



Charlotte Business INClusion and B2Gnow



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Charlotte Business INClusion and B2Gnow Audit Executive Summary

Objective

This audit was conducted to determine whether adequate controls have been established to help CBI achieve their goals, and whether system controls are in place to help ensure the reliability of B2Gnow data and reports.

Background

The Charlotte Business INClusion (CBI) program seeks to enhance competition and participation of minority, women, and small business enterprises (MWSBEs) in City contracting.

CBI works to expand its certified MWSBE vendor pool and assist city-certified firms in growing, enhancing, and developing their businesses.

For FY 2022, CBI reported \$193 million in MWSBE spend, including \$80 million with subcontractors.

Conclusion

CBI has established adequate controls to ensure goals are achieved. Reconciliation and verification controls are missing that impact the reliability of B2Gnow data.

Highlights

The City has been successful in obtaining MWSBE commitments that exceed subcontracting goals that are based on availability calculations.

- Committed goals exceeded established goals by 27%

System and data issues prohibit CBI from monitoring and generating reports related to the achievement of subcontracting goals.

- CBI should address system issues and use B2Gnow to report on subcontracting goal achievement.

B2Gnow-reported payments to prime vendors did not match Munis payment amounts.

- CBI should periodically verify that CBI liaisons have reconciled B2Gnow and Munis payments.

Subcontract goals were not entered accurately in B2Gnow and not properly documented.

- CBI should establish processes to verify that all contracts with goals are recorded in B2Gnow and that documentation exists to support recorded goals.

B2Gnow system interface issues impact the reliability of annual reporting.

- CBI should continue to address interface/reporting issues and expand the annual report.

Actions Planned

CBI has agreed to the recommendations in this report and has committed to complete implementation by June 2025. Specific details can be found in the department's responses included in the Findings and Recommendations section of this report.

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Objective

This audit was conducted to determine whether adequate controls have been established to help CBI achieve their goals, and whether system controls are in place to help ensure the reliability of B2Gnow data and reports.

Background

The Charlotte Business INclusion (CBI) program seeks to enhance competition and participation of minority, women, and small business enterprises (MWSBEs) in City contracting. CBI works to expand its certified MWSBE vendor pool and assists City-certified firms in growing, enhancing, and developing their businesses.

CBI Staff

The City Business Inclusion Officer manages a staff of nine and is responsible for the development, implementation, and management of the City's supplier diversity and inclusion program. The team sets MWSBE contracting goals and performs compliance functions on relevant City contracts. CBI staff works with department CBI liaisons to ensure consistent compliance with the CBI Program policy and to assist in the compilation of contract data for MWSBE availability and utilization.

Disparity Study and CBI Policy

As a result of Supreme Court decisions, municipalities establishing a minority-owned business and/or women-owned business program must show that a disparity exists between the number of contracts awarded to minority-owned firms or women-owned firms related to their availability in the geographical area. Municipalities should conduct a disparity study periodically to determine if a disparity exists. The latest disparity study (conducted by Colette Hold & Associates and released in early 2022) concluded that the City should continue to implement narrowly tailored race- and gender-conscious measures. The study further recommended that the City:

- Expand the pool of firms eligible for certification by including firms from a wider geographical area.
- Allow firms owned by minority females to be certified as both an MBE and a WBE. Such a firm could be counted towards either goal by prime vendors but could not be double-counted or have its dollars split between two goals.
- Count the self-performance of certified prime vendor MBEs and WBEs towards the contract goal for which they qualify.
- Develop performance measures for program success, including the following possible benchmarks:

- The number of bids or proposals, the industry and the dollar amount of the awards and the goal shortfall, where the bidder was unable to meet the goal and submitted Good Faith Effort (GFEs) to do so.
- The number, dollar amount and the industry code of bids or proposals rejected as non-responsive for failure to make GFEs to meet the goal.
- The number, industry, and dollar amount of MWBE substitutions during contract performance.
- Increased bidding by certified firms as prime vendors.
- Increased prime contract awards to certified firms.
- Increased MWBE bonding limits, size of jobs, profitability, complexity of work, etc.
- Increased variety in the industries in which MWBE firms are awarded prime contracts and subcontracts.

In response to the disparity study, CBI updated policy and guidance in FY 2024. Auditors use “MWSBE” in this report when referring to or quoting policies or guidance in place prior to FY 2024, or when referring to minority and small businesses in general. Auditors use “MWBE” when quoting or referring to current policies or guidance that pertains to minority and women-owned businesses only (excludes small business enterprises.)

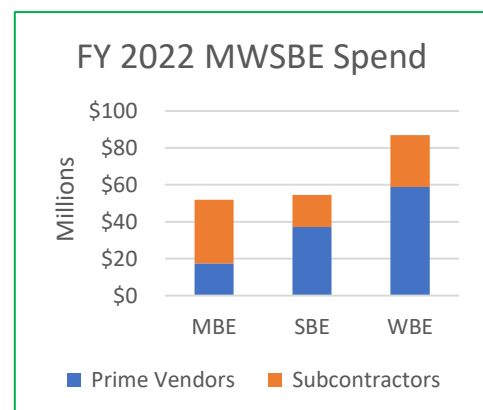
Outreach and Development

CBI has developed a comprehensive program to provide technical assistance, business development, and financial guidance to MWSBE firms. The program assists contractors with capacity and business growth as well as obtaining bonding so that participating firms are prepared to bid on City projects. The program is open to all MWSBE and North Carolina Department of Transportation (NCDOT) certified Disadvantaged Business Enterprise (DBE) firms; multiple in-person and virtual workshops were held throughout calendar year 2023.

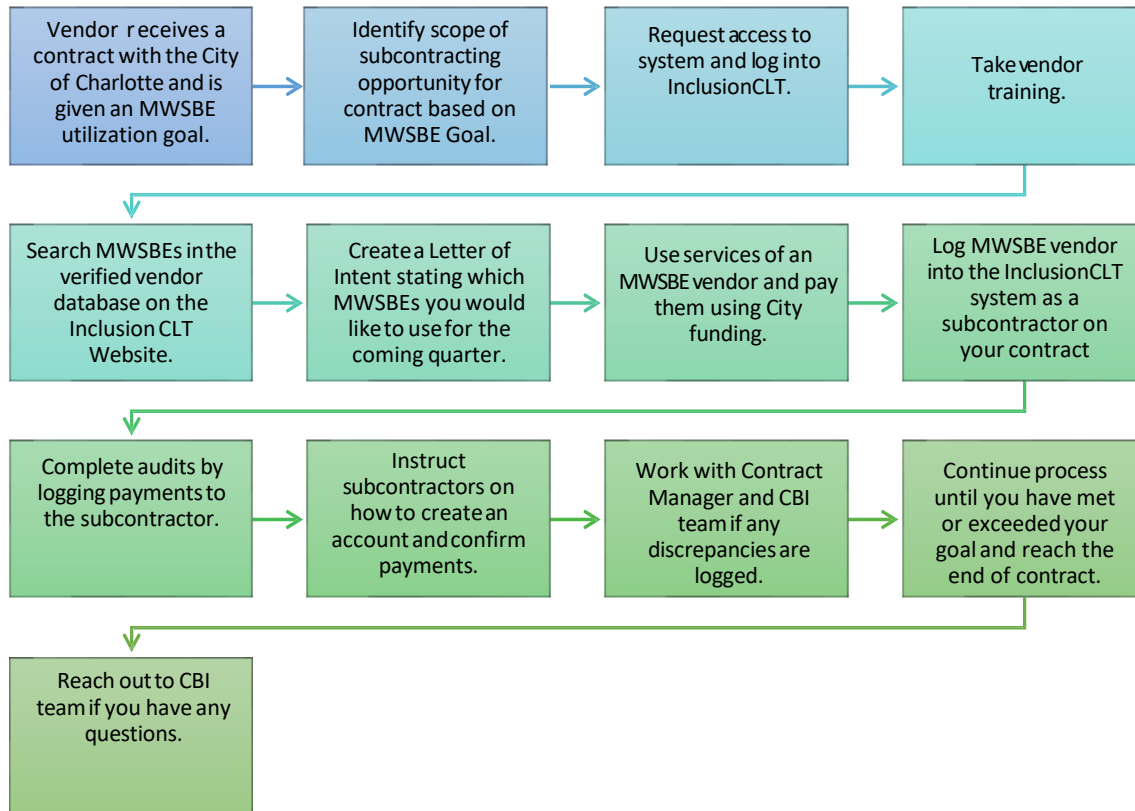
B2Gnow

The City installed the B2Gnow contract compliance and certification system in 2019. This system streamlines and automates the City’s MWSBE data gathering, tracking, monitoring, reporting, and vendor management. Prime vendors are required to report payments made to all subcontractors and suppliers. Subcontractors are then required to review and confirm the accuracy of the payment amount.

The CBI Policy requires all contractors to meet or exceed the committed contract goals over the life of the contract. Contractors can be deemed in breach of contract if the City determines that the contractor will not meet the subcontracting goal and the reasons for not meeting goal are within the contractor’s control. **For FY 2022, CBI reported \$193 million in MWSBE spend, a 45% increase from the FY 2019 spend of \$133 million.**



The following details the B2Gnow process:



Promoting MWSBE Participation and Opportunities



The City reviewed its procurement process related to hiring service providers/consultants for contracting amounts less than \$100,000 to ensure oversight and opportunities are being made available for MWSBEs to work with the City. As a result, the Citywide Procurement Policy was revised effective December 1, 2022, to outline policies for procuring informal services between \$10,000 and \$99,999 along with procedures for documenting and retaining solicitation efforts. In addition, the following actions were taken:

- General Services’ Procurement Division (Procurement) drafted an Informal Solicitation Process Reference Guide to provide staff with guidance on complying with the updated informal solicitation process as outlined in the Citywide Procurement Policy.
- Procurement and Strategy & Budget implemented a budget submittal requirement for procurement forecasting. Departments are required to identify future procurement needs in the coming fiscal year(s) to be included as a part of their budget submission. The forecasting supports collaboration between General Services and CBI to maximize opportunities for MWSBEs.
- Finance Internal Controls is currently working with I&T to develop a Purchase Order Monitoring Report. The report will identify purchase orders that:
 - Meet the criteria of services.
 - Are not linked to a contract in Munis.
 - Exceed specified dollar thresholds when aggregated for a given period.
- Training on the informal solicitation process for procuring services was conducted in February 2024.

Scope, Methodology, and Compliance

Scope

Transactions (i.e., certifications, goal setting, payments) in FY 2022 and FY 2023.

Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed CBI, Procurement, and I&T staff.
- Reviewed CBI Program policies, procedures, and guidance.
- Gained an understanding of the risks and controls related to:
 - MWSBE certification processes
 - Goal setting methodology
 - Prime and subcontractor payment verification
 - Subcontract goal achievement determination
 - MWSBE outreach
 - Reporting
 - Compliance with informal solicitation requirements
- Designed tests to verify compliance with policies and procedures.

To address the accuracy of B2Gnow data, auditors assessed the reliability of certification, goal recording, and payment data in B2Gnow. B2Gnow is a cloud-based system used to manage supplier diversity programs.

Auditors assessed the reliability of B2Gnow data by (1) performing tests of system controls and data, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing staff knowledgeable about the data. Auditors determined that B2Gnow data was not sufficiently reliable for the purpose of this audit, specifically as it relates to the accuracy of prime vendor payments and the calculation of subcontracting goal achievement. Details of control deficiencies impacting the reliability of B2Gnow data are discussed in [Finding 2](#). Auditors determined that B2Gnow data related to certification processing and goal setting was sufficiently reliable for the purposes of this audit.

A sample of 32 certification decisions was judgmentally selected based on type of entity, ethnicity, and firm size to confirm that established internal controls were followed. No significant exceptions were identified.

A statistical sample of 34 contracts was randomly selected from a population of 324 B2Gnow contracts to review compliance with established goal setting methodology. Minor exceptions were noted – see [Finding 4](#). The results of this sample can be extrapolated to the universe of B2Gnow contracts.

A sample of 38 contracts not in B2Gnow (in Munis only) was judgmentally selected from a universe of 1,266 FY 2022 and FY 2023 contracts based on contract type and dollar amount to determine if contract goals were appropriately established, including goal waivers and exemptions. Minor results were noted – see [Finding 4](#). The results from this sample cannot be extrapolated to the universe.

Disparity Study Impact

In addition to the effects described in each finding throughout this report, it is important to note the potential impact on any **future** disparity study. Recommendations in this report address the accuracy and reliability of data captured to report and analyze MWSBE spend. Current audit results do not impact previous disparity studies.

Compliance

We conducted this performance 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 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.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).




In planning and performing the audit, auditors obtained an understanding of the processes used in the CBI Program and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:













- **Control Environment** – The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.
- **Control Activities** – The actions management establishes through policies and procedures to achieve objectives and respond to risks.
- **Information & Communication** – The quality of information which management and personnel communicate and use to support the internal control system.

Internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see [Appendix A](#).

Audit Results

The following legend summarizes results by audit area:

-  - No significant control deficiencies identified; applicable automated system data reliable
-  - Minor internal control deficiencies identified; automated system data generally reliable
-  - Critical internal control deficiencies identified; automated system data not reliable

CBI Discipline	Manual Controls	Munis/B2Gnow Controls/Reliability	Comments
Certification Processing			
Goal Setting			See Finding 4
Payment Reconciliation			See Finding 3
Subcontract Goal Achievement			See Finding 2
Outreach			See Finding 1
Reporting			See Finding 5

Findings and Recommendations

1. The City has been successful in obtaining MWSBE commitments that exceed subcontracting goals that are based on availability calculations.

CBI Policy Part B, Section 2.1 states:

“When the City sets a Subcontracting Goal for a Construction Contract or Commodities Contract, each Bidder must either: (a) meet each Subcontracting Goal established; or (b) comply with the Good Faith Negotiation and Good Faith Efforts requirements set forth in Sections 4 and 5 for each unmet Subcontracting Goal. For example, if a Contract has an SBE Goal and an MBE Goal, and if the Contractor meets the MBE Goal but not the SBE Goal, the Contractor must demonstrate that it met the Good Faith Negotiation and Good Faith Efforts requirements with respect to the SBE Goal.”

For formal solicitations, City Council reviews the Request for Council Action (RCA) that includes documentation of the established subcontracting goal and the prime vendor committed subcontractor participation. If applicable, the RCA will note whether the selected vendor has met good faith efforts.

Auditors reviewed all 35 contracts with a value greater than \$1 million that were “closed” in B2Gnow during FY 2022 or FY 2023. City Council reviewed and approved the RCA for each of the 35 contracts. Prime vendors met or exceeded the established goal for all but two of the 35 contracts. The two exceptions met the CBI good faith efforts. In total, the 35 contracts exceeded the established goals (based on availability) by 27%, as demonstrated in the chart below:



The \$65 million in committed subcontracting MWSBE expenditures included \$20 million in commitments to subcontractors that counted towards multiple goals.

According to CBI policy, the Program Manager is responsible for issuing reports that show and compare the availability and utilization of SBEs, MBEs, and WBEs on City contracts. Annual spend reporting is used to show the **utilization** of MWSBEs. The City's established subcontract goals have historically reflected the **availability** of MWSBEs that have been registered and certified by the City. Subcontract goals do not necessarily reflect the availability of minority, women, and small business enterprises in the Charlotte region. Traditionally, this availability has only been analyzed during periodic disparity studies. Annual reporting has not historically identified or analyzed the availability of MWSBEs not registered with the CBI program. Such reporting and analysis could help:

- Identify specific industries with low CBI registration rates.
- Focus outreach to specific geographic or demographic areas.
- Identify barriers to registration.
- Identify needed program enhancements to increase MWSBE registration.

Recommendation 1: CBI should periodically compare calculated MWSBE availability levels (based on CBI registration) with regional availability.

Value Added: Compliance, Equity

CBI Response: CBI acknowledges and supports the recommendation to periodically compare calculated MWSBE availability levels based on CBI registration with regional availability. This commitment aligns with our goals for compliance and equity and is vital for enhancing the inclusivity and effectiveness of our program.

Recognizing the expansion of our combined statistical area (CSA) to include all 100 counties in North Carolina and the continuous growth in the number of certified MWSBE firms, it is clear that periodic reviews are necessary. These reviews will enable us to ensure that our subcontracting goals are reflective of the actual availability of MWSBEs within the region, promoting fair and competitive participation in City contracts.

Implementation Commitment: We will undertake these reviews with a clear understanding of our resource limitations and the specialized expertise required for such analyses. To this end, our strategy will include:

- Conducting an annual review, utilizing available data and resources.
- Engaging with expert consultants as needed, to support the collection and analysis of regional MWSBE data.
- Exploring partnerships with academic institutions or leveraging existing government data sources to enhance our understanding of regional MWSBE availability.

This process will be integrated into our operational procedures with a targeted completion date of June 30, 2025. We are committed to this timeline, mindful of the resource constraints and the complexities involved. Our approach will be flexible, adapting as necessary to ensure that we continue to advance our goals effectively and sustainably.

2. System and data issues prohibit CBI from monitoring and generating reports related to the achievement of subcontracting goals.

CBI Policy (effective June 8, 2020) Section 3 states:

“For all Construction Contracts of \$200,000 or more, and for all Architecture, Engineering and Surveying Contracts of \$100,000 or more, the City shall establish one or more Subcontracting Goals unless the Program Manager grants an exemption.”

Subcontracting Goals on such Contracts may consist of:

- *Both an SBE Goal and an MWBE Goal;*
- *A combined MWSBE Goal;*
- *Only an MWBE Goal; or*
- *Only an SBE Goal.*

CBI policy requires the establishment of one or more subcontracting goals on construction and architecture, engineering, and surveying contracts.

Measuring and reporting the percentage of contracts that meet subcontracting goals is essential for ensuring accountability, transparency, evaluation, and improvement in MWSBE inclusion efforts.

Auditors reviewed all 35 contracts with a value greater than \$1 million that were “closed” in B2Gnow during FY 2022 or FY 2023. According to B2Gnow data and calculations, prime contractors did not meet the committed goal for 17 of the 35 contracts:

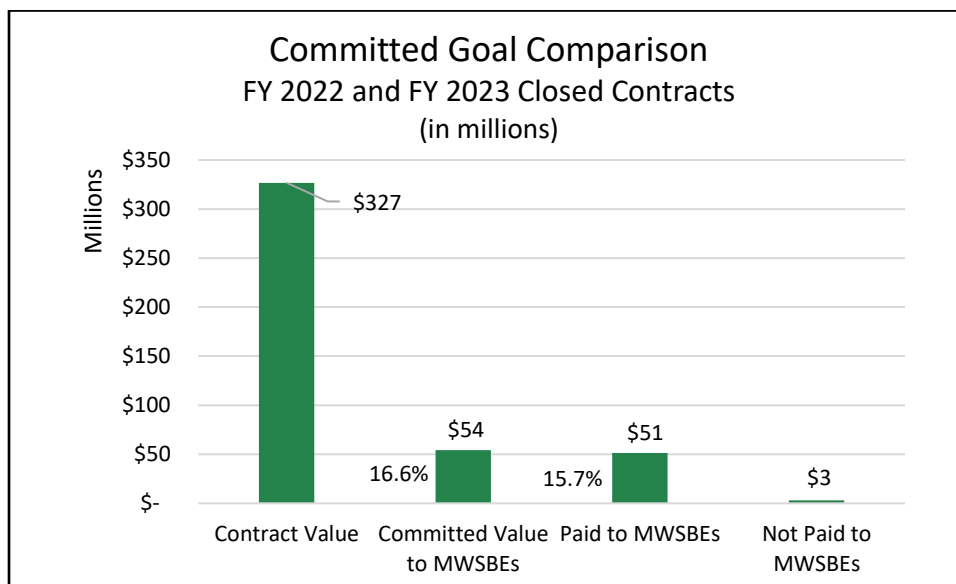
- Documentation was uploaded for one of the 17 contracts that provided adequate explanation as to why the goal was not attained.
- Subcontractor payments were not recorded in B2Gnow for three contracts.
- No system coding or uploaded documentation provided explanations for the remaining 13 contracts.

CBI Policy (effective June 8, 2020) Section 14.2.1 states:

“Failure to Meet Committed Subcontracting Goal. *If the City determines upon completion or termination of a Contract that the Contractor did not meet a Committed Subcontracting Goal and that such failure is not otherwise excused under Part D, the City may assess the lesser of: (a) \$200,000 or (b) the dollar difference between the Committed SBE, MBE or WBE Goal that was missed and the Contractor’s actual SBE, MBE or WBE utilization toward that Goal. Such amount may be assessed when it*

becomes apparent that it will not be possible for the Contractor to achieve the Committed Subcontracting Goal. However, liquidated damages under this Section 14.2.1 may be assessed only once.”

In total, the committed goals not met resulted in \$2.9 million in payments not provided to the 17 MWSBEs. This represents 5.65% of the total amount paid (\$51.3 million) to the MWSBE subcontractors under the 35 contracts but only 0.9% of the total contract value, as shown in the graph below. The results highlight some of the issues with monitoring and reporting subcontracting goal compliance.



Department CBI liaisons noted they do not utilize B2Gnow to monitor contract compliance, preferring to use internal (shadow) systems. Liaisons cited difficulties experienced with B2Gnow accurately accounting for subcontractors that qualified as both an MBE/WBE and an SBE. The liaisons provided general explanations for why the goals were not attained, including:

- Change in project scope, resulting in reduced MWSBE utilization.
- Unavailability of the committed MWSBE subcontractor.
- Original MWSBE contractor was terminated and could not be replaced.

Although it is possible to upload documentation related to the above explanations in B2Gnow, there isn't a field dedicated to capturing this information, which would be helpful for monitoring and reporting purposes. The system will continue to show the goal as not met even though valid explanations supporting the failure to meet the goal are documented.

The following exceptions were noted that impact the accuracy of the B2Gnow calculation of whether a subcontract goal is met:

- The lack of a control preventing a user from identifying payments to a non-certified subcontractor as “for credit”. Auditors noted that some contracts in B2Gnow included payments to subcontractors as “for credit” although the vendor did not actually hold a valid MWSBE certification.
- The B2Gnow calculation was incorrect for nine of the 35 contracts reviewed due to the inability/confusion in accounting for payments that could be counted towards multiple goals. **This issue has been remediated for new contracts as MWBE payments can no longer count towards multiple goals.**
- B2Gnow reported payments to prime vendors did not match Munis payment amounts for 14 of the 35 contracts (40%). See [Finding 3](#).
- Goals recorded in B2Gnow for three of the 35 contracts (8.5%) did not agree to supporting documentation. See [Finding 4](#).

Due to the reasons noted above, CBI and departments do not routinely publish reports on the achievement of subcontracting goals. Monitoring and reporting on subcontracting goals would help:

- Ensure prime contractors meet MWSBE commitments.
- Identify prime contractors that routinely do not meet commitments.
- Identify MWSBE subcontractors that need assistance with business development to meet their contract commitments.

Recommendation 2: CBI should utilize B2Gnow data to periodically report the achievement of subcontracting goals. This will require that CBI:

- Identify and resolve any B2Gnow system issues that prohibit the system from generating reports related to the achievement of subcontracting goals, including preventing payments to non-certified subcontractors counting as “for credit.”
- Provide guidance to department CBI liaisons related to documenting valid explanations for missed goals.
- Establish a methodology to review and approve the waiver or assessment of liquidated damages when prime vendors don’t meet committed goals.

Value Added: Compliance, Equity

CBI Response: CBI agrees with the recommendation. Our management team, specifically the Business Inclusion Manager alongside the Lead Compliance Reporting Specialist, is actively developing a comprehensive strategy to enhance the regular oversight of goal accomplishments, including methodology to support when to enforce liquidated damages.

We have pinpointed a specific report within the B2Gnow system that will be instrumental in this endeavor. This report will be generated monthly to ascertain adherence to established goals and to facilitate continuous monitoring throughout the duration of contracts. We are committed to finalizing this process by July 2024, ensuring our efforts align with our dedication to compliance and the promotion of equity within our contracting processes.

3. B2Gnow-reported payments to prime vendors did not match Munis payment amounts; some vendors did not report all payments to subcontractors in B2Gnow.

Payments to Prime Vendors

Munis is the City's system of record for payments made to prime vendors. The CBI Digital Policy Handbook requires that departments assist in the development, monitoring, and implementation of contract goals and that they assure compliance with the CBI program by managing contracts in a consistent manner. Ensuring that prime vendor payments reported in B2Gnow agree to amounts recorded in Munis is one way for departments to monitor contract goals consistently.

Through a system integration process, Munis payment information is recorded monthly in B2Gnow for contracts with subcontract goals. Although this would appear to capture all prime payments in B2Gnow, several factors impact the accuracy of prime vendor payments recorded in B2Gnow, including:

- Contracts may not have been entered in B2Gnow before Munis payments were made.
- Contracts may be coded incorrectly in Munis, causing payments to be recorded incorrectly in B2Gnow.
- Manual adjustments to payment information may be incorrect.
- Contracts may have been closed in B2Gnow before all payments were made in Munis.

B2Gnow-reported payments to prime vendors did not match Munis payment amounts for 14 of 35 closed contracts, resulting in a difference of \$11.7 million. The 35 closed contracts were generally multi-year construction contracts that started early in the B2Gnow lifecycle. As such, these contracts were susceptible to reconciliation errors as staff were getting used to the new software. CBI staff indicated that more recent contracts would likely have less differences between B2Gnow and Munis. The inaccurate reporting of payments impacts the subcontracting goal achievement calculation for the 14 incorrect contracts.

While policy requires CBI liaisons to reconcile and adjust contract payments in B2Gnow to agree with payments recorded in Munis, there is not a process in place to ensure this

occurs. Without this monitoring, payment data (to both prime and subcontractors) could be inaccurate. Specifically, the calculation of MWSBE participation percentage could be incorrect and duplicate payments could be recorded for some subcontractors. For example, one contract reviewed had \$1.3 million more recorded as a prime payment in August 2019 in B2Gnow than what was recorded in Munis. It appears that the prime contractor duplicated payments for two subcontractors. Reconciling and adjusting amounts in B2Gnow as necessary would improve data reliability.

Payments to Subcontractors

B2Gnow is the system of record for recording and reporting subcontractor payments for City contracts with MWSBE goals.

Prime vendors use B2Gnow to report subcontract payments. Subcontractors are required to confirm those payments in B2Gnow or identify any discrepancies. Each month, Compliance Officers are required to identify and resolve incomplete payment audits (payments not confirmed by subcontractors) and any reported discrepancies. Although these steps address *reported* payments to subcontractors, the steps do not identify any *unreported* payments to subcontractors. Until FY 2023, prime contractors also submitted CBI Form 6 “Payment Affidavit - Subcontractor / Supplier Utilization” with each payment request. This form required prime contractors to identify all subcontract payments made while identifying MWSBE subcontractors. The form is no longer required as payments are recorded in B2Gnow.

Included in the sample of 35 contracts were three construction manager-at-risk (CMAR) projects. For these projects, auditors compared reported subcontractor payments in B2Gnow to lien affidavits and subcontractor invoices submitted to the prime contractor. Subcontractor invoices and lien affidavits are usually not readily available for other contract types. The following errors were noted:

- Amounts recorded on Form 6 for MWSBE contractors did not agree to amounts recorded in B2Gnow.
 - For example, one prime contractor reported that \$3.3 million had been paid to a specific subcontractor on the Form 6 but had only reported \$2.7 million in B2Gnow. It was not clear which value reflected actual payments to the subcontractor.
- Contractors did not record all payments made to MWSBE subcontractors when compared to subcontractor payment applications and/or the prime contractor’s job cost ledger.
 - For example, one subcontractor submitted a pay application to the prime vendor that indicated \$1.7 million of work had been completed to date. The prime reported only \$462,023 in B2Gnow. MWSBE subcontractor payments and participation percentage were therefore under-reported in B2Gnow.

Currently, there is not a process in place requiring CBI Compliance Officers to reconcile and agree subcontractor payments in B2Gnow with available prime contractor job cost ledgers or subcontractor payment applications. The impact of incorrect information on individual contracts could be material when calculating whether a prime vendor met their committed goal.

Recommendation 3: CBI should periodically verify that CBI liaisons reconcile Munis and B2Gnow payment amounts for each vendor/contract.

Value Added: Compliance

CBI Response: CBI concurs with the audit's recommendation and is working to address the identified discrepancies. With the deployment of an integrated interface from MUNIS to B2Gnow, we have established a foundation for ensuring payment accuracy for recent contracts. The integration ensures that payments made by the City to Prime firms are accurately reflected within B2Gnow for the relevant audit period. Moving forward, under the guidance of our Business Inclusion Manager and the expertise of our Lead Compliance Reporting Specialist, CBI is committed to instituting a robust periodic verification process. This initiative aims to reconcile and confirm the alignment of payments with their respective contracts, enhancing our compliance and reporting accuracy. We are dedicated to fully operationalizing this verification process by December 2024, thereby fortifying our commitment to transparency and accountability in our contracting processes.

4. Subcontract goals were not entered accurately in B2Gnow and were not properly documented.

CBI policy states “The City shall establish one or more subcontracting goals for all construction contracts of \$200,000 or more and for all Architecture, Engineering, and Surveying contracts of \$100,000 or more. Contracts estimated to be less than these thresholds are exempt from the goal setting process.” The policy also specifically exempts contracts that fall within the following categories:

- No competitive process
- Managed competition
- Real estate leasing and acquisition
- Federal contracts subject to DBE requirements
- Interlocal agreements
- Legal services
- Waivers (no MWSBE subcontracting opportunities)
- Special exemptions

CBI policy requires the establishment of one or more subcontracting goals for all construction contracts of \$200,000 or more.

For each applicable solicitation, CBI completes a “Project Goal Review Form” identifying the estimated value of the project, the anticipated date for the project to be advertised, the subcontracting goal (or waiver), and justification for goal waiver. This form is attached to a SharePoint record for each solicitation, which notes status (concur or not concur), completion date, and concurrence date. Subcontracting goals are calculated by CBI staff using a federal formula that is legally vetted and widely accepted by state and local government. This formula uses the relative availability of certified vendors for the contract’s commodity codes to determine the goals for specific certification types (MBE/WBE/SBE). This calculation (Excel file) is attached to the “Project Goal Review Form”.

In a sample of 34 contracts recorded in B2Gnow, sufficient documentation was not retained for four (11.7%) contracts to confirm the goal setting formula or CBI’s initial concurrence with the proposed goal. In addition, goals were not entered in B2Gnow for five (14.7%) contracts.

As noted above, policy exempts some contracts from subcontracting goals (federal grants, legal services, etc.) and CBI can grant waivers for other contracts (lack of availability). Auditors tested a sample of 38 contracts *not* in B2Gnow to verify that exemptions and waivers were properly granted. Two of the 38 contracts were not exempt and had goals established, however these contracts were not recorded and monitored in B2Gnow (5.2% error rate). The remaining 36 items were handled appropriately (exempt or a no goal waiver obtained.)

CBI sends a weekly report to liaisons that show new contracts that need to be “locked-in” in B2Gnow (indicating all information has been entered.) However, there is no CBI process to verify that goals were entered correctly or that contracts are coded in Munis to initiate B2Gnow recording. Without standard processes in place, goals may not be accurately recorded in B2Gnow, impacting the ability of CBI and department staff to monitor prime contractor compliance with CBI policy.

Recommendation 4: CBI should establish processes to verify that all contracts with goals are recorded in B2Gnow and that documentation exists to support recorded goals.

Value Added: Compliance; Risk Reduction

CBI Response: CBI agrees with the recommendation. To address this, the Business Inclusion Manager, in collaboration with the Lead Compliance Reporting Specialist, is committed to developing and implementing a comprehensive verification process by December 2024. This process will ensure that all contracts subject to our subcontracting goals are meticulously recorded in B2Gnow and supported with the necessary documentation. Moreover, the upcoming transition to Workday presents a significant opportunity to enhance our processes, offering a streamlined and efficient platform for ensuring consistent compliance and reducing

risk. We are dedicated to leveraging these advancements to improve our documentation and verification practices, thereby strengthening our monitoring and compliance framework.

5. B2Gnow system interface issues impact the reliability of annual reporting.

The CBI Annual Report Procedure Manual outlines the processes for producing an annual report for City Council that summarizes total and year-over-year changes in:

- Citywide MWSBE opportunities
- City Certified Vendors
- Spend with City Certified MWSBEs
- Spend by Work Category with City Certified MWSBEs
- Top Enterprises

The manual identifies Munis (prime vendor payments) and B2Gnow (subcontractor payments) as the primary sources for the annual report and states that the report methodology and data validation will be developed collaboratively and reviewed annually with staff from CBI, Finance, and I&T. Vendor demographics (gender and ethnicity) are maintained within B2Gnow for certified firms only. Non-certified firms are maintained within Munis by the Vendor Administration team.

Auditors reviewed the methodology for producing the FY 2022 annual report and found that staff followed the stated methodology and assumptions outlined in the report procedure manual. Reported data was generally reliable and accurate (certifications, vendor ethnicity, etc.), subject to the exceptions noted for reported payments to prime contractors and subcontractors (Finding 2). In addition, the following was noted related to the integration of Munis and B2Gnow data:

- B2Gnow MWSBE subcontractor payments were incorrectly excluded from the annual reporting process because the subcontractor vendor name was not matched to a B2Gnow certified directory.
- Annual reporting included both the total payment (\$152K) to a first tier MWSBE subcontractor and the payment to an associated second tier MWSBE subcontractor, duplicating the amount (\$11K) paid to the second-tier subcontractor.
- Unconfirmed subcontractor payments are not included in annual reporting.
- Munis data retained an inaccurate MWSBE status for a vendor, resulting in reported MWSBE spend for a non-certified vendor.

The first bullet above accounts for the most significant dollar value of exceptions. In a review of 31 B2Gnow subcontractor payments that did not match the certification directory, auditors identified 16 payments totaling \$4.9 million that should have been included in annual reporting. This represents about 6.1% of the \$79.9 million reported subcontractor payments.

In preparing for FY 2023 annual reporting, CBI and I&T staff stated that they have taken the following actions to resolve known reporting issues:

- Collaborated with B2Gnow to establish an Application Programming Interface (API) connection for live access to raw data for city modules within B2Gnow (vendor profiles, certified directory, contract records, etc.).
- Changed interface logic to use "last modified date" for daily updates, ensuring all certification information is captured moving forward.
- Leveraged API data for more accurate inclusion/exclusion reporting based on comprehensive vendor certification and contract history.
- Increased reporting and meeting frequencies with departments to ensure timely recording and payment confirmation.

It is likely that FY 2022 annual reporting under-reported MWSBE spend. CBI anticipates that the above changes will increase the accuracy and reliability of reported MWSBE prime and subcontractor payments. However, CBI noted that some changes may not be fully functional until FY 2024 reporting.

Additional Reporting Enhancements Needed

Auditors noted that the FY 2022 CBI Annual Report does not include the following performance measures recommended in the 2022 Disparity Study:

- The number of bids or proposals, the industry and the dollar amount of the awards and the goal shortfall, where the bidder was unable to meet the goal and submitted Good Faith Efforts (GFEs) to do so.
- The number, dollar amount, and the industry code of bids or proposals rejected as non-responsive for failure to make GFEs to meet the goal.
- The number, industry, and dollar amount of MWBE substitutions during contract performance.
- Increased bidding by certified firms as prime vendors.
- Increased prime contract awards to certified firms.
- Increased MWBE bonding limits, size of jobs, profitability, complexity of work, etc.
- Increased variety in the industries in which minority-owned and woman-owned firms are awarded prime contracts and subcontracts.

Additional B2Gnow functionality may be needed to accurately capture and report information related to bid participation and MWSBE development.

Incorporating additional reporting measures in the annual reporting process will improve transparency and accountability, while identifying needed MWSBE development.

Recommendation 5: CBI should continue to address B2Gnow/Munis interface/reporting issues and expand the annual report to include performance measures related to MWSBE bidding and development.

Value Added: Compliance; Risk Reduction

CBI Response: CBI agrees with the recommendation and is committed to enhancing the comprehensiveness and reliability of our annual reporting. Acknowledging the criticality of the B2Gnow/Munis interface in our reporting ecosystem, we are actively working with our Data Analytics Specialist to refine these systems to ensure a seamless data flow. This includes establishing a robust API connection with B2Gnow and refining our data synchronization techniques to capture a more accurate portrayal of MWSBE engagements and payments. We expect this to be completed by December 2024. In alignment with our commitment to continuous improvement and adherence to best practices, we will expand the scope of our FY 2024 annual report to integrate additional performance measures. These measures will spotlight MWSBE bidding activities, development achievements, and contributions, thereby fostering greater transparency and accountability in our processes. We are dedicated to implementing these enhancements effectively, to not only meet but exceed the expectations set forth in the 2022 Disparity Study and further support the growth and success of MWSBEs within our community.

Conclusion

CBI has established adequate controls to ensure goals are achieved. Reconciliation and verification controls are missing that impact the reliability of B2Gnow data.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, CBI, and all City departments. Following issuance, audit reports are sent to City Council and subsequently posted to the [Internal Audit website](#).

Appendix A

The Five Components and 17 Principles of Internal Control

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.