



Board Report

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EXECUTIVE MANAGEMENT COMMITTEE JANUARY 16, 2020

SUBJECT: STREAMLINING AUDITS FOR DISADVANTAGED AND SMALL BUSINESSES

ACTION: RECEIVE AND FILE

RECOMMENDATION

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

ISSUE

Metro recognizes that DBE/SBE 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 to assist the DBE/SBE firms.

BACKGROUND

Metro Board of Directors approved a motion on September 28, 2017 which directed staff to report back with a recommendation on efforts for streamlining audits for small businesses. Specifically, staff was directed to report back on A) simplifying indirect cost rates; B) reducing the number of multiple audits annually; C) implementing a centralized database; D) metrics to measure improvements; and E) toolbox for DBE/SBE to provide feedback.

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

DISCUSSION

Metro's objective is to provide a level playing field to all contractors. V/CM and Management Audit Services (MAS) have partnered to assist, educate and train the DBE/SBE community on 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 DBE/SBE's.
2. Staff has developed a Transitional Indirect Cost Rate (TICR) pilot program that establishes 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 was submitted to the FTA November 5, 2018. The program applies to the first year for Home Office rates and was implemented in the first quarter of calendar year 2019.
3. Should an DBE/SBE disagree with the MAS ICR findings, the DBE/SBE 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

MAS has established initiatives to support the streamlining effort. The various initiatives include the establishment of educational training workshops and programs; implementation of metrics to track and measure the progress towards streamlining the audit process and simplifying it for the DBE/SBE's; implementation of a database for tracking purposes including others.

Contractor Training Initiative

MAS partnered with V/CM to establish a series of educational training programs for DBE/SBEs to better understand contract and audit requirements including FAR Part 31 cost allowability, the audit process and adequate accounting system including different types of contract audits (e.g. pre-award, incurred cost, close out, etc.). The training also provides DBE/SBEs with an overview of the associated level of audit support and the overall effort for the various types of contract audits. MAS staff hosted "Contract Audits: What you Need to Know to Prepare" workshops in March and April 2019. The presented topics included TICR, accounting system review and examples of indirect cost rate calculations.

- **Metric:** Number of training/outreach sessions conducted by MAS and/or V/CM in educating DBE/SBEs about the audit process.
- **Result:** The workshops hosted in March and April had a participation level of 83 DBE/SBEs. MAS administered surveys to all attendees of which all responders rated the workshop as highly favorable.

Reducing the Number of Multiple Annual Audits

MAS worked in coordination with V/CM to better understand the department's audit request needs to determine the appropriate timing and frequency of indirect cost rate audits. As a result, MAS reviews the audit requests regularly to maximize opportunities to request the contractor's information or uses previously obtained information that may satisfy multiple audit requests. In addition, MAS developed a monitoring database to support the department's ability to track the number of audits conducted of DBE/SBEs. The 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 DBE/SBEs per year; and the number of audits per each DBE/SBE per year.
- **Result:** During FY18, staff conducted audits of 11 DBE/SBEs of which one (1) DBE/SBE firm was audited twice. The firm was audited on interim incurred costs and on their indirect cost rate. 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. During FY19, staff conducted audits of 11 SBE/DBEs of which none were audited more than once.

Contractor Audit Experience

In January 2018, MAS staff developed a tracking system to monitor contractors' acceptance of recommendations for audits issued.

- **Metric 1:** Number of findings accepted by the contractor.
- **Result:** Staff conducted 25 incurred cost audits during FY19 of which the rate of acceptance of the findings was 88%.
- **Metric 2:** Number of contractors that responded positively or negatively to the audit experience relative to the number of contractors audited for the period.
- **Result:** MAS sent surveys to 26 contractors between September 2018 and November 2019. The response rate was 42% of which 55% responded that they were satisfied with their recent audit experience.

MAS will continue to work in collaboration with V/CM on its audit streamlining efforts and continue to educate and train the DBE/SBE community. Additionally, staff will continue to monitor the effects of the streamlining efforts and will continue to garner feedback from the small business community. The performance metrics and results of the streamlining initiatives will continue to be monitored; and staff will begin to view the performance through a year-to-year comparative assessment.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

NEXT STEPS

Metro will continue its effort to streamline the audit process and will report back to the board on an annual basis.

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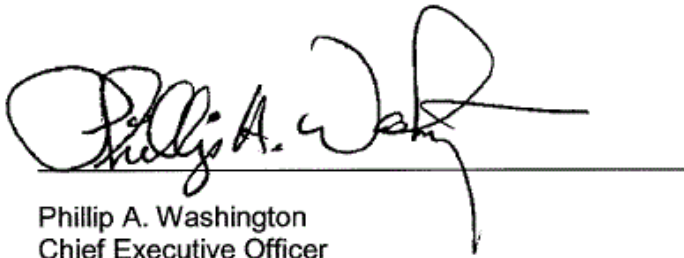
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