



Internal Audit Report

Diversity Program Reporting

Report Number: 2016-6 | Report Date: December 6, 2016

Executive Summary

Audit Report No.: 2016-6

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WE AUDITED the current diversity program management practices and controls in place to ensure timely, complete, and accurate submission of reports to Federal Transit Administration (FTA).

AUDIT OBJECTIVE was to determine whether:

- Office of Small Business Development and Labor Compliance (OSBDLC) has an effective process to determine a Disadvantaged Business Enterprise (DBE) program goal in compliance with applicable federal and Sound Transit requirements.
- OSBDLC has effective management controls to ensure timely, complete and accurate submission of the semi-annual Uniform DBE and triennial Title VI reports to FTA.

The audit examined management practices and controls in place as of June 30, 2016.

WHAT DID WE FIND?

Sound Transit has programs to ensure that Disadvantage Business Enterprises (DBE) have an equal opportunity to participate in the procurement and performance of agreements, contracts, and subcontracts. Additionally, the agency provides oversight on the Title VI program to ensure that public funds including federal funds for its programs are utilized without discrimination.

The agency awarded \$557 million to prime contractors with \$87 million sub-awards to qualified DBEs during Federal Fiscal Year (FFY) 2015 through 2016.

External reporting responsibility on the agency's diversity programs is to FTA which includes:

- DBE Goal and Goal Setting Methodology
- Uniform DBE Report
- Title VI Program Reports

The audit found that the agency has effective management controls over the DBE goal setting process and the report submissions to FTA regarding the DBE and Title VI programs in compliance with applicable federal and agency requirements.



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Background

Sound Transit's Office of Small Business Development and Labor Compliance (OSBDLC) in accordance with 49 Code of Federal Regulations Part 26 assures that Disadvantaged Business Enterprises (DBE)¹ have an equal opportunity to participate in the procurement and performance of agreements, contracts, and subcontracts awarded by Sound Transit or its prime contractors. Additionally, the agency provides oversight on the Title VI program in accordance with the Federal Transit Administration's Title VI Circular to ensure that public funds are used without discrimination.

OSBDLC identifies and supports qualified DBE firms to participate in federally funded Sound Transit contracts. For federal fiscal years (FFY) 2017 through 2019, the agency anticipates approximately \$1.7 billion in federal funds from FTA.

The following demonstrates the total awards to prime contractors with sub-awards to DBEs.

Dollars in Thousands	FFY 2015	FFY 2016
Prime Contractor awarded	\$51,420	\$505,330
DBEs Sub-awarded	\$16,817	\$70,450

External reporting responsibility on the agency's diversity programs to FTA includes:

- DBE Goal and Goal Setting Methodology

FTA requires a DBE goal be formulated every three years. The agency goal setting methodology included a disparity study which examines whether there are any disparities between an organization's utilization and availability of minority and women on its transportation contracts. The results of the disparity study along with past DBE participation and information concerning projects anticipated to be awarded over the next 3 years are utilized to determine the triennial DBE goal. A median value between the base figure and an average DBE participation over the past three years is selected as a DBE goal for the next triennial period.

For the last triennial DBE goal was 12.4% (5.6% race/gender neutral and 6.8% race/gender conscious). For the triennial period 2017 - 2019, the proposed DBE goal is 12.2%, consisting of race/gender neutral² (7.2%) and race/gender conscious³ (5.0%).

- Uniform DBE Report

The report is required semi-annually and includes information related to the progress towards the agency DBE goal. This report identifies total contract awards, and total payments on contracts completed during the reporting period.

The agency hosts or sponsors community outreach events and networking opportunities to support DBE companies to participate in FTA assisted contracts in an effort to achieve the DBE goal. The agency provides information about contract opportunities, and creates

¹ a for-profit small business that is at least 51% owned by individuals who are socially and economically disadvantaged

² Measures that are not solely focus on DBE firms

³ Measures that only focus on DBE firms

both prime and sub-contractors relationship during outreach activities.

- Title VI Program Reports

The agency submits the Title VI program report every three years. The report includes general requirements (e.g. Sound Transit Title VI Complaint Procedures) and requirements for all fixed route transit providers (e.g. Demographic and Service Profile Maps and Charts). OSBDLC works with other Sound Transit offices to ensure that all of the agency's programs and services are provided in a non-discriminatory manner.

Audit Objectives

To determine whether:

- OSBDLC has an effective process to determine a DBE goal in compliance with applicable federal and Sound Transit requirements.
- OSBDLC has effective management controls to ensure timely, complete, and accurate submission of the semi-annual Uniform DBE and triennial Title VI reports to FTA.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We gained an understanding of diversity program reporting processes through data analysis, documentation reviews, and personnel interviews. We identified risks in the processes and assessed management controls in place to mitigate those risks. In consideration of the preliminary effectiveness of the management controls, we determined to focus on DBE goal setting processes, and the submission of Uniform DBE and Title VI reports.

We examined processes and records as of June 30, 2016.

- To determine whether OSBDLC has an effective process to determine a DBE goal in compliance with applicable federal and Sound Transit requirements.
 1. We examined the reasonableness of anticipated federal awards used to calculate the base figure in the FFY 2017-2019 DBE goal setting methodology.
 - a. Identified scheduled projects for the next three years in Project Schedule Update report from DECM and verified whether those projects are completely included in the methodology.
 - b. Assessed the reasonableness of the support for the anticipated project amounts used in the methodology.

2. We examined the reasonableness of the breakdown of anticipated federal awards for FFY 2017-2019 by NAICS code. The breakdown information is used to calculate the base figure of the DBE goal.
- To determine whether OSBDLC has effective management controls to ensure timely, complete, and accurate submission of the semi-annual Uniform DBE and triennial Title VI reports to FTA.
 1. We examined the FFY 2016 Uniform DBE report (period of Oct 2015- Mar 2016) and agreed the following information to source data:
 - a. Total prime/sub-contract and DBE award amounts
 - b. The number of prime/sub-contractors and DBE firms
 - c. Total payments to prime/sub-contractors and DBE firms
 2. We selected a judgmental sample of contract awards to prime & sub-contractors (DBE firms) from the report and verified whether:
 - a. Prime contractors met their DBE goal.
 - b. Prime contractors made accurate and timely payments to sub-contractors.
 - c. Sub-contractors were certified as DBE firm.
 3. We examined the 2013 Title VI program report submittal and the draft 2016 Title VI program report, and verified whether the reports included all required documentation.

Conclusion

OSBDLC has effective management controls over the DBE goal setting process, and the complete submission of Uniform DBE and Title VI reports in compliance with applicable federal and agency requirements.