



## Board Report

File #: 2018-0686, File Type: Informational Report

Agenda Number: 33.

### 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

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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

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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**

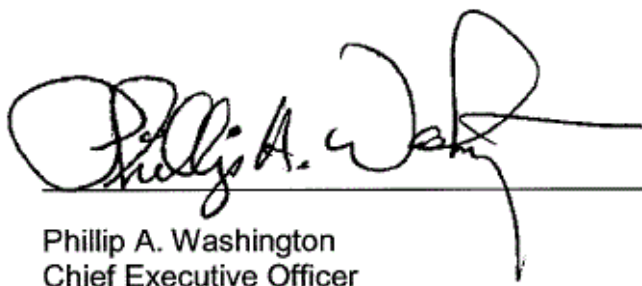
Metro will continue its effort to streamline the audit process and will report back to the board annually.

**ATTACHMENT**

Attachment A - Contractor Training Sessions Surveys

Prepared by: Debra Avila, Chief Vendor/Contract Management Officer  
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(213) 922-1023

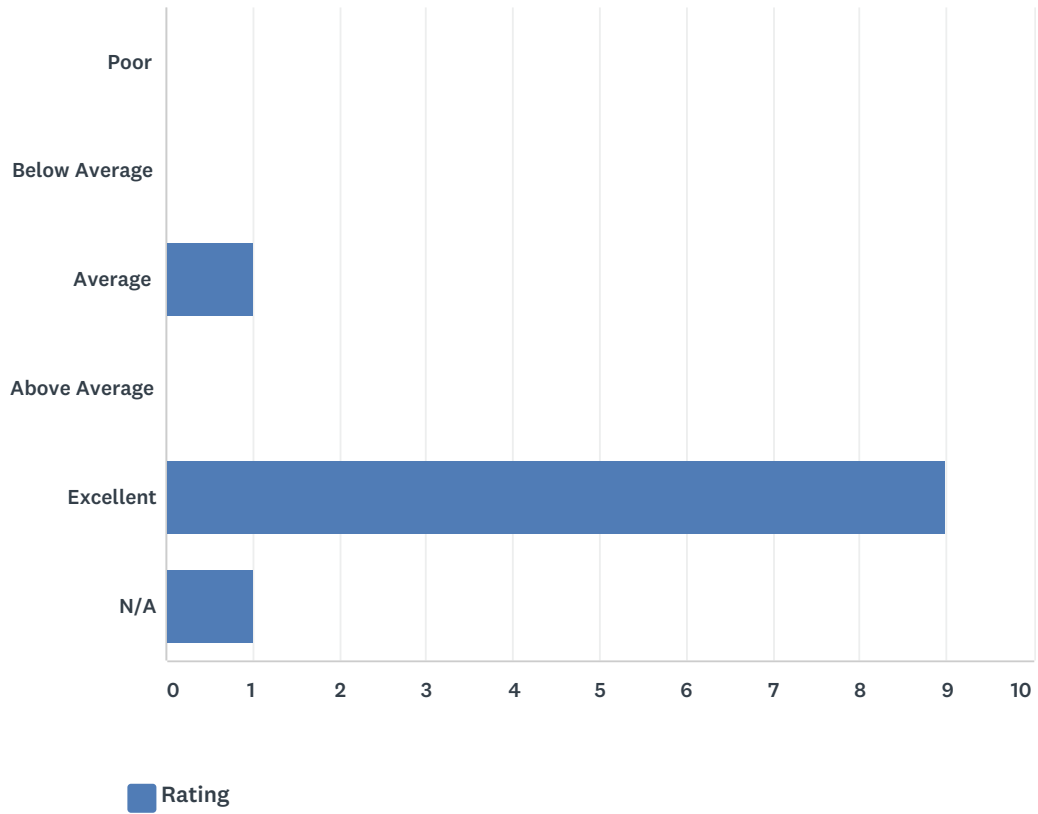


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Phillip A. Washington  
Chief Executive Officer

# Q1 Speaker Overall Evaluation

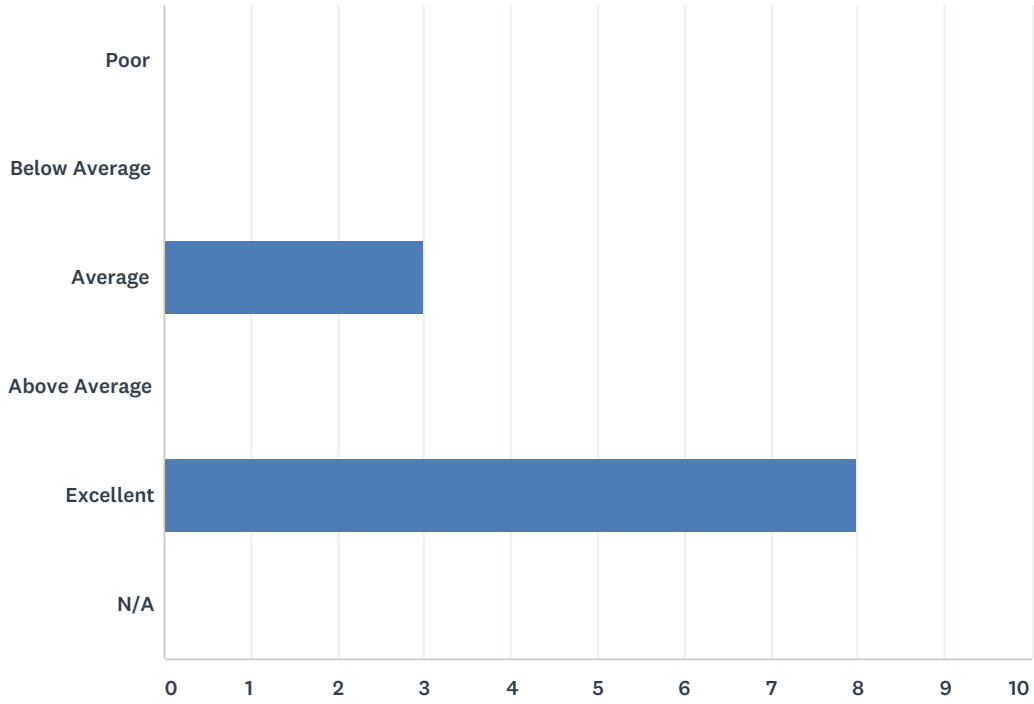
Answered: 11 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00% 0	0	1.00
Below Average	0.00% 0	0	2.00
Average	100.00% 1	1	3.00
Above Average	0.00% 0	0	4.00
Excellent	100.00% 9	9	5.00
N/A	100.00% 1	1	0.00

## Q2 Use of Audio-Visual Materials

Answered: 11 Skipped: 0

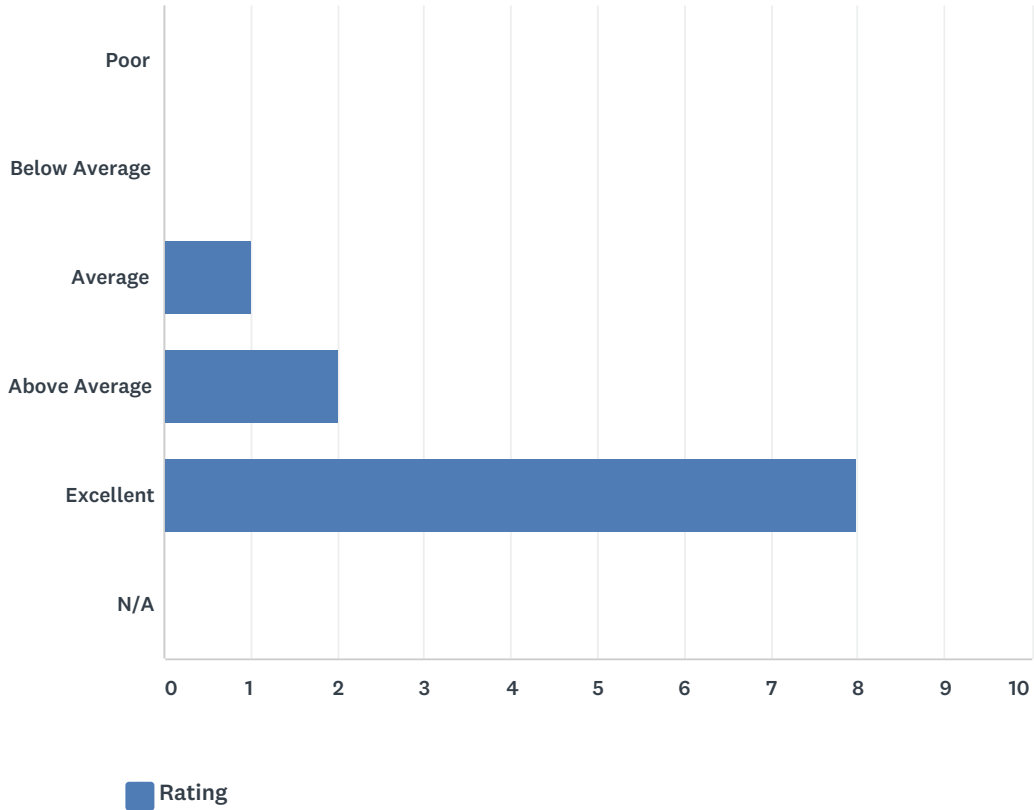


Rating

	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00% 0	0	1.00
Below Average	0.00% 0	0	2.00
Average	100.00% 3	3	3.00
Above Average	0.00% 0	0	4.00
Excellent	100.00% 8	8	5.00
N/A	0.00% 0	0	0.00

## Q3 Organized Presentation

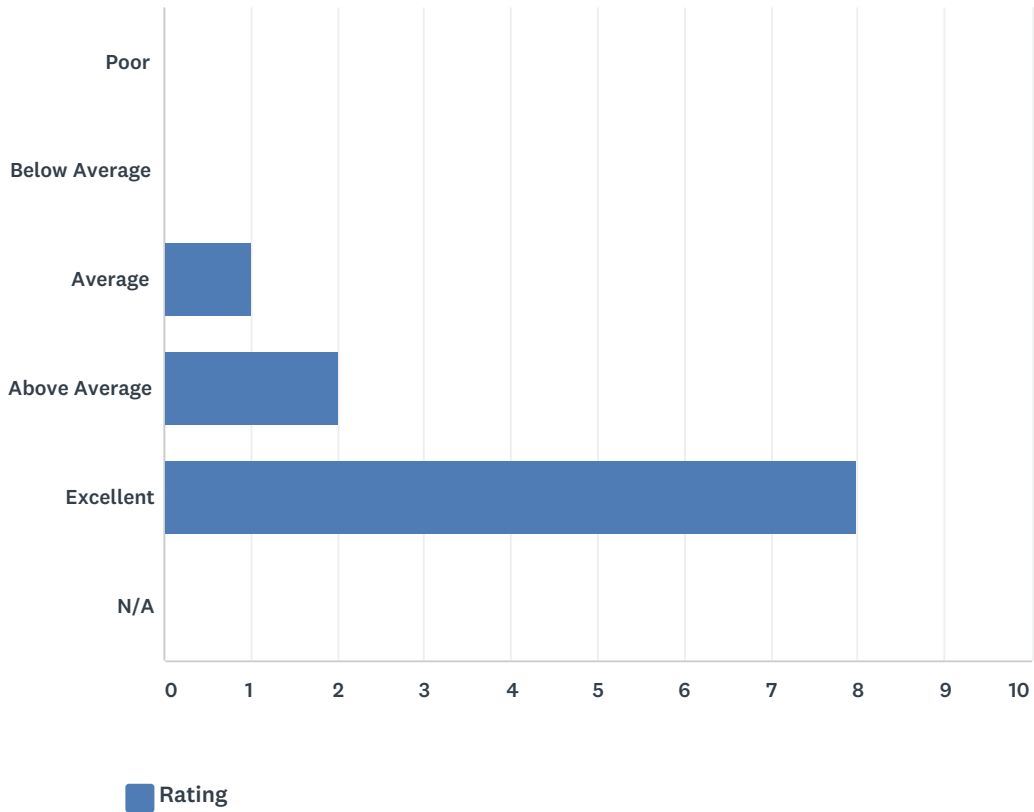
Answered: 11 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00%	0	1.00
Below Average	0.00%	0	2.00
Average	100.00%	1	3.00
Above Average	100.00%	2	4.00
Excellent	100.00%	8	5.00
N/A	0.00%	0	0.00

## Q4 Presentation Style

Answered: 11 Skipped: 0

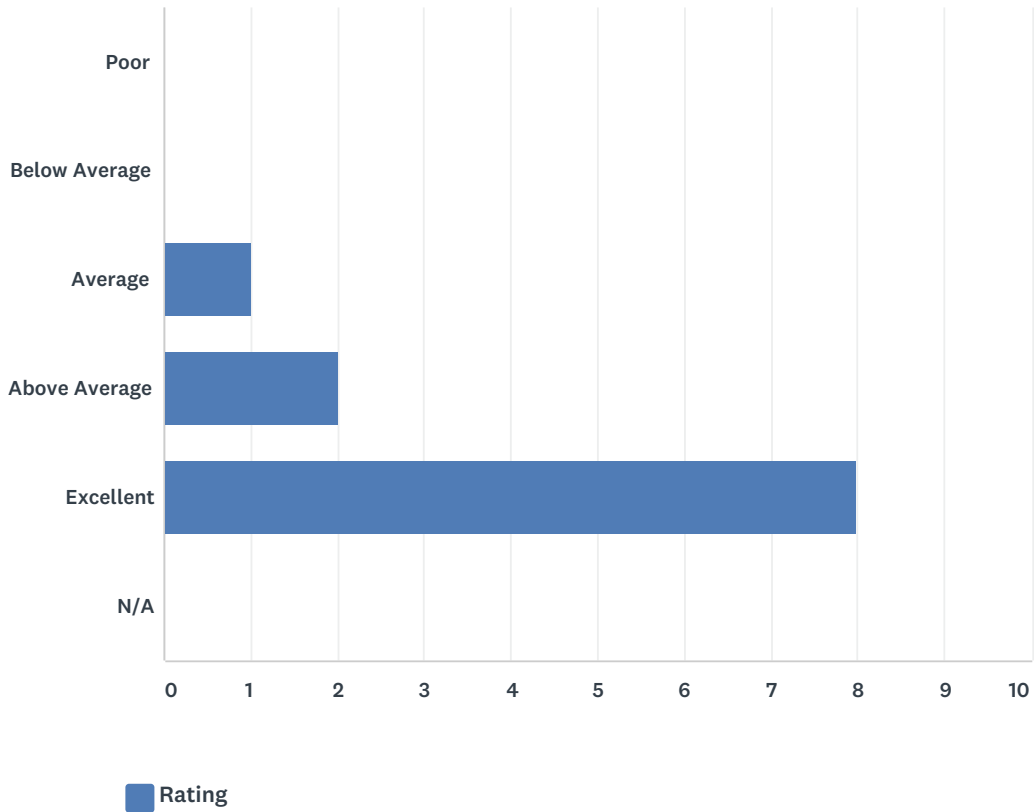


	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00% 0	0	1.00
Below Average	0.00% 0	0	2.00
Average	100.00% 1	1	3.00
Above Average	100.00% 2	2	4.00
Excellent	100.00% 8	8	5.00
N/A	0.00% 0	0	0.00



## Q5 Information at Appropriate Level

Answered: 11 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00% 0	0	1.00
Below Average	0.00% 0	0	2.00
Average	100.00% 1	1	3.00
Above Average	100.00% 2	2	4.00
Excellent	100.00% 8	8	5.00
N/A	0.00% 0	0	0.00

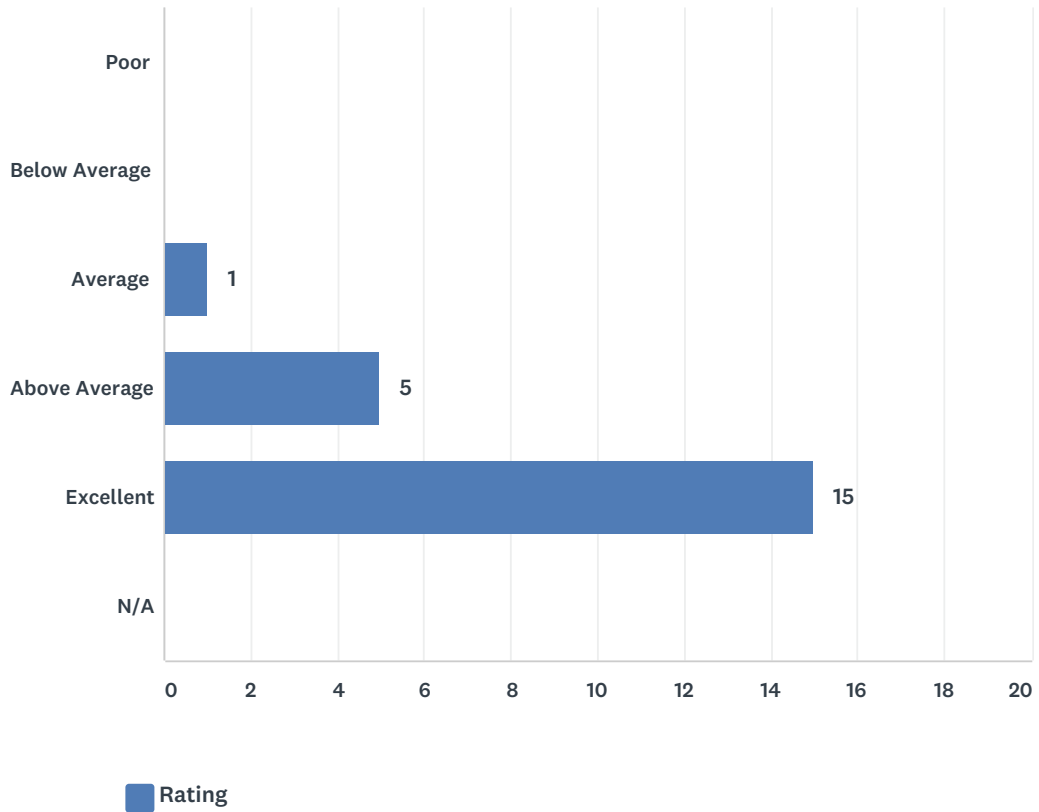
## Q6 Comments:

Answered: 4 Skipped: 7

#	RESPONSES	DATE
1	Thank you for hosting this informative event. I appreciate how welcoming and encouraging Metro staff is. I look forward to attending more events in the future.	3/7/2018 3:12 PM
2	I learned alot & very helpful information.	3/7/2018 11:13 AM
3	Thank you for continuing to improve your efforts!	2/21/2018 8:31 PM
4	Great event!	2/21/2018 4:22 PM

## Q1 Speakers Overall Evaluation

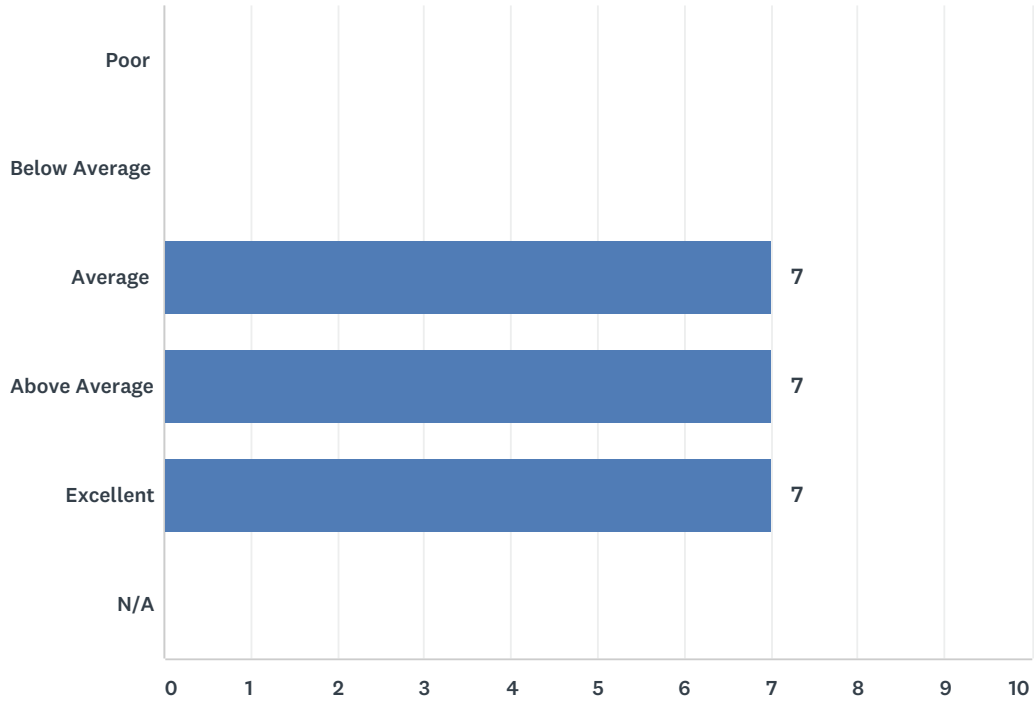
Answered: 21 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00%	0	1.00
Below Average	0.00%	0	2.00
Average	100.00%	1	3.00
Above Average	100.00%	5	4.00
Excellent	100.00%	15	5.00
N/A	0.00%	0	0.00

## Q2 Use of Audio-Visual Materials

Answered: 21 Skipped: 0

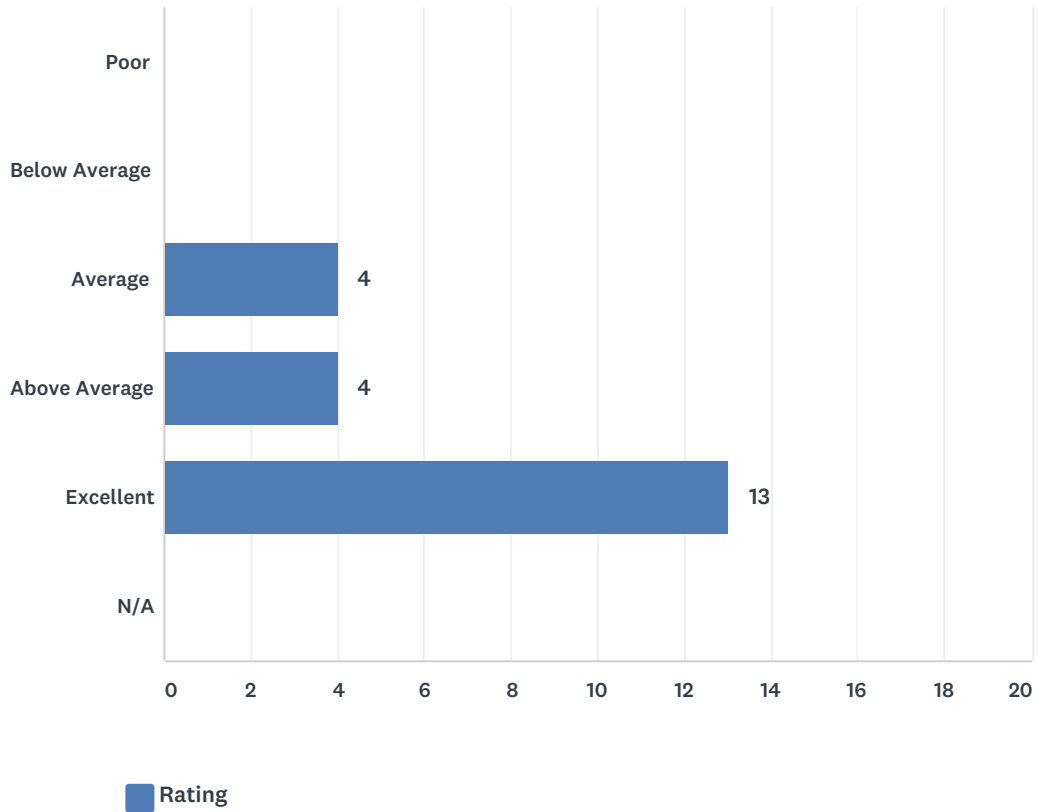


Rating

	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00% 0	0	1.00
Below Average	0.00% 0	0	2.00
Average	100.00% 7	7	3.00
Above Average	100.00% 7	7	4.00
Excellent	100.00% 7	7	5.00
N/A	0.00% 0	0	0.00

## Q3 Organized Presentation

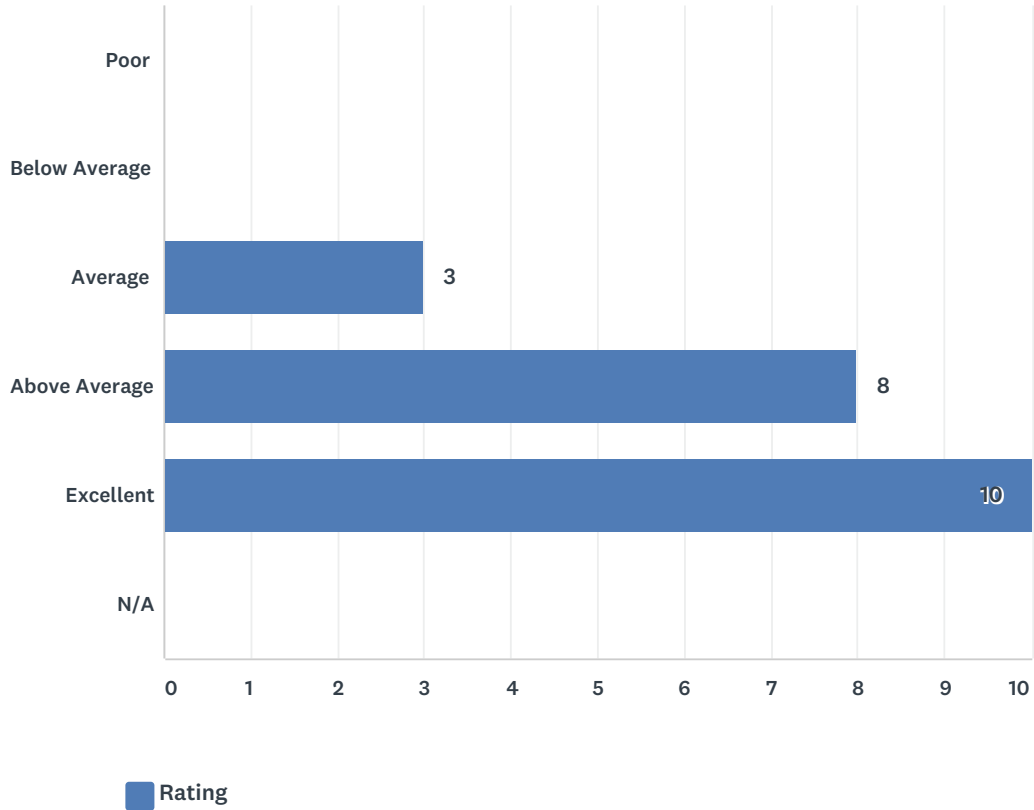
Answered: 21 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00% 0	0	1.00
Below Average	0.00% 0	0	2.00
Average	100.00% 4	4	3.00
Above Average	100.00% 4	4	4.00
Excellent	100.00% 13	13	5.00
N/A	0.00% 0	0	0.00

## Q4 Presentation Style

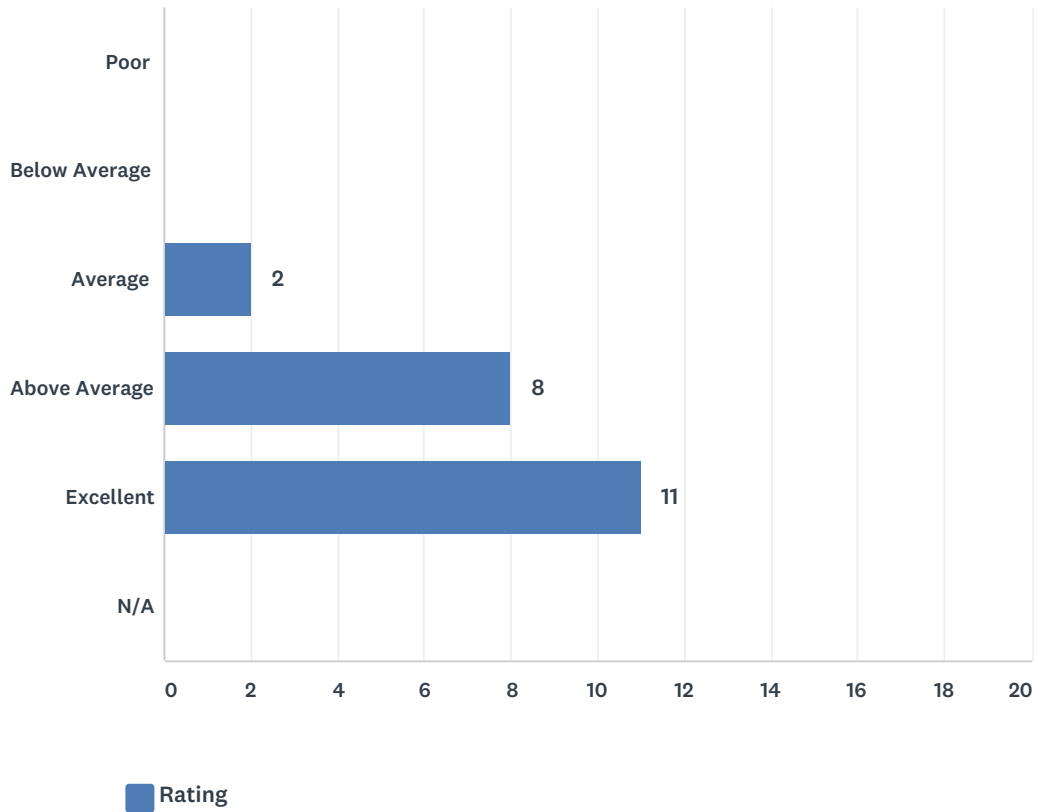
Answered: 21 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00%	0	1.00
Below Average	0.00%	0	2.00
Average	100.00%	3	3.00
Above Average	100.00%	8	4.00
Excellent	100.00%	10	5.00
N/A	0.00%	0	0.00

## Q5 Information at Appropriate Level

Answered: 21 Skipped: 0



	RATING	TOTAL	WEIGHTED AVERAGE
Poor	0.00%	0	1.00
Below Average	0.00%	0	2.00
Average	100.00%	2	3.00
Above Average	100.00%	8	4.00
Excellent	100.00%	11	5.00
N/A	0.00%	0	0.00

## Q6 Comments (If you'd like to comment on the speakers, they were Diana Estrada, Yvette Suarez, and Erlinda Bisquera):

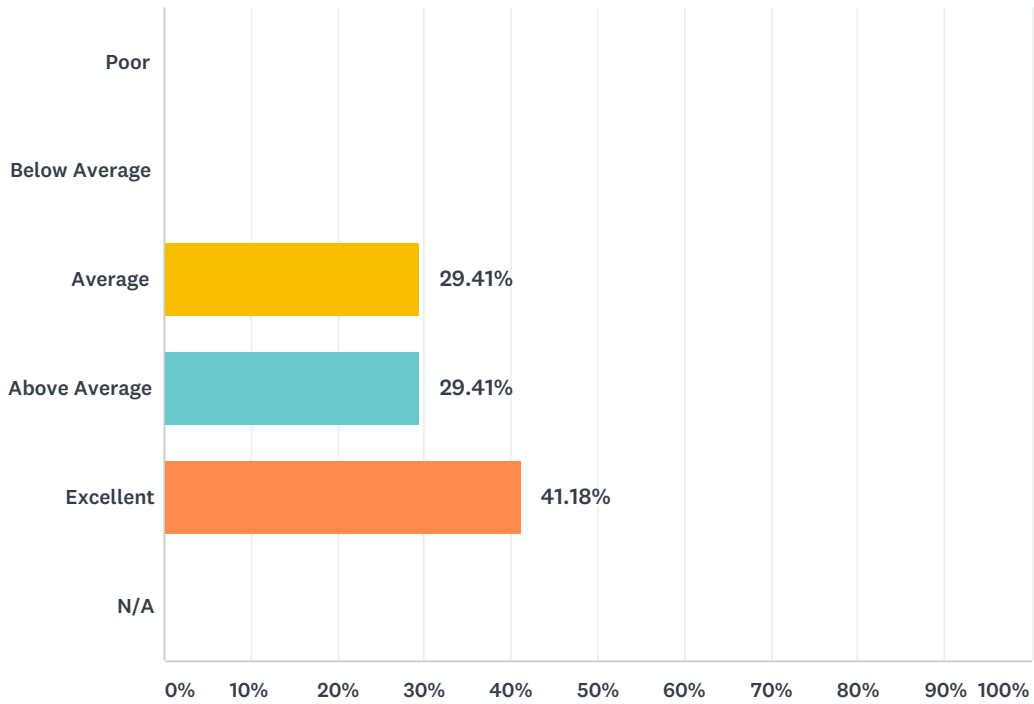
Answered: 17 Skipped: 4

#	RESPONSES	DATE
1	I know it's tough, but you've got to keep the audience disciplined when asking questions or it will devolve into very specific questions which affect only that one questioner and not be relevant for the room. Keep questions to the end of the speaker's segment, and if the questions result in continued follow-up and deep granularity suggest taking it offline for afterwards. Overall the team did an excellent job and as soon as I got on the train back to the office I called my accountant to ensure we are good to go with Far Part 31.2! Gregory Grabowski Grabowski Collaborative Consulting <a href="http://www.GrabowskiCC.com">www.GrabowskiCC.com</a>	4/5/2018 4:37 PM
2	Diana, in particular, had a breezy and humorous style that made the information less dry and easier to comprehend.	3/28/2018 6:35 PM
3	Good Job	3/28/2018 9:56 AM
4	Everyone gave great presentations and the responses give to questions being asked were clear. Considering the topic and the duration of the presentation, the back half was not as engaging as the beginning, though that might be due to the front-loaded QA session. It could help to curate questions after each segment so that there is continuous focus between presenter and audience throughout the entirety of the presentation, if possible.	3/27/2018 3:08 PM
5	Excellent presentation, very informative and useful for my business. Thanks.	3/27/2018 2:05 PM
6	I enjoyed Diana's energy throughout the seminar.	3/27/2018 1:41 PM
7	Great information, needed a little more time for Q&A.	3/27/2018 12:29 PM
8	All speakers were engaging as well as informative. Very informative presentation.	3/27/2018 12:03 PM
9	Diana was great, she's a good presenter.	3/27/2018 11:43 AM
10	Diana did a terrific job of managing the program. It was obvious she "knew her stuff". Kept everyone engaged. Yvette and Erlinda presented the topics very well. One of the better programs with dealing with a difficult topic!	3/27/2018 10:57 AM
11	Diana is wonderful and very approachable. I really appreciate this training course!	3/27/2018 10:41 AM
12	Very clear information and all had a very engaging manner which I think kept the group involved.	3/27/2018 10:39 AM
13	Diana and Yvette were excellent speakers. Erlinda was too soft and was not clear.	3/27/2018 10:32 AM
14	Diana had a great style that made you want to go through an audit :) Yvette was very effective too. Erlinda knew her stuff - they all had very different styles which kept it interesting.	3/27/2018 10:31 AM
15	Diana went beyond the printed word, which made it more enjoyable. Yvette and Erlinda only read what was on the presentation, which was not enjoyable. Yvette showed more personality than Erlinda, who I can tell is a "by the book" type, which I appreciate, but made our session boring.	3/27/2018 10:31 AM
16	They all did a good job.	3/27/2018 10:30 AM
17	This was one of the most informational seminars/training I have ever attended, and I have attended a lot. Metro was actually able to demystify Audits, which was tough since the Audit Team is pretty much the IRS to some :) Thank you! Kudos to Diana and the Team. You made Auditors look --- way less scary	3/27/2018 10:30 AM



## Q1 Speakers Overall Evaluation

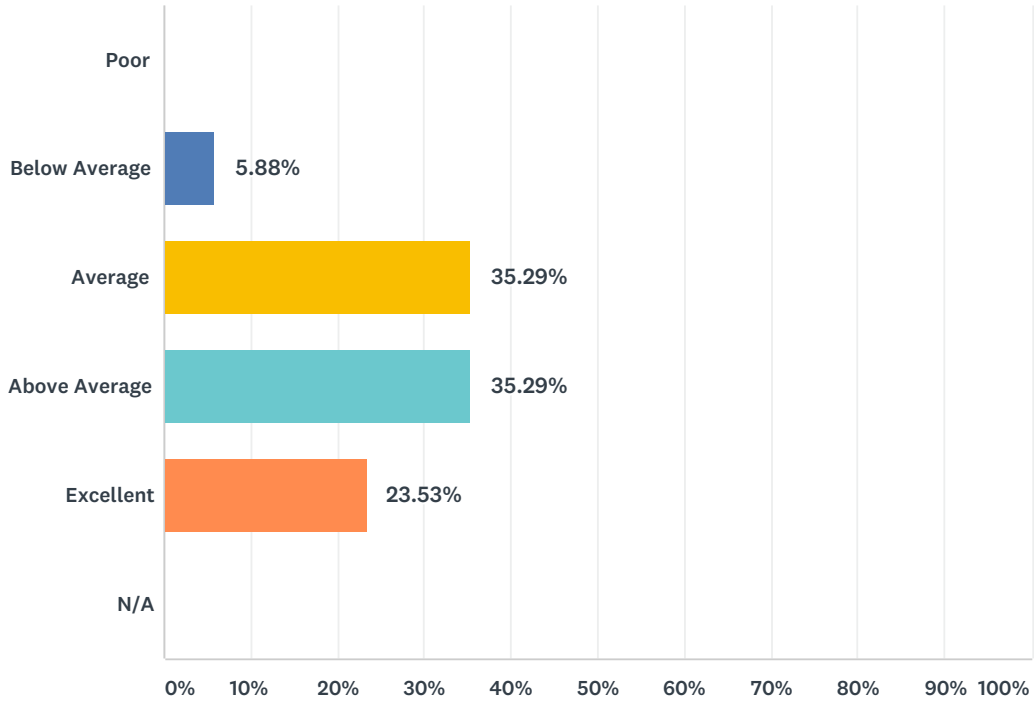
Answered: 17 Skipped: 0



ANSWER CHOICES	RESPONSES	
Poor	0.00%	0
Below Average	0.00%	0
Average	29.41%	5
Above Average	29.41%	5
Excellent	41.18%	7
N/A	0.00%	0
<b>TOTAL</b>		<b>17</b>

## Q2 Use of Audio-Visual Materials

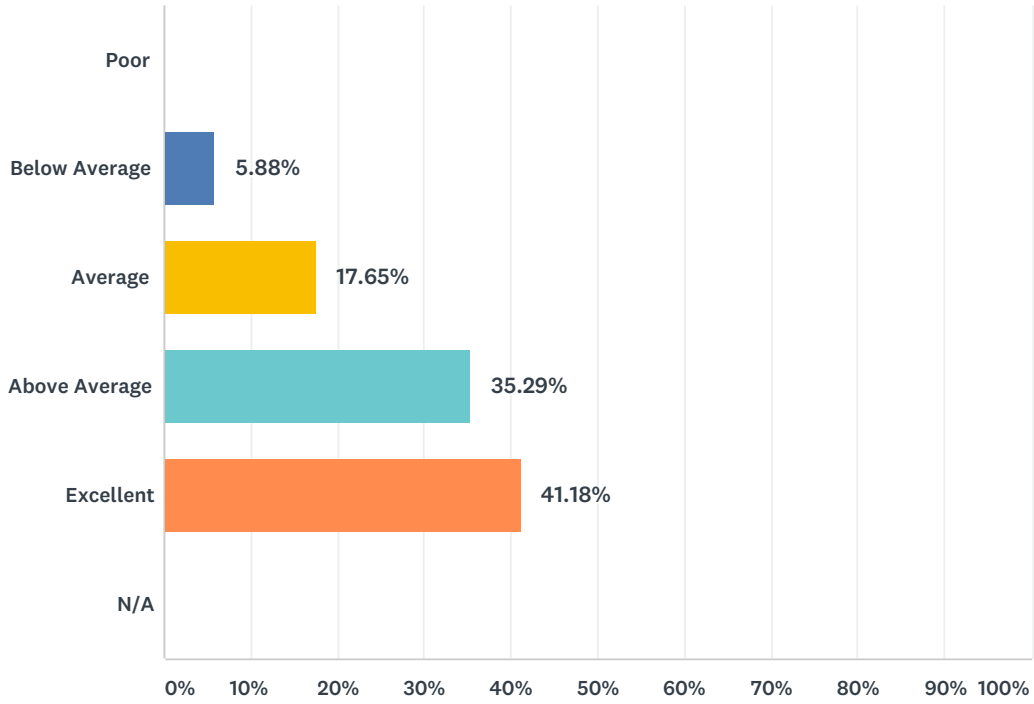
Answered: 17 Skipped: 0



ANSWER CHOICES	RESPONSES	
Poor	0.00%	0
Below Average	5.88%	1
Average	35.29%	6
Above Average	35.29%	6
Excellent	23.53%	4
N/A	0.00%	0
<b>TOTAL</b>		<b>17</b>

## Q3 Organized Presentation

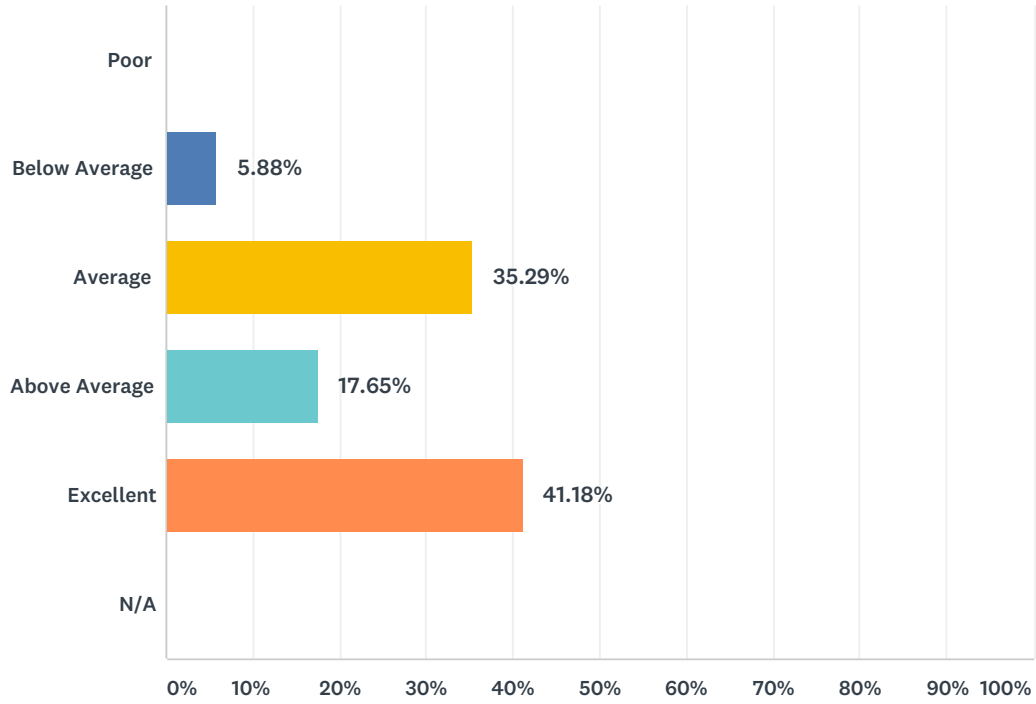
Answered: 17 Skipped: 0



ANSWER CHOICES	RESPONSES	
Poor	0.00%	0
Below Average	5.88%	1
Average	17.65%	3
Above Average	35.29%	6
Excellent	41.18%	7
N/A	0.00%	0
<b>TOTAL</b>		<b>17</b>

## Q4 Presentation Style

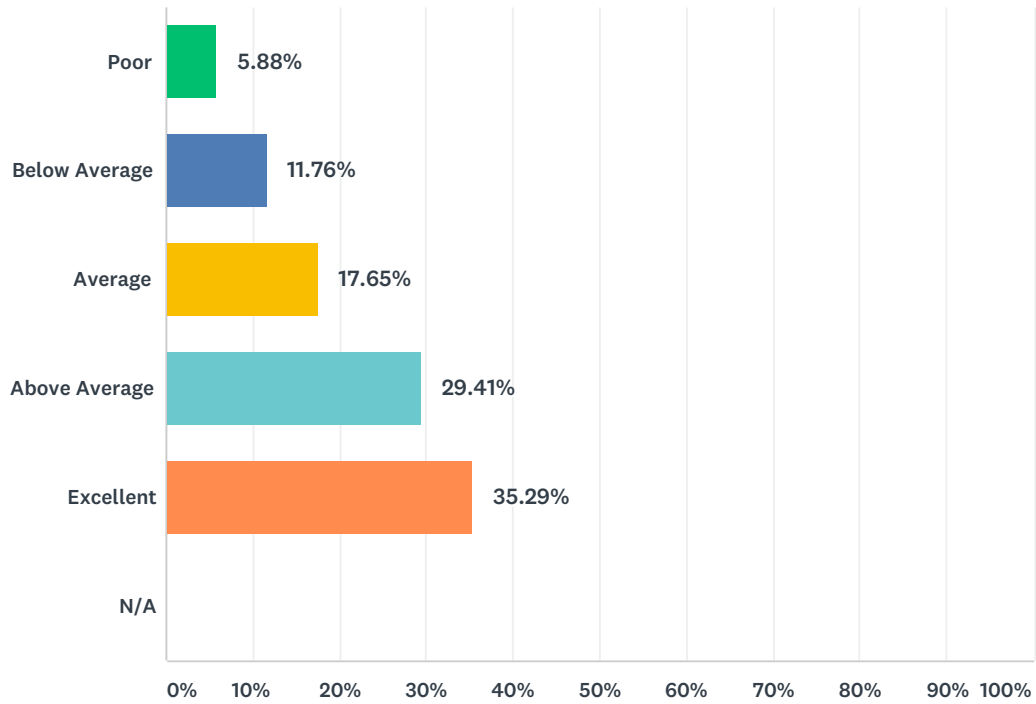
Answered: 17 Skipped: 0



ANSWER CHOICES	RESPONSES	
Poor	0.00%	0
Below Average	5.88%	1
Average	35.29%	6
Above Average	17.65%	3
Excellent	41.18%	7
N/A	0.00%	0
<b>TOTAL</b>		<b>17</b>

## Q5 Information at Appropriate Level

Answered: 17 Skipped: 0



ANSWER CHOICES	RESPONSES	
Poor	5.88%	1
Below Average	11.76%	2
Average	17.65%	3
Above Average	29.41%	5
Excellent	35.29%	6
N/A	0.00%	0
<b>TOTAL</b>		<b>17</b>

## Q6 Comments If you'd like to comment on the speakers, they were Diana Estrada (Lead Presenter), Yvette Suarez (Internal Control Questionnaire), and Erlinda Bisquera (Examples of Indirect Expense Accounts with Special Considerations):

Answered: 10 Skipped: 7

#	RESPONSES	DATE
1	Diana did an excellent job at presenting accounting numbers...as did Erlinda Bisquera in her presentation...not an easy task to talk about or make it sound interesting--and they did!	5/4/2018 11:35 AM
2	The main speaker, not sure what her name was, but requires clearing pronunciation, and calm speech, seems like she rushed through it at times. The subject matter, understandably challenging to comprehend requires ease of explanation for better comprehension. Lastly, the presentation became dual at times, suggesting that a way is found to lighten up the presentation as to make it more lively, a use of creativity will suffice. All said, the presentation was of the upmost professional quality. Thank you.	5/1/2018 3:32 PM
3	Overall good workshop, thank you. Slides were way too small/far to see and handouts were microscopic.	5/1/2018 3:01 PM
4	No comments	4/29/2018 10:11 PM
5	It was very informative workshop	4/27/2018 1:07 PM
6	Very helpful conference. Diana was very clear and thorough. Wish she had more time because she had really good information and explained it very clearly but had to rush through to get everything done in time.	4/27/2018 7:07 AM
7	The financial information that was presented to the attendees was not appropriate. Trying to explain to the attendees how to create financial statements was, quite frankly, a waste of time. An SBE owner does not have time, nor the knowledge, to create such statements. The financial statements need to be created by an accounting professional, not by the SBE owner. The SBE owner needs to focus upon winning business, not worrying about financial statements, and what-means-what on a financial statement. It would have been better to just tell the attendees to go find a financial professional to complete the financial docs that were presented and discussed. Also, many of the questions asked by the attendees were self-serving, wasted time, and just went down rat holes. After having been in business for 30+ years, holding three business degrees, and trained by Harvard Business School professors, what I noted above is real and should be strongly considered. You cannot train SBE business owners how to create financial statements, to meet Management Audit Services needs, in a 3 hour meeting. Just my two cents worth.	4/26/2018 10:22 PM
8	I just want to thank you all so much for such informative presentation and will love to come back for another one.	4/26/2018 8:48 PM
9	The content of the workshop was EXCELLENT. However, the quantity and level of information presented warrants a full-day duration, or at minimum a full 4-hours. Increased time would have allowed for attendees to ask questions in between the speakers and their respective topics. Yvette as the lead presenter was excellent. Her level of engagement and pace of presentation was spot on. I appreciate that she did not stand at the podium to present, rather move the full width of the room to ensure she engaged w/ all the attendees. I liked that Yvette did not read from her slides but rather used the slides a guide to her presentation; she enhanced the information w/ in-depth details. She clearly is comfortable in presenting to a large group, addressing questions (redirecting as necessary to her team) and ensuring her team is also engaged. Diana was average: she remained at the podium for the duration of her presentation. Erlinda was below average; similar to Diana, she remained in one place for the full duration of her presentation and read her slide. It appears Diana and Erlinda are new to presenting to a large group(?) and would benefit from participating in more/future presentations. However, to their credit, both Diana and Erlinda appeared knowledgeable & responded well to questions.	4/26/2018 3:36 PM
10	This workshop was very helpful. Thank you for having it!	4/26/2018 3:27 PM