



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

October 25, 2013

Julián Castro
Mayor

Diego M. Bernal
Councilman, District 1

Ivy R. Taylor
Councilwoman, District 2

Rebecca J. Viagran
Councilwoman, District 3

Rey Saldaña
Councilman, District 4

Shirley Gonzales
Councilwoman, District 5

Ray Lopez
Councilman, District 6

Cris Medina
Councilman, District 7

Ron Nirenberg
Councilman, District 8

Carlton Soules
Councilman, District 10

SUBJECT: Audit Report of Economic Development Department - SBEDA Contract Compliance Monitoring

Mayor and Council Members:

We are pleased to send you the final report of the Economic Development Department - SBEDA Contract Compliance Monitoring. This audit began in February 2013 and concluded with an exit meeting with department management in September 2013. Management's verbatim response is included in Appendix B of the report. The Economic Development Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager

Carlos Contreras, Assistant City Manager

Ben Gorzell, Chief Financial Officer

Rene Dominguez, Director, Economic Development Department

Michael D. Bernard, City Attorney

Leticia M. Vacek, City Clerk

Robbie Greenblum, Chief of Staff, Office of the Mayor

Jaime Castillo, Communications Director, Office of the Mayor

Frances A. Gonzalez, Assistant to the Mayor, Office of the Mayor

Edward Benavides, Chief of Staff, Office of the City Manager

Donald Crews, Audit Committee Member

Stephen S. Penley, Audit Committee Member

CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Economic Development Department

SBEDA Contract Compliance Monitoring

Project No. AU13-007

October 25, 2013

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Economic Development Department (EDD). The audit objectives, conclusions, and recommendations follow:

Are contracts with SBEDA requirements adequately monitored for compliance?

EDD is currently in the process of developing and implementing a monitoring process for contracts with SBEDA requirements. EDD produces and reviews monthly SBEDA non-compliance reports and has established procedures for departments and vendors to address compliance issues. Although the monitoring process appears to be adequate once it is fully implemented, we identified some areas that could be improved.

We recommend the Director of EDD:

- Continues working toward completing the development and implementation of the SBEDA monitoring process.
- Develop formal procedures to review user roles in the City Contract Management System (CCMS) at least annually.
- Continue outreach and training for subcontractors and consider revising current procedures to ensure subcontractors are confirming payments received.
- Require training for all departmental users of CCMS. Additionally, EDD staff should retain evidence of trainings attended by users.

EDD Management's verbatim responses are included Appendix B.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	2
Audit Results and Recommendations	3
A. SBEDA Contract Compliance Monitoring Process.....	3
B. CCMS User Access	3
C. Confirmation of Payments in CCMS	4
D. Training.....	4
Appendix A – Staff Acknowledgement	6
Appendix B – Management Response.....	7

Background

SBEDA is an advocacy program for small business enterprises (SBE), women-owned small business enterprises (WBE), and minority-owned small business enterprises (MBE). The Small Business Economic Development Advocacy (SBEDA) ordinance was passed by City Council on June 17, 2010 and became effective January 1, 2011. The SBEDA ordinance was a result of a disparity study conducted by MGT of America, Inc from November of 2006 through April of 2009.

The SBEDA ordinance covers solicitations and contracts over \$50,000¹ in five major categories: Construction, Architectural and Engineering, Professional Services, Other Services, and Goods and Supplies.

The Small Business Office (SBO) division of the Economic Development Department (EDD) is responsible for implementing and enforcing the SBEDA program. The SBO reviews solicitation packets prepared by the departments and recommends an affirmative procurement initiative (API) which can include a SBEDA percentage for each solicitation. This percentage tells the prime contractor that a certain percentage of subcontractor work must be performed by a SBEDA certified vendor(s). The Goal Setting Committee (GSC), comprised of various City and citizen members, is tasked with reviewing the SBO's Project Summary Worksheet and corresponding API recommendation with the originating department of the solicitation. Additionally, the GSC is responsible for setting aspirational goals for each category. These goals set the overall percentage of W/MBE participation for each of the five major categories.

The City of San Antonio's Contract Management System (CCMS) is used by the SBO to monitor all SBEDA contracts. CCMS became operational May 23, 2011. CCMS contains all SBEDA contracts, assigned APIs, and payments on SBEDA contracts. It also automatically calculates the contract participation percentage. Additionally, prime contractors report their payments in CCMS and subcontractors then confirm the receipt of the payment in CCMS.

¹ Exceptions to this rule include emergency contracts, sole source contracts, Tax Abatements and Chapter 380 Grant Agreements.

Audit Scope and Methodology

The audit scope includes all SBEDA contract compliance monitoring processes and all SBEDA contracts in CCMS.

We interviewed EDD staff regarding the SBEDA program, the SBEDA contract compliance monitoring process, CCMS functionality, and training programs. We reviewed the SBEDA ordinance, training documents, SBO policies and procedures, and the current SBEDA contract compliance monitoring process. Additionally, we observed a GSC meeting and reviewed GSC documents for SBEDA contracts. We randomly selected 25 contracts and validated the SBEDA contract data in CCMS comparing it to both approved GSC SBEDA documentation and SAP. Finally, we reviewed access roles in CCMS, recalculated the contract participation percentage in CCMS, and reviewed confirmed payments to prime and subcontractors in CCMS. Testing criteria included the SBEDA ordinance and applicable administrative directives.

We relied on computer-processed data in CCMS to validate SBEDA contract data. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing SBEDA requirements to SBO SBEDA documentation and SAP contract data. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. SBEDA Contract Compliance Monitoring Process

While the SBEDA contract compliance process appears to be adequate, EDD is still in the process of developing and implementing their monitoring process for contracts with SBEDA requirements.

To assist in the monitoring process, EDD implemented CCMS in May of 2011. Due to the complexity of integrating relevant contract and payment data between SAP and CCMS, the first data update in CCMS did not occur until June of 2012. EDD determined that the initial SBEDA non-compliance report from CCMS in September 2012 was not complete and did not include accurate payment data. EDD and ITSD corrected the issue, but were unable to produce another accurate SBEDA non-compliance report until February of 2013.

EDD's monitoring process going forward is to produce monthly SBEDA non-compliance reports from CCMS and notify any departments with non-compliant SBEDA contracts. Departments will then have fourteen calendar days to correct the issue with the vendor. If the vendor cannot address the issues, they have the option of requesting a hearing with the executive leadership team. EDD then determines if the vendor reasoning for non-compliance is valid. If not, EDD recommends sanctions and penalties as allowed by the SBEDA ordinance to the City Manager. The City Manager then makes the final decision to impose sanctions or penalties.

Recommendation

The Director of EDD continues working toward completing the development and implementation of the SBEDA monitoring process.

B. CCMS User Access

CCMS users had inappropriate access. We reviewed a listing of CCMS users as of 4/30/2013 and determined 16 of 57 users had inappropriate access to CCMS. This included either users with incorrect access privileges or users that no longer required access to CCMS. This occurred because EDD does not have a formal, documented policy in place to periodically review user roles in CCMS. EDD did correct these access issues during the course of the audit.

Administrative Directive (AD) 7.8 *User Account Management* states that access privileges to information and IT resources shall be reviewed on a regular basis depending on the type of system to ensure that users have the least privileges they need to fulfill their duties. Furthermore, AD 7.8 states that Administrators

shall periodically review the accounts no less than annually against lists/rosters of possible users.

Users with inappropriate access in CCMS could potentially alter contract data or SBEDA requirements, which could lead to non-compliance with the SBEDA ordinance.

Recommendation

The Director of EDD should develop formal procedures to periodically review user roles in CCMS at least annually.

C. Confirmation of Payments in CCMS

Subcontractors are not confirming payments received from prime contractors in a timely manner.

When a subcontractor receives payment from the prime contractor on a SBEDA contract, EDD requires them to confirm the payment in CCMS within ten calendar days. Using a random sample of 25 contracts, we reviewed all payments reported by the prime contractors and determined that \$4.8 million, or 30% of payments, had not been confirmed by the subcontractors. We noted that EDD has conducted outreach and training programs for subcontractors concerning this issue in the past.

Subcontractors should confirm payment receipt within ten calendar days to minimize the potential for inaccurate payment data in CCMS.

Recommendation

The Director of EDD should continue outreach and training for subcontractors and consider revising current procedures to ensure subcontractors are confirming payments received.

D. Training

CCMS users have not received the appropriate training. We reviewed a listing of CCMS users and determined 12 of 46 users had either not received a training session for CCMS or a training record could not be located. This is because EDD has not been consistently requiring training for departmental CCMS users and has not been consistently retaining training records.

Consistent training practices should be applied for all departmental users of CCMS to ensure all users have an adequate understanding of CCMS for their job duties.

Recommendation

The Director of EDD should require training for all departmental users of CCMS before system access authorization. Additionally, EDD staff should retain evidence of trainings attended by users.

Appendix A – Staff Acknowledgement

Buddy Vargas, MBA, CFE, Audit Manager
Douglas Francis, MSA, Auditor-in-Charge
Rebecca Moulder, CIA

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

October 17, 2013

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of SBEDA Contract Compliance Monitoring

The Economic Development Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p>SBEDA Contract Compliance Monitoring Process</p> <p>Recommendation</p> <p>The Director of EDD continues working toward completing the development and implementation of the SBEDA monitoring process.</p>	3	Accept	Alejandra Lopez/Assistant Director	Ongoing
<p>Action plan:</p> <p>The Economic Development Department (EDD) has worked diligently to fully implement the significant revisions to the SBEDA Program, including phased-in compliance monitoring. Although integration of contract and payment data between SAP and the City Contract Management System (CCMS) proved to be a substantial challenge, EDD did not neglect compliance and was manually entering all relevant contract and payment information.</p> <p>Since contract and payment data started correctly integrating from SAP to CCMS, EDD has been producing monthly SBEDA non-compliance reports from CCMS and notifying all City departments of contracts that are out of compliance with SBEDA requirements. If the identified contracts remain non-compliant after the allotted cure period has been exhausted, EDD currently coordinates with City departments to recommend penalties or sanctions to prime contractors that fail to address the compliance issues as required.</p>					

Audit of EDD SBEDA Contract Compliance Monitoring

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
B	<p>CCMS User Access</p> <p>Recommendation</p> <p>The Director of EDD should develop formal procedures to periodically review user roles in CCMS at least annually.</p>	3	Accept	Michael Sindon/Sr. Economic Development Specialist	October 2013
<p>Action plan:</p> <p>The Economic Development Department (EDD) has worked diligently to address concerns regarding user access in CCMS by reviewing all CCMS users and user privileges. To date, all users in CCMS have accurate access privileges. EDD has also developed a formal, documented policy and procedure for consistent review of user roles and privileges in CCMS on at least an annual basis.</p>					
C	<p>Confirmation of Payments in CCMS</p> <p>Recommendation</p> <p>The Director of EDD should continue outreach and training for subcontractors and consider revising current procedures to ensure subcontractors are confirming payments received.</p>	4	Accept	Alejandra Lopez/Assistant Director	Ongoing
<p>Action plan:</p> <p>The Economic Development Department (EDD) has increased its outreach, which has reduced unconfirmed subcontractor payments by half. To assist subcontractors with the payment confirmation process, EDD created a PowerPoint training manual that subcontractors can follow to help them confirm payments in CCMS with ease. EDD is working with B2Gnow, host of CCMS, to develop a report that will inform City departments if they have contracts in which subcontractors are not confirming payments. Once City departments know specific contracts for which payments are not being confirmed by subcontractors in CCMS, the City can conduct a targeted mass training to those subcontractors. EDD is currently analyzing potential additional outreach and procedures to ensure subcontractor payment confirmation and anticipates an increase in the percentage of subcontractors confirming payments received by the end of the 2014 fiscal year.</p>					

Audit of EDD SBEDA Contract Compliance Monitoring

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
D	<p>Training</p> <p>Recommendation</p> <p>The Director of EDD should require training for all departmental users of CCMS before system access authorization. Additionally, EDD staff should retain evidence of trainings attended by users.</p>	4	Accept	Michael Sindon/ Sr. Economic Development Specialist	October 2013
<p>Action plan:</p> <p>The Economic Development Department (EDD) has reviewed the policies and procedures for training departmental CCMS users and is implementing requirements that all potential users first receive training before being granted a user profile and access to CCMS. Furthermore, EDD has formulated policies for the retention of training records and now requires departmental staff to sign-in prior to training sessions, as a record of their attendance. These dated records are then scanned and kept on file as evidence of users' attendance.</p>					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

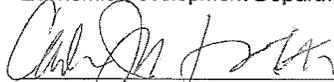
Sincerely,



 Rene Dominguez
 Director
 Economic Development Department

10/18/13

 Date



 Carlos Contreras
 Assistant City Manager
 City Manager's Office

10/18/13

 Date