

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

**AUDIT OF OPERATIONS WITHIN THE  
DEPARTMENT OF SMALL AND LOCAL  
BUSINESS DEVELOPMENT**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



August 7, 2008

Nicole J. Becton  
Interim Director  
Department of Small and Local Business Development  
441 4<sup>th</sup> Street, N.W., Suite 970 North  
Washington, D.C. 20001

David P. Gragan  
Director  
Office of Contracting and Procurement  
441 4<sup>th</sup> Street, N.W., Suite 700 South  
Washington, D.C. 20001

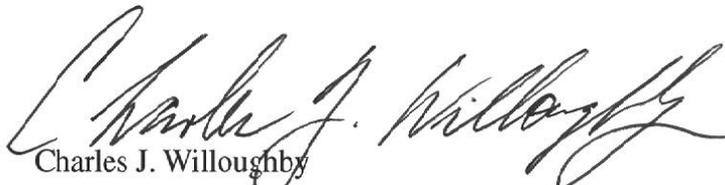
Dear Ms. Becton and Mr. Gragan:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Audit of Operations Within the Department of Small and Local Business Development (OIG No. 06-1-12MA).

As a result of our audit, we directed three recommendations to the Department of Small and Local Business Development (DSLBD), and one recommendation to the Office of Contracting and Procurement (OCP) for necessary actions to correct reported deficiencies. We received a response to the draft audit report from DSLBD which included OCP's response on July, 25, 2008. DSLBD and OCP concurred with all of the recommendations, and we consider DSLBD's and OCP's action taken and/or planned to be responsive to the recommendations. The full text of DSLBD's response is included at Exhibit B.

We appreciate the cooperation extended to our staff during the audit. If you have any questions, please contact William J. DiVello, Assistant Inspector General for Audit, at 202-727-2540.

Sincerely,



Charles J. Willoughby  
Inspector General

CJW/lw

Enclosure

cc: See Distribution List

**DISTRIBUTION:**

The Honorable Adrian M. Fenty, Mayor, District of Columbia (1 copy)  
Mr. Daniel M. Tangherlini, City Administrator and Deputy Mayor, District of Columbia (1 copy)  
Mr. Neil O. Albert, Deputy Mayor for Planning and Economic Development (1 copy)  
The Honorable Vincent C. Gray, Chairman, Council of the District of Columbia (1 copy)  
The Honorable Carol M. Schwartz, Chairperson, Committee on Workforce Development and Government Operations, Council of the District of Columbia (1 copy)  
The Honorable Kwame R. Brown, Chairperson, Committee on Economic Development (1 copy)  
Ms. Tene Dolphin, Chief of Staff, Office of the Mayor (1 copy)  
Ms. JoAnne Ginsberg, Director, Policy and Legislative Affairs (1 copy)  
Ms. Carrie Brooks, Spokesperson, Office of Communications (1 copy)  
Mr. William Singer, Chief of Budget Execution, Office of the City Administrator (1 copy)  
Ms. Cynthia Brock-Smith, Secretary to the Council (13 copies)  
Mr. Peter Nickles, Acting Attorney General for the District of Columbia (1 copy)  
Dr. Natwar M. Gandhi, Chief Financial Officer (5 copies)  
Mr. Robert M. Andary, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer (1 copy)  
Ms. Deborah K. Nichols, D.C. Auditor (1 copy)  
Ms. Kelly Valentine, Director and Chief Risk Officer, Office of Risk Management (1 copy)  
Mr. McCoy Williams, Managing Director, FMA, GAO (1 copy)  
Ms. Jeanette M. Franzel, Director, FMA, GAO (1 copy)  
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives, Attention: David Grosso (1 copy)  
The Honorable Henry A. Waxman, Chairman, House Committee on Oversight and Government Reform, Attention: Phil Schiliro (1 copy)  
The Honorable Tom Davis, Ranking Member, House Committee on Oversight and Government Reform (1 copy)  
The Honorable Danny K. Davis, Chairman, House Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, Attention: Tania Shand (1 copy)  
The Honorable Kenny Marchant, Ranking Member, House Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia (1 copy)  
The Honorable Joseph Lieberman, Chairman, Senate Committee on Homeland Security and Governmental Affairs, Attention: Holly Idelson (1 copy)  
The Honorable Susan Collins, Ranking Member, Senate Committee on Homeland Security and Governmental Affairs (1 copy)  
The Honorable Daniel K. Akaka, Chairman, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)  
The Honorable George Voinovich, Ranking Member, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)  
The Honorable David Obey, Chairman, House Committee on Appropriations, Attention: Rob Nabors (1 copy)  
The Honorable Jerry Lewis, Ranking Member, House Committee on Appropriations (1 copy)  
The Honorable José E. Serrano, Chairman, House Subcommittee on Financial Services and General Government, Attention: Dale Oak (1 copy)  
The Honorable Ralph Regula, Ranking Member, House Subcommittee on Financial Services and General Government (1 copy)

Ms. Becton and Mr. Gragan

August 7, 2008

Page 3 of 3

The Honorable Robert C. Byrd, Chairman, Senate Committee on Appropriations,

Attention: Terrence E. Sauvain (1 copy)

The Honorable Thad Cochran, Ranking Member, Senate Committee on

Appropriations (1 copy)

The Honorable Richard Durbin, Chairman, Senate Subcommittee on Financial Services and

General Government (1 copy)

The Honorable Sam Brownback, Ranking Member, Senate Subcommittee on Financial

Services and General Government (1 copy)

**AUDIT OF OPERATIONS WITHIN THE DEPARTMENT  
OF SMALL AND LOCAL BUSINESS DEVELOPMENT**

---

**TABLE OF CONTENTS**

**EXECUTIVE SUMMARY**.....i

**INTRODUCTION**.....1

    BACKGROUND.....1

    OBJECTIVES, SCOPE, AND METHODOLOGY.....5

**FINDING AND RECOMMENDATIONS**.....7

    FINDING: IMPROVING DSLBD OPERATIONS.....7

**EXHIBIT**

    EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING  
        FROM AUDIT.....17

    EXHIBIT B: DSLBD AND OCP MANAGEMENT RESPONSE.....18

## **EXECUTIVE SUMMARY**

---

### **OVERVIEW**

The District of Columbia Office of the Inspector General (OIG) has completed an audit of operations within the District of Columbia Department of Small and Local Business Development (DSLBD). This audit was included in our *Fiscal Year (FY) 2008 Audit and Inspection Plan*.

The objectives of the audit were to determine: (1) the number of days it takes the District to make payments to Certified Business Enterprises (CBEs)<sup>1</sup> compared to large contractors; (2) if the District ensures that CBEs receive their fair share of opportunities to compete and provide goods and services to the District; (3) whether the District's payments to prime contractors were recorded in a timely manner in the CBE On-Line System; (4) if there were a sufficient number of contracts set aside for CBEs; and (5) whether internal controls were in place to guard against fraud, waste, and abuse. Our recommendations reflect operational procedures that management needs to implement to strengthen internal controls and provide effective and efficient services to all stakeholders.

### **CONCLUSIONS**

Our audit found that the DSLBD did not have standard operating procedures to ensure consistency among staff when providing requirements to CBE applicants necessary to obtain CBE certification. Specifically, staff duties and responsibilities need to be promulgated to provide uniform interpretation of office policies and procedures. Lastly, we determined that the CBE On-Line Information System did not capture and/or provide adequate information that is relevant in providing support to CBEs. As a result, of these conditions, the DSLBD could not supply us with assurance or documentation that it provided services to the business community in an adequate manner and that CBE opportunities were always provided to businesses seeking CBE status.

### **SUMMARY OF RECOMMENDATIONS**

We directed three recommendations to the Director, DSLBD that centered in part on establishing standard operating procedures to ensure that the office accomplishes its core mission, assesses workload and business certification staffing levels, and improves the CBE On-Line interface and functionality. We also directed a recommendation to the Director, Office of Contracting and Procurement (OCP) that will provide a system to record all contracts containing a subcontracting plan.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

---

<sup>1</sup> CBEs were formerly known as local, small, and disadvantaged business enterprises (LSDBEs). DSLBD provided this correction as a result of its review of the draft for this report.

## EXECUTIVE SUMMARY

---

### MANAGEMENT ACTIONS

Our auditors continually briefed DSLBD officials during the course of the audit on various deficiencies in the CBE program. DSLBD officials acted promptly, taking corrective actions necessary to make program improvements and obviating the need for three additional audit recommendations. The measures DSLBD undertook to correct audit deficiencies included the following:

1. The DSLBD revised its governing rules to allow business certification specialists to certify businesses as CBEs; continues to use the Small and Local Business Opportunity Commission (Commission) in an advisory capacity; and continues to have the Commission conduct the CBE appeal process.
2. The DSLBD implemented changes to the rules governing the authority for certifying CBEs, as a result management no longer needed to take steps such as providing receipts for information forwarded to Commission members or using certified mailings to prevent unauthorized disclosure of applicant personal information.
3. The DSLBD requested authority to establish a General Counsel position within the DSLBD to be responsible for preparing and presenting letters of appeal rights to applicants denied CBE certification.

On July, 25, 2008, DSLBD provided a detailed response to three recommendations in our draft audit report. Management concurred with all the recommendations as directed. Included in DSLBD's response was OCP's response to the recommendation that was directed to them, in which OCP concurred with the recommendation. In all instances, the corrective actions taken and/or planned meet the intent of the recommendations. The full text of DSLBD's response is included at Exhibit B.

## INTRODUCTION

---

### BACKGROUND

The Department of Small and Local Business Development (DSLBD) serves as an advocate promoting equity ownership for local businesses in major publicly funded development initiatives in the District of Columbia and encourages the inclusion of Certified Business Enterprise contracting opportunities in all phases of government and private sector contracting and development. The mission of DSLBD is to “foster economic growth and the development of Certified Business Enterprises (CBEs) through supportive legislation, business development programs, agency and public/private contract compliance.”<sup>2</sup> DSLBD was formerly known as the Office of Local and Small Business Development.

DSLBD operations are coordinated with actions taken by the Office of Contracting and Procurement (OCP), the Office of the Chief Technology Officer (OCTO), and the Office of the Attorney General (OAG). According to OCP, the District procured over \$1.6 billion in goods and services (over 21,000 contracts) during fiscal year (FY) 2007.

The CBE Program enables local and small companies to compete, hire local employees, and contribute to the District’s tax base and the recycling of local funds. In FY 2007, there were over 900 CBEs, which received over \$560 million in contracts with the District. One of the main attributes that a business must have in order to obtain CBE status is that the business must be local. In order for a business to become a Certified Business Enterprise, one of the following criteria must be met.<sup>3</sup>

#### Local Business Enterprise (LBE) (2 points)

- Must have its principal office located physically in the District of Columbia;
- Must require that its chief executive officer and highest level managerial employees maintain their offices and perform their managerial functions in the District;
- Must meet one of the following four criteria:
  - More than 50 percent of the assets of the business enterprise, excluding bank accounts, are located in the District;
  - More than 50 percent of the employees of the business enterprise are residents of the District;

---

<sup>2</sup> <http://dc.gov/agencies/details.asp?id=54> (last visited May 15, 2008).

<sup>3</sup> Specific points (based on which statuses pertain to the CBE company) are added to a CBE’s score when presenting a bid to provide goods or services to the District.

---

## INTRODUCTION

---

- The owners of more than 50 percent of the business enterprise are residents of the District; or
- More than 50 percent of the total sales or other revenue is derived from transactions of the business enterprise in the District.
- Must also be:
  - Licensed pursuant to Chapter 28 of Title 47 of the District of Columbia Official Code;
  - Subject to the tax levied under Chapter 18 of Title 47 of the District of Columbia Official Code; or
  - A business enterprise identified in §47-1808.01 (1) through (5) of the District of Columbia Official Code and more than 50% of the business is owned by residents of the District.

### Small Business Enterprise (SBE) (3 points)

- Must be a Local Business Enterprise;
- Must be independently owned, operated, and controlled; and
- Must be certified by the United States Small Business Administration as a small business under the Small Business Act (Pub. L. No. 85-536, 15 U.S.C. §§ 631-657) or have annualized gross receipts for the 3 years preceding certification not exceeding certain limits.

### Disadvantaged Business Enterprise (DBE) (2 points)

- Must be owned, operated, and controlled by economically disadvantaged individuals; and
- Must be a Local Business Enterprise.

### Resident-Owned Business (ROB) (3 points)

- Must be a Local Business Enterprise owned by an individual who is, or a majority number of individuals who are, subject to personal income tax in the District of Columbia.

### Longtime Resident Business (LRB) (10 points)

---

## INTRODUCTION

---

- Must be a business that has been continuously eligible for certification as a local business enterprise for 20 consecutive years, or as a small business enterprise for 15 consecutive years.

### Local Business Enterprise with Principal Offices Located in an Enterprise Zone (DZE) (2 points)

- Must be a business enterprise located in an economic development zone designated by the Mayor and approved by the Council pursuant to sections 2 through 5 of the Economic Development Zone Incentives Amendment Act of 1988 (D.C. Law 7-177, D.C. Code §§ 6-1501-1506).

Once a business becomes a CBE, the District provides the certified business a percentage reduction in price in the case of bids, or an award of preference points in the case of proposals during the bidding/proposal process based upon points assigned during the certification process. A CBE is entitled to all of the preference points based upon its certification categories, however the certified business may not receive more than 12 points or a reduction in price of more than 12 percent in any procurement. There are currently 6 business categories (LBE, SBE, DBE, ROB, LRB, and DZE) with each category having certain points assessed. For example, Contractor A bids \$100,000 on a contract, while CBE Contractor B (CBE certified - 12 points) bids \$112,000 on the same contract. Based on Contractor B's CBE status, Contractor B could win even though its bid is \$12,000 more because of the 12 points/discounts.<sup>4</sup> The District provides this "discount" to CBEs to ensure that they can compete and obtain contracts, which in turn furthers DSLBD's mission of fostering economic growth.

**Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act of 2005.** The District has made extensive efforts to generate greater participation by small, local, and disadvantaged businesses under the Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act of 2005 (D.C. Law 16-33, effective Oct. 20, 2005). This Act was designed to ensure that CBEs benefit from set-aside programs. Businesses that received government-issued bonds and funds must execute Certified Business Enterprise Utilization and Participation Agreements specifying among other requirements, that a percentage of goods and services will be procured from CBEs. Conceptionally, the CBE program can make significant contributions to the District's local economy through job creation and business expansion.

**FY 2006 DSLBD Changes.** During FY 2006, a new law was implemented to enhance DSLBD operations.<sup>5</sup> Under the new law, the DSLBD was reorganized into three offices: (1) the Office

---

<sup>4</sup>For the purposes of this example, Contractor B is certified CBE with 12 points comprised of the following statuses: LBE - 2 points, SBE - 3 points, DBE - 2 points, ROB - 3 points, and DZE - 2 points; 12 points for a 12 percent reduction/discount. This 12 percent reduction in Contractor B's bid price made its actual bid \$98,560 (\$112,000-\$13,440).

<sup>5</sup>D.C. Code § 2-218.13 (LEXIS through D.C. Law 17-127) (Organization and functions of the Department).

## INTRODUCTION

---

of Certification, Compliance, and Enforcement; (2) the Office of Business Opportunities and Access to Capital, and (3) the Office of Training and Education. The Office of Certification, Compliance, and Enforcement reviews applications for certification as well as District quarterly compliance reports and annual CBE compliance reports. The Office of Business Opportunities and Access to Capital provides information and assistance on obtaining business opportunities and assists CBEs in obtaining equity, working capital and any additional funding necessary to start or sustain a business. The Office of Training and Education provides CBEs with procurement, business, and other educational tools to assist in their business development. In addition, the law<sup>6</sup> sets forth the point structure relating to the bid and proposal preferences required to achieve contracting and procurement goals. A major element included in the new point structure was the 10 percent price reduction/preference points assigned to a Longtime Resident Business (LRB), which is the largest single price/preference point reduction allowed.

The DSLBD has experienced significant challenges over the past 2 years, having employed three agency directors within 1 year; enacted new laws, rules and regulations; increased staff and budget; aquired two new programs – DC Main Streets and reSTORE DC,<sup>7</sup> and experienced an increase in the number of applicants requesting certification to participate in the CBE program.

**Small and Local Business Opportunity Commission.** The DSLBD’s certification process is conducted in conjunction with the Small and Local Business Opportunity Commission (Commission). The Commission consists of nine members appointed by the Mayor, one member from each ward of the District, and one at-large member who each serve a 2-year term. All members of the Commission must be residents of the District and must have “knowledge of the small, local, or disadvantaged business community as it relates to employment and economic development.”<sup>8</sup>

The duties and responsibilities of the Commission, as stipulated in D.C. Code § 2-218.22 (Functions of the Commission) are as follows:

- (1) Hear all requested and routine appeals by business enterprises upon the denial of an application for initial certification, reinstatement, or renewal by the Department;
- (2) Perform regular and routine audits of the Department’s certification process through a random review of 5 applications per month; and

---

<sup>6</sup> *Id.* § 2-218.43.

<sup>7</sup> DC Main Streets program was created to support the establishment and implementation of revitalization initiatives in DC’s traditional neighborhood business districts, to support retail investment in the District. reSTORE DC was created to support the revitalization of DC’s neighborhood commercial districts and small businesses by providing technical and capacity building support.

<sup>8</sup> D.C. Code § 2-218.21(b)(4).

## INTRODUCTION

---

- (3) Repeal and suspend the certification of a business enterprise pursuant to § 2-218.63.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine: (1) the number of days it takes the District to make payments to CBEs as compared to large contractors; (2) if the District ensures that CBEs receive their fair share of opportunities to compete and provide goods and services to the District; (3) whether the District's payments to prime contractors were recorded in a timely manner in the CBE On-Line System; (4) if there were a sufficient number of contracts set aside for CBEs; and (5) whether internal controls were in place to guard against fraud, waste, and abuse.

To accomplish our objectives, we held interviews and discussions with DSLBD management and administrative staff to gain a general understanding of the policies, procedures, and other controls used for furthering their mission. We also held meetings with representatives from the Office of the Chief Financial Officer (OCFO), Office Contracting and Procurement (OCP), Office of the Attorney General (OAG), and the Office of the Chief Technology Officer (OCTO). Additionally, we attended Commission hearings, and held discussions and interviews with all Commission members. We also observed the certification process, including the receipt and review of applications from businesses seeking CBE certification. Lastly, we conducted interviews with three certified CBEs.

Our audit covered CBE operations during FY 2005 through FY 2007. During our audit, there were over 998 CBEs in the program, with DSLBD processing on average 93 new applications monthly. During FY 2006 and FY 2007, vendor payments were made to CBEs in the amounts of \$345 million<sup>9</sup> and \$297 million, respectively. We accompanied the certifications specialist on 4 site visits, and reviewed 35 applicants' files.

We benchmarked six jurisdictions that have minority-based programs to determine the methods used to provide certifications to businesses seeking participation in their programs. We also determined whether the jurisdictions use a commission or agency staff to approve or disapprove applicants. Additionally, we reviewed the CBE On-Line System to determine whether: (1) the system captures pertinent information in compliance with CBE requirements; (2) subcontractor plans were monitored properly by DSLBD; and (3) OCP's process effectively communicated all subcontractor plans to DSLBD.

---

<sup>9</sup> This amount represents funds that were paid to Small Business Enterprise (SBE) for FY 2006 from subordinate agencies. The OCFO calculates the amount of funds paid to SBE's

## **INTRODUCTION**

---

We did not completely rely on computer-processed data during this audit and did not conduct tests of the reliability of the data, nor of the controls over the computer-based system that produced the data. However, we determined that any use of this data would not materially affect the audit results.

This audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

---

## FINDING AND RECOMMENDATIONS

---

<b>FINDING: IMPROVING DSLBD OPERATIONS</b>
--

### SYNOPSIS

Our audit found that the DSLBD did not have standard operating procedures to ensure consistency among staff when dealing with CBE applicants in providing requirements necessary to obtain certification, and that staffs duties and responsibilities are adequately defined. Lastly, we determined that the CBE On-Line Information System did not capture and/or provide adequate information that is relevant to providing support of CBEs.

In part, these conditions occurred because the DSLBD has been affected by inadequate support from other agencies, such as OCTO (CBE On-Line System), OCP (subcontracting plans), and OAG (review of denied applicants). In addition, DSLBD may not have adequate staff to provide efficient service to the business community. As a result, businesses seeking CBE status may not have always maximized CBE opportunities.

DSLBD acknowledged some of the audit deficiencies noted during our audit and initiated preemptive measures to correct three problem areas, which included proposing legislation to move CBE approval authority to the department level, using certified mailings for CBE proprietary data, and hiring a General Counsel to assist in handling CBE applicant appeals.

### DISCUSSION

The conditions discussed in this report concern four principal operational areas of DSLBD:

- DSLBD Operating Procedures and Staffing;
- Small and Local Business Opportunity Commission;
- CBE Appeal Process; and
- CBE On-Line System.

#### **DSLBD Operating Procedures and Staffing**

The DSLBD can improve its management of the CBE program. Our audit found that there was no formal training program for business certification specialists (certification specialists); there were no written standard operating procedures; conflicting information was provided to prospective CBEs; and the workforce appeared to be overloaded with responsibilities.

***Formal Training of Business Certification Specialist.*** DSLBD certification specialists have not received adequate training to provide them with the knowledge and skills required to consistently provide uniform services to CBEs. We found that DSLBD had not developed standard,

## FINDING AND RECOMMENDATIONS

---

organized training for the specialists, who are directly responsible for the LSBDE certification process. Our interviews with the certification specialists found that the training they received was on-the-job training (obtained from other previous specialist). This training was largely in the form of observing certification specialists perform their duties in the office.

***Written Standard Operating Procedures.*** The DSLBD did not have written standard operating procedures for the certification process. During our audit, we interviewed staff members and determined that written standard operating procedures were not provided at the time of employment because DSLBD lacked these procedures. The DSLBD needs to have written standard operating procedures to establish guidelines for personnel functions and activities related to the certification process. In addition to standard operating procedures, detailed position descriptions need to be presented to all employees (temporary, term and etc.) at the time of employment so that the overall business objectives of the agency are fully disclosed. Written standard operating procedures will be particularly necessary if DSLBD hires additional business certification specialists. Such guidelines will ensure consistency among staff, provide clarity, define duties and responsibilities, and ensure uniform interpretation of office policies and procedures.

During our audit DSLBD management attempted to establish documented policies and procedures; however, at the time of our audit, DSLBD policies and procedures remained in draft status.

***Conflicting Information Provided to Prospective CBEs.*** Our audit found that when a potential CBE business contacts the DSLBD office to request the status of its application and whether additional information or documentation is needed, the CBE may receive different information depending on which certification specialist responds. During the course of applying for CBE certification, an applicant may need to have several conversations with a specialist and may receive varying information based on conversations with different specialists. During our interviews with potential applicants, we were informed that they received conflicting information from specialists and that the misinformation contributed to an inefficient process that was frustrating. Oftentimes, prospective CBEs almost abandoned the certification process because they did not know how to respond to conflicting requirements.

We obtained examples of instances where conflicting information was provided to potential CBEs. In the first example, a CBE applicant was told that they had to provide a business plan. Business plans have to be submitted by a potential CBE if the business is a sole-proprietorship and less than 1 year old. This particular entity, however, had been in business for more than 1 year; therefore, a business plan did not have to be submitted. The second example involved a corporation that had to submit proof of capital (e.g., current bank statements and tax returns). According to certification policy, businesses incorporated for less than 1 year must submit proof of capital. However, this business had been a corporation for more than 1 year. According to these two businesses, they were told by one specialist that the information was needed and then

## FINDING AND RECOMMENDATIONS

another specialist stated that it was not needed. These conditions occurred due to a lack of formal standardized training, inadequate job knowledge transfer, and the need for documented standard operating procedures.

**Workforce and Workload.** Our audit covered FY 2006 and FY 2007 operations, during which time the DSLBD had 9 and 26 full time equivalent positions (FTEs), respectively. Our audit found that during FY 2006, 4 of the 9 DSLBD FTEs were certification specialists, responsible for servicing over 858 certified CBE companies. During FY 2007, 5 of the 26 DSLBD FTEs were certification specialists, servicing over 998 certified CBEs. Table 1 - below provides a breakdown of the CBEs that certification specialists are responsible for servicing.

**Table 1. Certification Specialists Servicing CBEs**

	FY 2006	FY 2007
<b>Number of Certification Specialists</b>	4	5
<b>Number of Certified CBEs</b>	858	998
<b>Average monthly rate of Applications Reviewed by Certification Specialists</b>	75	93
<b>Average Number of Monthly Site Visits Conducted by Certification Specialists</b>	13-19	12-15

During FY 2007, each certification specialist was responsible for providing service to approximately 200 CBEs. In addition, the certification specialists are also responsible for receiving and reviewing applications from businesses seeking CBE certification. A certification specialist must ensure that each application includes all relevant and required information. Certification specialists indicated that if all information is not provided at the time of initial application intake, the certification specialist and the business owner may go back and forth for weeks until all information is received.

According to DSLBD, as of October 2, 2007, there were approximately 317 deficient application files that required the certification specialists to communicate with applicants to help them to become CBE certified. Based upon our review and communications with DSLBD officials, we determined that having only five certification specialists appears to have hampered DSLBD operations.

We found that during FY 2007, certification specialists were responsible for reviewing, on average, 93 new applications each month. Once the certification specialist determines that a business has provided all pertinent and viable information, the specialist conducts a site visit to the business location. Each certification specialist conducts between 12-15 site visits monthly and is also responsible for preparing the application packets for the Commissioners' review. Additionally, certification specialists are required to communicate with businesses that have been denied CBE certification. All of the certification specialists indicated that it is difficult to

## FINDING AND RECOMMENDATIONS

---

provide efficient service to current CBEs and businesses seeking CBE certification, given their current workload and responsibilities. According to DSLBD officials, in order for the department to function more efficiently and to ensure that their mission is met, DSLBD needs to increase the number of certification specialists on its staff.

### **Small and Local Business Opportunity Commission**

We evaluated the operations of the Commission and found that members who conducted certifications, reviewed application packages outside of District offices. These packages contained proprietary data. A 60-to-90-day backlog of applications awaited the Commission's review at the time of our audit. We compared the CBE certification process at six other jurisdictions to further evaluate the District's CBE certification process, and we found that all six comparable localities made CBE certification decision at the departmental level rather than using an appointed board or commission.

***Evaluating Prospective CBE Vendor Proprietary Data.*** The Commission meets monthly to determine if applicants of the CBE program should be certified based on the points assigned by the certification specialist who reviews each certification application. DSLBD provides the Commission with detailed packets of information related to applicants, as well as recommendations to either approve or disapprove the applicant. The information packets are copied and mailed to each Commission member's office or home, at least a week in advance, to review prior to the monthly commission meeting. The applicant's packet usually contains tax returns, business plans, and other personal and sensitive information such as social security numbers and bank account numbers.

These actions present potential liability to the District if a company's or an individual's information in the possession of a Commission member is compromised or reviewed by someone other than a Commission member. The Chairman of the Commission indicated that the number of applications requiring review prior to monthly commission meetings (approximately 50 applications) warrant review of the applications outside of District offices. The Chairman indicated that if the applications were not reviewed prior to commission meetings, the meeting would last hours, and other Commissioners have indicated that they would not be willing to serve on the Commission under these circumstances.

Subsequent to our audit and the benchmarking review cited below, DSLBD revised CBE application procedures to move the CBE certification approval process to the departmental level. Therefore, the issue of potential compromise of proprietary data is no longer a concern.

***Benchmarking CBE Certification Processes.*** During our audit, we benchmarked the District's LSBDE certification process with six jurisdictions/entities as it relates to the use of a commission or board and the role of the Commission members in the CBE certification process. Our audit found that four of the six jurisdictions/entities do not have a board or commission involved in

## FINDING AND RECOMMENDATIONS

the certification process. The two jurisdictions/entities that did have a board or commission involved were primarily responsible for reviewing applications from businesses and conducting the appeal process. For example, in the Maryland Department of Transportation, the board or commission makes recommendations to agency staff on whether to grant the certification; however, agency staff makes the final decision. The Prince George’s County Minority Business Development Agency (Agency) indicated that it has a board that serves as an appeal board and provides the Agency with current business trends, analyses, and other governance advisory information related to its program. Table 2 provides a breakdown of our benchmarking analysis.

**Table 2. Benchmarking the LSBDE Certification Process**

<b>BENCHMARKED AGENCY</b>		<b>RESULTS</b>
1	Virginia Department of Transportation (VDOT)	Officials at VDOT stated that they do not have a board or commission. VDOT staff reviews and approves business certifications. If a business is denied certification, the business can appeal to the Director of VDOT, and through the Virginia court system.
2	Maryland Department of Transportation (MDOT)	MDOT officials stated that they have a board comprised of government officials that review applications from businesses biweekly. The board makes a recommendation to MDOT staff. MDOT staff certifies or denies the certification and has the final approval.
3	New York City Department of Small Business Services (NYC Dept of SMA)	Officials at NYC Dept of SMA stated that they do not have a board or commission that reviews certification applications. Staff at NYC Dept of SMA is responsible for reviewing and making recommendations to management of the NYC Dept of SMA. Management makes the final decision to certify or deny.
4	Metropolitan Washington Airports Authority (MWAA)	Officials at MWAA stated that they do not have a board or commission that reviews certification applications. The staff at MWAA reviews and approves or denies all certification applicants.

## FINDING AND RECOMMENDATIONS

BENCHMARKED AGENCY		RESULTS
5	Prince George's County Minority Business Development Agency (PG County BDA)	PG County BDA staff are responsible for reviewing and making recommendations to the agency director. The director makes the final recommendation. If an applicant is denied certification, the application is sent to the board for further resolution. The board also provides the agency with current business trends, analyses and other governance advisory information related to this program.
6	Montgomery County	Currently, Montgomery County relies on MDOT for certification into the minority program.

Comparatively, the DSLBD Commission performs certifications, acts as an appeal board, and serves in a business advisory capacity to the DSLBD. The DSLBD has no authority over the Commission and can only make recommendations regarding an applicant. The Commission has broad-based authority under the current law, which provides that the Commission not only determines certification, but also can revoke or suspend the certification of a business enterprise pursuant to D.C. Code § 2-218.63. However, in the majority of jurisdictions/entities that we benchmarked, CBE certifications are levied at the departmental level.

DSLBD staff prepares the information packets for the Commission members to review. The information packets contain a written report outlining the certification specialists findings after review of information provided by CBE applicants and the results of site visits. The written report also includes the certification specialist's recommendation to approve or deny CBE certification. We randomly selected 25 written reports prepared by the certification specialists to determine how often recommendations made by the certifications specialist were endorsed by the Commission. Our tests found that in all 25 instances, the recommendations made by the certification specialists were endorsed by Commission members. Additionally, the specialist manager indicated that Commission members accepted the recommendations of the certification specialists to approve or deny CBE applicants in 90 percent of the cases.

Given that DSLBD certification specialists are conducting the site visits, interviewing and communicating with the applicants, preparing written reports documenting their recommendations (which were accepted in all tested instances), the certification specialists should be able to recommend certification or denial of applicants to the LSBDE program to the DSLBD Director. The Commission would then process all denied applicants in an appellate function and provide DSLBD with business and governmental advisory knowledge relating to procedures in determining eligibility requirements.

## FINDING AND RECOMMENDATIONS

---

During our review, our auditors discussed the feasibility of moving the CBE certification approval process to the DSLBD departmental level. In August 2007, the Budget Support Act authorized the transfer of the CBE certification to the DSLBD departmental level from the Commission. This action accomplished what we intended to recommend in this report and we consider the actions taken to be responsive management actions.

### **CBE Appeal Process**

There are unnecessary delays in the CBE appeal process. During Commission meetings, commissioners make determinations if CBE status will be granted to an applicant. The chairman of the Commission is responsible for preparing denial letters that are presented to the Office of the Attorney General (OAG) for review and approval. During our audit, we found that the DSLBD had a backlog of 45 certification applicants that were awaiting denial letters and instructions outlining their appeal rights.

***OAG Approval of the Commission's Decision to Deny CBE Status.*** The OAG requires that denial letters prepared by the chairman of the Commission be reviewed and approved by the OAG before distribution to denied applicants. According to DSLBD officials, the OAG's policy has led to a backlog of applicants receiving denial letters timely. As a result, denied applicants cannot exercise their appeal rights until they receive an official letter from the Commission, upon OAG approval, of its decision to deny CBE status.

The DSLBD must inform the denied applicant that the Commission has made a decision to disapprove them. However, in many cases the applicant still has not received the denial letter to start the appeal process. Delay in providing denial letters to prospective CBE participants poses problems for CBE applicants who may be in the process of a joint venture or subcontract with a contractor that requires CBE participation. Consequently, the applicant may miss an opportunity to jointly bid on contracts while awaiting the denial letter from the Commission.

***Delays in OAG Review of Commission Denial Letters.*** DSLBD staff indicated that they have suggested that a business withdraw its pending application and submit a new one because of the untimely appeal process. If a business does not withdraw its application, it must wait for the OAG to review the case before an appeal notice will be sent. The appeal notice states that the applicant has 20 calendar days from the date of the Notice of Intent to Deny letter to request a hearing. DSLBD staff is the direct line of communication for the CBE applicants concerning the status of their applications. Due to the requirement of providing applicants with proper notice of appeal, applicants are continuously calling DSLBD for updates and to voice their concerns. According to DSLBD staff, the Commission has informed them that a new application would not change their decision and that the applicant should await the appeal letter from the OAG. We agree with the Commission that the DSLBD should not encourage applicants to reapply for LSBDE status.

## FINDING AND RECOMMENDATIONS

---

OAG officials informed us that that the backlog of 45 applicants awaiting denial letters was due to reviewing all of the information to determine if the denials were in accordance with CBE laws. In addition, OAG had one attorney handling this process and that person retired during FY 2007. During the audit, we noted that DSLBD did not have a general counsel; therefore, the OAG performed duties that would otherwise have been assigned to a general counsel of the agency. One solution for this dilemma was for DSLBD to establish a general counsel, with authority to provide prompt notice to the applicant concerning its legal recourse for obtaining CBE status. Subsequent to our audit, DSLBD hired a general counsel to assist in the review of appeals. We believe management's proactive measures will improve the processing of CBE appeals.

### **CBE On-Line System**

The CBE On-Line Information System is flawed, and can be improved. Our audit found that the CBE On-Line Information System does not capture all information that is relevant to providing adequate compliance with LSBDE requirements. This system does not capture all information because management did not require that the CBE On-Line System be linked to the System of Accounting and Reporting (SOAR). In addition, management did not properly monitor the implementation of the system to provide feedback and expectations towards ensuring that the CBE On-Line Information System met the requirements of the DSLBD. As a result, the DSLBD does not have the proper software configuration to adequately monitor and ensure CBE compliance.

***Office of the Chief Technology Officer Implementation of the CBE On-Line Information System.*** OCTO implemented the CBE On-Line Information System after having strategy sessions with DSLBD management during FY 2005. These meetings provided OCTO with system specifications that management felt were essential to further the mission and objectives of the CBE program. One of the main processes of the online system was to implement an online application. Some of the main aspects of the application were to allow: (1) businesses to submit applications for certifications online and check the status; (2) internal staff to process applications online and create reports; (3) prime contractors and subcontractors to verify payments made against subcontracting plan goals; (4) internal staff to monitor subcontractor plans and payments; (5) agencies to enter their subcontracting goals and report quarterly on subcontracting activities; (6) internal staff to monitor and create reports on agency compliance; and (7) all prime contractors and other entities to submit subcontracting opportunities to be displayed on the DSLBD website. The system was to be administered by DSLBD and OCP and operate on the District's Internet and Intranet platforms.

***CBE Payment Information Related to the CBE On-Line Information System.*** One of the most useful functions designed for CBE use within the online system was the function to allow subcontractors (CBEs) the ability to monitor when prime contractors received payments, so that the subcontractor could determine when to expect its payment. However, our audit found that

## FINDING AND RECOMMENDATIONS

---

this function was never implemented. The CBE On-Line System was designed to be linked to SOAR, which lists payments to prime contractors generated from SOAR. However, we found that the CBE On-Line System was not linked to SOAR.

Therefore, CBE subcontractors have to rely on prime contractors entering their payment data into the CBE On-Line System. If prime contractors do not load the payment data into the CBE On-Line System, the subcontractors cannot use the system to calculate their payment dates.

OCTO officials indicated that linking the CBE On-Line System to SOAR was never mentioned to them and was not included in the original software requirements for the online system. OCTO officials stated that there were several amendments to the DSLBD's original software requirements, none of which were to provide linkage of the CBE On-Line System to SOAR.

**Contract Activity Database System (CADS).** OCP created a spreadsheet application system named CADS to monitor all contracts with subcontracting plans that could include CBEs. This system lists all information related to contracts that have subcontracting goals and plans. The use of this system allows DSLBD and subcontractors (CBEs) to monitor if the contract goals and plans are being followed.

Currently the CADS system is not compatible with the Procurement Automated Support System, or PASS, which requires the contracting officer to manually re-enter contracting data into CADS. Once the information has been entered into CADS, it automatically uploads nightly to the CBE On-Line System. Our audit found that if the contracting officer does not enter the contracting data into CADS, OCP and DSLBD have no mechanism to verify if subcontractors' goals and plans are met and properly followed.

## RECOMMENDATIONS, MANAGEMENT RESPONSES, AND OIG COMMENTS

We recommend that the Director of the Department of Small and Local Business Development:

1. Establish and document standard operating policies and procedures for the DSLBD.
2. In coordination with the Department of Human Resources, assess and determine the appropriate workload for certification specialists to ensure that current staffing levels are adequate to provide the level of business services needed for the CBE program.
3. Request that OCTO implement system requirements that will link the CBE On-Line System to SOAR and allow the DSLBD and subcontractors to monitor payments from OCFO to prime contractors.

## FINDING AND RECOMMENDATIONS

---

### **DSLBD RESPONSE**

DSLBD agreed with the recommendations, establishing standard operating procedures for the certification division. The standard operating procedures were implemented in February 2007. Additionally, to address workload concerns, DSLBD hired a certification manager and realigned staff to address rising workload needs. Lastly, although it is not practical to link the CBE On-Line System into SOAR (SOAR is to be replaced in 2-3 years), DSLBD is working with OCTO and OCFO to ensure the new system seamlessly integrates the CBE On-Line System. The complete text of DSLBD's response is included in Exhibit B.

### **OIG COMMENT**

We consider DSLBD's actions to be fully responsive to the recommendations.

We recommend that the Director of the Office of Contracting and Procurement:

4. Implement actions to ensure that all contracts with subcontracting plans are accurately listed and documented within CADS.

### **OCP RESPONSE**

OCP agreed with the recommendation, stating that the Procurement Automated Support System (PASS) will be upgraded to include contracts with subcontracting plans so that monitoring this data in CADS will no longer be necessary. OCP's response is shown in DSLBD's response included in Exhibit B.

### **OIG COMMENT**

We consider OCP's actions to be fully responsive to the recommendation.

**EXHIBIT A: SUMMARY OF POTENTIAL MONETARY BENEFITS  
RESULTING FROM AUDIT**

<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and Type of Benefit</b>	<b>Accountable Agency and Reported Estimated Completion Date</b>	<b>Status<sup>10</sup></b>
1	Internal Control. Provides management and staff with written policies and procedures to ensure continuity of operations.	Non Monetary	<b>DSLBD</b> February 2008	Closed
2	Internal Control. Provides DSLBD management assurance that current certification specialist staffing levels are adequate.	Non Monetary	<b>DSLBD</b> July 25, 2008	Closed
3	Economy and Efficiency and Internal Control. Establishes a system that allows subcontractor to monitor payments made to prime contractors.	Non-Monetary	<b>DSLBD</b> July 25, 2008	Closed
4	Internal Control. Establishes that an online information system will be used to capture and maintain data relating to CBEs.	Non-Monetary	<b>OCP</b> February 2009	Open

<sup>10</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.

## EXHIBIT B: DSLBD AND OCP MANAGEMENT RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF SMALL AND LOCAL BUSINESS DEVELOPMENT



July 25, 2008

*VIA EMAIL & US MAIL*  
Mr. Charles J. Willoughby  
Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Re: OIG No. 06-1-12MA

Dear Mr. Willoughby:

The Department of Small and Local Business Development (DSLBD) and the Office of Contracting and Procurement (OCP) have received the draft report summarizing the results of the Office of the Inspector General's (OIG) Audit of Operations Within the Department of Small and Local Business Development. In sum, DSLBD and OCP agree with the audit's findings, and as the audit notes, DSLBD has already taken a number of steps to improve and streamline its operations, to strengthen internal controls, and provide more effective and efficient services to our constituents.

In the draft audit, OIG makes three recommendations to DSLBD and one recommendation to OCP. DSLBD responses to these recommendations, including any applicable timelines for implementation, are detailed below. OCP has provided DSLBD its response to the OIG's recommendation, which is also included below.

**Recommendation 1:** Establish and document standard operating policies and procedures for the DSLBD.

**DSLBD Response:** DSLBD has established and implemented standard operating procedures (SOPs) for the certification division. These SOPs have detailed and specific rules, procedures and timelines for processing certification, recertification and upgrade applications. These SOPs have been operational since February 2008.

**Recommendation 2:** In coordination with the Department of Human Resources, assess and determine the appropriate workload for certification specialists to ensure that current staffing levels are adequate to provide the level of business services needed for the LSDBE program.

**DSLBD Response:** As the audit notes, in FY 2006 DSLBD had only 4 certification specialists handling a significant number of certification applications. To address the rising number of

## EXHIBIT B: DSLBD AND OCP MANAGEMENT RESPONSE

Charles J. Willoughby

Page 2

applications and the resultant backlog, in March 2007 DSLBD hired a Certification Manager. This essential position in the agency had been vacant for nearly 12 months and had a direct and adverse impact on DSLBD's ability to process applications in a timely manner. DSLBD also hired an additional intake specialist in FY 2007. In the past year the certification manager has, with assistance from the General Counsel and other senior staff, eliminated the current application backlog, developed Standard Operating Procedures for the Certification Division, and identified ways to further streamline the certification process and improve efficiency in processing times. In FY2008, DSLBD unfortunately lost the additional certification intake specialist hired the previous year. Despite these staffing challenges, in order to sustain the needed business services and to enhance service offerings, DSLBD certification manager realigned staff in the certification division. DSLBD, in conjunction with OCTO, has also made upgrades to the on-line certification program to streamline the process, thereby reducing the workload for applicants and the certification staff. DSLBD has currently advertised the vacant certification intake specialist position and is seeking all qualified candidates. Although DSLBD has worked to leverage as much as possible the existing staff and technical resources, the number of certification applications per month continues to grow. Thus DSLBD anticipates the need for additional certification staff in FY2009 and beyond.

**Recommendation 3:** Request that OCTO implement system requirements that will link the LSDBE On-Line System to SOAR and allow DSLBD and subcontractors to monitor payments from OCFP to prime contractors.

**DSLBD Response:** DSLBD has had a number of meetings and discussions with OCTO regarding ways to link the OCFO's financial management system with DSLBD's CBE Online system. Unfortunately linking SOAR with CBE Online is not technically feasible or practical at this time, in part because OCFO is in the process of replacing SOAR with a new general ledger system. The OCFO projects the new general ledger system to be implemented in the next two to three years. DSLBD has had discussions with the OFCO personnel responsible for development of the new financial management system to ensure that DSLBD reporting functions and needs are integrated and that the new system will work seamlessly with DSLBD's CBE Online system. In the interim, DSLBD is working with OCTO and OCFO to better integrate the CBE Online system with the Procurement Automated Support System (PASS).

**Recommendation 4:** Implement actions to ensure that all contracts with subcontracting plans are accurately listed and documented within CADS.

**OCP Response:** The Office of Contracting and Procurement is in the process of implementing upgrades to its Procurement Automated Support System. The upgrades specifically in the Contracting Compliance module will render CADS obsolete. PASS will be the sole point of entry for all contracting information to include sub-contracting plans. This upgrade is slated to be implemented in February 2009. This upgrade will ensure that all contract information is entered one time, in one system, therefore eliminating the need for multiple entries; resulting in increased accuracy and complete records. PASS will become the focal point from which all contract information and reports can be generated.

---

## EXHIBIT B: DSLBD AND OCP MANAGEMENT RESPONSE

---

Charles J. Willoughby

Page 3

We appreciate the OIG's thorough review of DSLBD operations, and, as detailed above, DSLBD and OCP have already taken steps to address the recommendations for improved service delivery. Please let us know if you have any questions or need any additional information. Thank you.

Sincerely,



Nicole J. Becton  
Interim Director

Cc: David P. Gragan, Chief Procurement Officer