officials and DSLBD liaisons informing them of the procedures for establishing Annual Baseline SBE Goals and timelines for finalizing the process. Agencies will be required to provide notification of changes and updated lists of related individuals at that time so that appropriate access to Quickbase may be granted.

**August 1** - NLT August 1 - "Sixty (60) days prior to the beginning of each fiscal year" agencies will be able to access Quickbase and identify the comptroller object codes that have been excluded from the agency's appropriated budget. At this time, agencies will be able to see and question its Annual Allocation as preliminarily determined by DSLBD - (i.e., its Total Approved Budget, Projected Expendable Budget (minus automatic Exclusions), and its minimum expected SBE expenditures (i.e. Annual SBE Goal).

**September 1** - NLT September 1 "thirty (30) days prior to the beginning of each fiscal year, each agency shall confirm the dollar amount in each comptroller object code and may submit supporting documentation to request **Special Exceptions** under other object codes not included in the list provided by DSLBD for exclusion from the amount of their total appropriated budget.

<sup>3</sup> Certain authorities at the discretion of the Director may be delegated to the Deputy Director who shall report to and keep the Director fully informed



# Appendix C

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Additionally agencies will be required to submit their **Annual Procurement Plans** (i.e., (identification, dollar amounts and start and ending dates of projected - new and existing - contracts and procurements, and SBE set-asides).

- If an agency cannot submit complete procurements plans as prescribed in a timely manner, NLT September 1, the agency may submit a request for extension which establishes good cause for their failure to submit.
- If an agency's procurement plans sets forth expenditures that are below the required program goals established, then the agency shall submit with its plan a request for adjustment of program goals including supporting documentation which establishes good cause for the requested adjustment.
- DSLBD shall notify an agency in writing of its approval or rejection of its procurement plan within two months of receipt (generally NLT November 1). Such notices shall include requirements that the agency submit supporting documentation, deficiencies in the plan, proposed corrective actions and a requirement that the deficiencies be remedied within a stated period of time (including attendance at meetings and trainings), and notice that failure to comply with the notice may result in enforcement action pursuant to section 2352 of the Act (i.e., directed set-asides for small businesses).

**September 30** – NLT September 30 each year, pursuant to procedures established and approved by the Director, DSLBD will review requested Special Exceptions, either approve or deny, and on or about October 1 of each year, agencies and the Council will be able to access Quickbase and see their final approved Annual SBE Baseline Goal.

**October 30** – NLT October 30 each year, DSLBD will notify the City Administrator of all deficient agencies (agencies that have failed to submit procurement plans as required).

- DSLBD will work with OCP and procurement officials of independent procurement authorities to establish a process for requiring deficient agencies to request written authority from DSLBD (via procedures established by the Director) to place any solicitation, including but not limited to Request for Proposals (RFPs), Invitation for Bids (IFBs), Requests for Qualifications (RFQs), Calls for Expressions of Interest, or Sole Source Procurements on the Open Market until the delinquent Procurement Plans are filed.
- At this time, the Director may consider an agency's prior fiscal year delinquencies in reporting Quarterly Expenditure Reports in determining whether to increase SBE set-asides for a particular agency.

**Notification of Changes** – If an agency receives unanticipated funding, experiences a reduction in funding, or experiences any other change in circumstances (budget changes) that affects its expendable budget or approved special exceptions, the agency shall communicate those changes to DSLBD in writing via Quickbase and DSLBD will adjust their expendable budget accordingly.

# Appendix C

## AGENCY REPORTING (Awards & Payments to Prime Contractors & Payment Reported by Primes to SBEs)

QUARTER	REPORTING PERIOD	DUE DATE	Notification of Deficiencies <sup>2</sup>
1 <sup>st</sup>	Oct 1 – Dec 31	NLT Jan 30	NLT Feb 28
2 <sup>nd</sup>	Jan 1 – Mar 31	NLT Apr 30	NLT May 30
3 <sup>rd</sup>	Apr 1 – June 30	NLT Jul 30	NLT Aug 30
4 <sup>th</sup>	July 1 – Sep 30	NLT Oct 30	NLT Nov 30
Annual Report <sup>3</sup> & Final 4 <sup>th</sup> Quarter Report	Oct 1 – Dec 31	Within 30 days of the issuance of the Comprehensive Annual Financial Report (CAFR)	DSLBD Status Report – within 30 days of receipt of Annual Report

- Quarterly Reports shall include all expenditures<sup>4</sup> as it appears in the general ledger from the expendable budget for a given quarter. Agencies are also required to collect and report on a contract basis payment payments made by beneficiaries to SBE subcontractors against the amounts included in subcontracting plans.
- If an agency cannot submit fully documented reports in a timely manner, documented justifications establishing good cause for the failure as well as the manner and time in which the required information will be submitted shall be submitted on or before the applicable due date for the delinquent reporting period.
- Reports that include deficiencies in meeting SBE contracting and procurement requirements consistent with approved procurement plans shall include an explanation for contracting shortfalls, and steps agencies will take to remedy shortfalls including supporting documentation.

Additionally, in FY 2014 DSLBD Compliance staff attended the Office of the Chief Financial Officer (OCFO) – CFO Solve Training. As such, DSLBD will be able to access CFO Solve Data to capture actual expenditures.

### Prime Contractor Reporting

<sup>2</sup> Deficiency Notifications shall identify deficiencies and a timeline for remedy, may require supporting documentation, and may include proposed remedies and required attendance at meetings and trainings

<sup>3</sup> Each expenditure as it appears in the general ledger from the expendable budget of the agency during the fiscal year as required in Section 2-218.53 of the Act.

<sup>4</sup> Each expenditure shall include all information required in Section 2-218.53 of the Act

# Appendix C

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As of October 1, 2014 Agencies were required to start including language in contracts requiring Prime Contractors to provide copies of contracts awarded, copies of subcontracting plan submitted as part of the award, and quarterly reports of expenditures to SBEs.

In order to start implementing this process, DSLBD has upgraded Quickbase to allow for agencies to submit Notice of Contract Awards and copies of subcontracting plan. Work is underway to continue expanding Quickbase to allow for Prime Contractors to submit their required reporting.

Agencies and Prime Contractors are required to submit quarterly reports detailing expenditures to SBEs. Prime Contractors are also required to submit as a part of their quarterly expenditure reports, notarized Vendor Verification Forms (VVF). VVFs are signed by SBEs as proof of receipt of payments.

# Acronyms and Abbreviations

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<b>AAL</b>	Annual Allocation Letter
<b>CAFR</b>	Comprehensive Annual Financial Report
<b>CBE</b>	Certified Business Enterprise
<b>CCO</b>	CBE Compliance Officer
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>CSBE</b>	Certified Small Business Enterprise
<b>DCMR</b>	District of Columbia Municipal Regulations
<b>DSLBD</b>	Department of Small and Local Business Development
<b>FEIN</b>	Federal Employer Identification Number
<b>FY</b>	Fiscal Year
<b>OCFO</b>	Office of the Chief Financial Officer
<b>OEC</b>	Operating Expense Checklist
<b>OIG</b>	Office of the Inspector General
<b>SBE</b>	Small Business Enterprise
<b>SOAR</b>	System of Accounting and Reporting
<b>SOD</b>	Segregation of Duties
<b>SOP</b>	Standard Operating Procedure