



Board Report

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**EXECUTIVE MANAGEMENT COMMITTEE
NOVEMBER 15, 2018**

SUBJECT: STREAMLINING AUDITS FOR SMALL AND DISADVANTAGED BUSINESSES

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE report on streamlining audits for small and disadvantaged businesses (SBE/DBE).

ISSUE

Metro recognizes that the SBE/DBE firms may have challenges including limited knowledge and resources to comply with the requirements of Federal Acquisition Regulations (FAR) Part 31, Contract Cost Principles and Procedures which are included in all Metro contracts. This report provides details on the ongoing streamlining efforts that were reported to the Board in May 2018 to assist the SBEs/DBEs in resolving these challenges.

BACKGROUND

At the September 2017 Board meeting Director Dupont-Walker requested that staff report back on efforts for streamlining audits for small businesses. Specifically, she requested recommendations and/or results on A) simplifying indirect cost rates; B) reducing the number of multiple audits annually; C) implementing a centralized database; D) list of metrics to measure improvements; and E) toolbox for SBE/DBE to provide feedback.

In May 2018, the Board received an update on Metro's efforts for streamlining the audit process for the SBE/DBE community. In addition, the Board approved Vendor / Contract Management's (VCM) establishment of an Indirect Cost Rate Pilot Program for SBE/DBEs on eligible contracts.

DISCUSSION

Metro's objective is to provide a level playing field to all vendors. V/CM and Management Audit Services (MAS) have partnered to assist, educate and train the SBE/DBE community on all Metro contract requirements, including audit requirements.

A. Simplifying Indirect Cost Rates and Flow-Downs

V/CM Updates

As part of V/CM's procurement streamlining initiative, V/CM has improved its RFP contract templates and instructions in the following identified areas specific to audits:

1. Eliminated the use of Form 60 for non-cost type contracts to simplify the RFP response submission for SBE/DBE's.
2. Staff has developed a Transitional Indirect Cost Rate (TICR) pilot program that will establish a "temporary" rate of 115% when a firm does not have relevant cost history, or does not have a previously accepted ICR from a cognizant agency. Based on input from V/CM, MASD and County Counsel the program will be updated by November 2, 2018 and submitted for final review to the FTA November 5, 2018. The program will apply to the first year for Home Office rates. The pilot will be implemented in the first quarter of calendar year 2019.
3. Should a SBE/DBE disagree with the MAS ICR findings, the SBE/DBE has the right to appeal to a neutral third party (arbitrator) to make the final decision. The neutral party should have experience as an auditor (FTA/FHWA). The ICR is a voluntary pilot program for the certified small business. They can opt-in to the program prior to contract execution.

B. Results of MAS' Streamlining Initiatives

In order to measure our progress towards streamlining the audit process and simplifying it for the SBE/DBE community, several metrics have been continuously tracked. Metrics and corresponding results include:

Contractor Training Initiative

MAS partnered with V/CM to put together a series of educational training programs for SBE/DBEs to better understand contract and audit requirements including FAR Part 31 cost allowability, audit process, adequate accounting system and the different types of contract audits (e.g. pre-award, incurred cost, close out, etc.) including the associated level of audit support and effort that goes with each type. Beginning February 2018, MAS conducted three workshops (February, March and April) at Metro's Headquarters. Over 200 attendees had the opportunity to ask their audit and contract questions to the MAS and V/CM executives during these events. MAS is partnering with V/CM to conduct additional training sessions during 2019, tentatively in February and April.

Metric: Number of training/outreach opportunities participated by MAS and/or V/CM in educating SBE/DBEs about audit process and requirements for the period.

Result: Attendance for the training sessions total 234 consisting of 108 in February, 58 in March and 68 in April. MAS sent surveys to all 234 attendees requesting feedback regarding the training of which we received 49 responses or 21%. Of the 49 responses, attendees rated the speaker's overall presentation, materials, and appropriateness of information mostly excellent. (See Attachment A for actual survey responses.)

Reducing the Number of Multiple Audits Annually

MAS worked with V/CM to better understand their audit request needs to determine appropriate timing and frequency of the indirect cost rate audits. MAS reviews the audit requests regularly to maximize opportunities to request the contractor's information or use previously obtained information

that may satisfy multiple audit requests. In addition, MAS developed a monitoring database, which is shared with V/CM via SharePoint, to minimize frequencies of the audits and explored opportunities to reduce the information request per SBE/DBE from one contract to another contract. This database ensures that certified small businesses are audited only once a year for the same scope and objectives.

Metric: Number of total audits for all SBE/DBEs per year and number of audits per each SBE/DBE per year. We will also be doing a yearly comparison of these numbers.

Result: During FY17 we conducted audits of 26 SBE/DBEs of which only one (1) SBE/DBE firm was audited twice; one pre-award audit and one indirect cost rate audit. A pre-award audit determines the reasonableness, allowability, and allocability of proposed costs while an indirect cost rate audit is done to determine the allowability of indirect expenses on existing contracts. During FY18 we conducted audits of 11 SBE/DBEs of which only one (1) SBE/DBE firm was audited twice; one interim incurred cost audit and one indirect cost rate audit. An interim incurred cost audit determines the reasonableness, allowability, and allocability of billed costs while an indirect cost rate audit is done to determine the allowability of indirect expenses on existing contracts. From FY17 to FY18 there was a 58% decrease in the number of SBE/DBEs audited.

Contractor Audit Experience

In January 2018 we developed a tracking system to monitor contractors' acceptance of recommendations for audits issued dating back to July 2017.

Metric 1: Number of findings accepted by the contractor to get rate of acceptance.

Result: During FY18 we conducted 17 incurred cost audits of which the contractor rate of acceptance on our findings was 100%. For the first quarter of FY19 we conducted 7 incurred cost audits of which the contractor rate of acceptance on our findings was 100%. Pre-award audits are provided to V/CM Contract Administrators to serve as a negotiation tool therefore, contractor's acceptance is subject to the outcome of those negotiations.

Metric 2: Number of contractors who responded positively and negatively to the audit experience relative to the number of contractors audited for the period.

Result: For the period of May 2017 through August 2018 MAS sent surveys to 51 contractors of which we received 11 responses or 22%. Of the 11 responses received all but one indicated that they were satisfied with their recent audit experience.

Additional Contractor Support

MAS offered its services to V/CM to be a resource during V/CM's kick off meetings with contractors for newly awarded contracts to assist in conducting informational trainings with the individual contractors. This will provide MAS with the opportunity to reinforce audit requirements and provide insight on the type of documentation required during an audit. It also provides the contractor with the opportunity to pose questions to audit staff in a smaller group setting.

MAS identified certain high risk accounts that are more prone to be challenging for SBE/DBEs

indirect cost rate submission. These accounts will be included during the pre-award audits to prompt the SBE/DBEs sooner in implementing actions to be compliant with the contract terms and FAR requirements.

NEXT STEPS

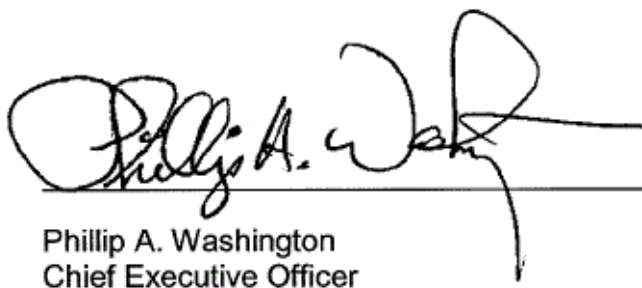
Metro will continue its effort to streamline the audit process and will report back to the board annually.

ATTACHMENT

Attachment A - Contractor Training Sessions Surveys

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