



**Audit of the Department of Small and
Local Business Development
Certified Business Enterprise
Program**

September 27, 2013

Audit Team:

Laura Hopman, Assistant Deputy Auditor
Ingrid Drake, Analyst

A Report by the Office of the District of Columbia Auditor
Yolanda Branche, District of Columbia Auditor



**OFFICE OF THE
DISTRICT OF
COLUMBIA AUDITOR
(ODCA)**

September 27, 2013

**Audit of the Department of Small and
Local Business Development
Certified Business Enterprise
Program**

Why ODCA Did This Audit

The Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act of 2005 authorized the Office of the District of Columbia Auditor to conduct random audits of certification files to determine whether DSLBD fulfilled the requirements of the Act.

What ODCA Recommends

1. DSLBD should ensure adequate proof of District residency by including stronger requirements in D.C. Municipal Regulations.
2. DSLBD should enforce the requirement that CBE applicants submit tax returns.
3. DSLBD should consistently enforce the requirement that JV applicants submit bonding and competence documentation and the non-CBE partner's audited financial statements.
4. DSLBD should implement a compliance and monitoring strategy, which includes unannounced site visits.
5. DSLBD should establish controls which ensure that the CBE review process is protected from political influence.
6. DSLBD should add supervisory review to the JV certification process
7. The DSLBD Certification Manager should ensure that performance evaluations are conducted and staff professional development improved.
8. DSLBD should immediately formalize a set of CBE & JV certification policies and procedures.
9. DSLBD should review and update the portion of the regulation that addresses fixed assets of CBEs.

For more information regarding this report, please contact Laura Hopman at ODCA@dc.gov or 202-727-3600.

What ODCA Found

Overall, we found that the Department of Small & Local Business Development (DSLBD) ensured most applicants met Certified Business Enterprise (CBE) and Joint Venture (JV) requirements; however, internal controls and legal requirements were not sufficient to address the goals of the program.

Of our sample of 10 CBEs, we found:

- One firm's CBE and JV certification was based on inadequate proof of District residency.
- DSLBD was not consistent in requiring applicants to submit tax returns. Specifically, two of the eight available CBE certification files we sampled did not have all of the required federal and District of Columbia and/or applicable state tax returns, both personal and corporate, for the past three most recent years.
- DSLBD did not consistently verify that JVs applying for certification had submitted bonding and competence documentation and the non-CBE partner's audited financial statements.

Additionally, we found:

- DSLBD did not have a compliance and monitoring unit during the scope of our audit.
- DSLBD's process for ensuring independence from political pressures was not sufficient.
- JV applications were reviewed and approved by only one person without consistent supervisory review.
- Employee evaluations and professional development opportunities for certification staff were not sufficient.
- The Office of Certification did not have a formalized set of policies and procedures.
- The language of the current regulations allows for a great deal of leeway in the interpretation of "fixed assets."



Office of the District of Columbia Auditor

September 27, 2013

Council of the District of Columbia
Department of Small & Local Business Development

Attached is the District of Columbia Auditor's report entitled "Audit of the Department of Small and Local Business Development Certified Business Enterprise Program." This audit was authorized by the Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act of 2005.

Overall, we found that DSLBD ensured most applicants met CBE and JV requirements; however, internal controls and legal requirements were not sufficient to address the goals of the program. We formulated recommendations to address these weaknesses.

We would like to thank DSLBD's staff for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information was greatly appreciated.

Sincerely,

Yolanda Branche, Deputy Auditor

for: Yolanda Branche
District of Columbia Auditor

Table of Contents

Background	2
Objectives, Scope and Methodology	4
Audit Results	6
1. We recommend that DSLBD ensure adequate proof of District residency by including stronger requirements in D.C. Municipal Regulations.	6
2. We recommend that DSLBD enforce the requirement that CBE applicants submit tax returns.	7
3. We recommend that DSLBD consistently enforce the requirement that JV applicants submit bonding and competence documentation and the non-CBE partner’s audited financial statements.	8
4. We recommend that DSLBD implement a compliance and monitoring strategy, which includes unannounced site visits.	9
5. We recommend that DSLBD establish controls which ensure that the CBE review process is protected from political influence.	10
6. We recommend that DSLBD add supervisory review to the JV certification process.	11
7. We recommend that the DSLBD Certification Manager ensure that performance evaluations are conducted and staff professional development improved.	12
8. We recommend that DSLBD immediately formalize a set of CBE & JV certification policies and procedures.	13
9. We recommend that DSLBD review and update the portion of the regulation that addresses fixed assets of CBEs.	14
Conclusion	16
Agency Response	17
Auditor’s Response to Agency Comments	18

Background

The Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act of 2005 (the Act), as amended, states that “it shall be the goal and responsibility of the Department [of Small and Local Business Development] to stimulate and foster the economic growth and development of businesses based in and serving the District of Columbia, particularly certified business enterprises, with the intended goals of:

- (A) Stimulating and expanding the local tax base of the District of Columbia;
- (B) Increasing the number of viable employment opportunities for District residents; and
- (C) Extending economic prosperity to local business owners, their employees, and the communities they serve.”

The Act tasks the Department of Small & Local Business Development (DSLBD) with providing “advocacy, business development programs, and technical assistance offerings” that will “maximize opportunities for certified business enterprises to participate in:

- (A) The District's contracting and procurement process;
- (B) The District's economic development activities; and
- (C) Federal and private sector business opportunities that occur in the District of Columbia.”¹

DSLBD is responsible for certifying District businesses as CBEs

DSLBD's Office of Certification carries out the Department's mission through the Certified Business Enterprise (CBE) Program (the program), which seeks to provide “District-based firms with advantages in doing business with the District Government.”² Once certified by DSLBD, a business is known as a CBE. DSLBD assigns CBEs with one or more of the following designations: Local Business Enterprise (LBE), Small Business Enterprise (SBE), Disadvantaged Business Enterprise (DBE), Longtime Resident Business (LRB), Resident Owned Business (ROB), Development Zone Business (DZE), Veteran Owned Business (VOB), and Local Manufacturing Business Enterprise (LME). Each designation carries a specific number of preference points that are factored in when CBEs bid for

¹ See D.C. Official Code §2-218.13(a).

² DSLBD website: <http://dslbd.dc.gov/service/cbe-program>

District contracts. A business must be certified as an LBE in order to qualify for any of the other designations. There were 1,121 CBEs as of September 6, 2012.

When applying for certification, businesses must provide a number of required documents, such as tax returns, business licenses, and leases. Certifications last for two years, and then a business must apply for re-certification.

Some CBEs seek certification as a joint venture business enterprise to increase their competitiveness when pursuing contracting opportunities with the District government. A certified joint venture (JV) is a temporary association of two or more businesses, at least one of which is a CBE, which combine their property, capital, efforts, skill, and knowledge to carry out a single business activity or project for profit. A certified JV is limited in scope and duration. Nothing prohibits a CBE from being associated with more than one JV at a time. A JV certification lasts for two years; thus, re-certification is required for a JV that is awarded a contracting opportunity with the District Government that exceeds two years. With as little as 20 percent CBE member participation, JVs can be certified and receive contracting preference points or price percentage reductions, which give certified JVs an advantage in the contracting process over other non-certified bidders. As of February 12, 2013, DSLBD recorded 321 approved JVs in the history of the program, with the first JV approved in 2002.

DSLBD's Office of Certification is responsible for reviewing CBE and JV applications, providing information about certifications, and making initial determinations of eligibility for certification. In making its determination of certification, the Office can make site visits to the applicants' offices.

According to DSLBD, the CBE Program began as the Sheltered Market program of the 1970s and 80s, which was managed by the Minority Business Opportunity Commission. In the 1990s, it changed to be the Local, Small and Disadvantaged Business Enterprise (LSDBE) program, which was managed by the Office of Local Business Development. In 2005, the Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act transformed the program into the current CBE Program and created DSLBD.

The Act authorized the Office of the District of Columbia Auditor to conduct random audits of certification files to determine whether DSLBD fulfilled the requirements of the Act. In recent years, DSLBD has experienced numerous turnovers within its senior management staff in, addition to, the transfer of five compliance positions from DSLBD to the Office of the District of Columbia Auditor. There has also been significant Council interest in the CBE process and significant media coverage on DSLBD's certified JV program.

Objectives, Scope and Methodology

Objectives

The objectives of this audit were to determine whether:

- The Department of Small & Local Business Development (DSLBD) ensured that approved Joint Ventures (JV)/Certified Business Enterprises (CBEs) met certification requirements;
- DSLBD's internal controls and certification processes were sufficient and efficient; and
- Laws and regulations were sufficient and clear to address the goals of DSLBD's certification program.

Scope

The audit period covered October 1, 2010 through July 31, 2012.

Methodology

In conducting the audit, we reviewed a sample of DSLBD files, obtained an understanding of program operations, and reviewed relevant legal requirements. To obtain our sample, we used a combination of stratified random sampling and judgmental sampling with an effort to include newly certified CBEs and CBEs located in most District wards.

To determine whether DSLBD ensured that approved JVs/CBEs met certification requirements, we selected a sample of 10 approved JVs and the associated CBE files to determine whether the JVs/CBEs submitted all necessary documentation and whether the documentation was accurate. To accomplish this, we conducted documentation reviews and verifications, as well as interviews and site visits. We were unable to conduct site visits with 3 of the 10 sampled CBEs. Also, DSLBD was not able to locate 2 of the 10 CBE application files for our review. We were able to review all of the 10 JV files.

To determine if DSLBD's internal controls and certification processes were sufficient and efficient, we reviewed available policies and procedures and conducted interviews to gain further understanding of the program's operations. We interviewed the Certification

Manager and the four Business Certification Specialists. We compared DSLBD processes with internal control standards.

To determine if laws and regulations were sufficient and clear to address the program goals, we reviewed relevant laws and regulations, as well as the statutes of other jurisdictions/public bodies.

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.

Audit Results

Overall, we found that the Department of Small & Local Business Development (DSLBD) ensured most applicants met Certified Business Enterprises (CBEs) and Joint Ventures (JV) requirements; however, internal controls and legal requirements were not sufficient to address the goals of the program.

We believe the following recommendations will better ensure that only firms that meet all requirements are certified, internal controls and certification processes are sufficient, and legal requirements are sufficient and clear to address the goal of DSLBD's certification program.

1. We recommend that DSLBD ensure adequate proof of District residency by including stronger requirements in D.C. Municipal Regulations.

1 firm's CBE and JV certification was based on inadequate proof of District residency.

One of the four ways the Act allows CBE applicants to qualify as a Local Business Enterprise (LBE) is that the owners of more than 50 percent of the business must be residents of the District. Neither the Act nor the D.C. Municipal Regulations specify the documentation required to prove District residency.

Of our sample of 10 CBEs,³ we found one firm's CBE and JV certification was based on inadequate proof of District residency. The owner provided a month-to-month lease for an apartment, a driver's license, and a voter registration card, all of which do not ensure that the owner will remain a District resident. The use of a month-to-month lease calls into question the use of this criterion to meet the LBE requirements and opens the door for individuals to benefit from a program for which they may not be eligible.

To ensure that only legitimate District residents qualify for the residency requirement, DSLBD should include stronger residency requirements in D.C. Municipal Regulations.

³ DSLBD was only able to provide 8 of the 10 files in our sample.

2. We recommend that DSLBD enforce the requirement that CBE applicants submit tax returns.

2 of the 8 CBEs did not provide complete tax return information.

The Act states that a CBE applicant must provide “federal income taxes, both corporate and personal, as well as District taxes, both corporate and personal.”⁴ The D.C. Municipal Regulations add that applicants must submit tax returns for the past three most recent years. Therefore, the regulations make it impossible for a business that is less than three years old to qualify for certification.

We found that DSLBD was not consistent in requiring applicants to submit tax returns. Specifically, two of the eight available CBE certification files we sampled did not have all of the required federal and District of Columbia and/or applicable state tax returns, both personal and corporate, for the past three most recent years. In both cases, the companies were newly formed. One of the CBEs submitted one year of federal personal tax returns, one year of District personal tax returns, and no federal or District corporate tax returns. The other CBE submitted three years of federal personal tax returns, no District personal tax returns, and no federal or District corporate tax returns.

According to DSLBD staff, the lack of complete tax return information was often the result of a newly formed company applying for certification. The new company didn’t have three years of corporate tax returns to submit. DSLBD staff stated that this made it difficult for DSLBD to determine where revenues were generated and evaluate the business’ experience and capacity. Also, DSLBD staff said they sometimes had to evaluate assets based only on what they saw during site visits.

To ensure compliance with D.C. Municipal Regulations, DSLBD should require that all companies provide three years of federal and District tax returns, both corporate and personal. If DSLBD management concludes that three years of tax returns are not necessary to carry out the mission of the program, DSLBD should revise the regulations.

⁴ D.C. Code § 2-218.61. Certificate of registration.

3. We recommend that DSLBD consistently enforce the requirement that JV applicants submit bonding and competence documentation and the non-CBE partner's audited financial statements.

3 of the 10 JVs sampled did not submit any bonding information.

Among other things, D.C. Municipal Regulations state that a JV applicant must: (1) complete a joint venture agreement which must address bonding requirements; (2) demonstrate that each participant in the joint venture has the competence and expertise necessary to perform the type of work, or contract, in connection with which the applicant wishes to be certified; and (3) submit the most current audited financial statement for the non-CBE participant.

7 of the 10 JVs sampled did not submit complete information demonstrating competence and expertise.

We found that DSLBD did not consistently verify that JVs applying for certification had submitted bonding and competence documentation and the non-CBE partner's audited financial statements. Specifically, of the 10 sampled JVs:

- Three did not submit any bonding information in their application;
- Seven did not submit complete information demonstrating the competence and expertise necessary to successfully meet the requirements of the contract in question; and
- Four did not submit complete audited financial statements for the non-CBE partner.

4 of the 10 JVs sampled did not submit complete audited financial statements for the non-CBE partner.

According to DSLBD, the documentation was missing from JV applications because, during much of the scope of the audit, staff may not have been aware that it was required. Also, there was no process in place to ensure that it was submitted. As a result, DSLBD was not able to fully assess the capacity and expertise of the JV firms.

To ensure compliance with regulations, DSLBD should consistently require bonding, competence, and financial statement documentation prior to JV certification.

4. We recommend that DSLBD implement a compliance and monitoring strategy, which includes unannounced site visits.

DSLBD did not monitor CBEs to determine if they remained compliant

The Government Accountability Office (GAO) states that monitoring is one of the five standards for internal control and that “internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations.” We found that DSLBD did not have a compliance and monitoring unit during the scope of our audit. It should be noted that DSLBD has recently hired additional compliance and monitoring staff members.

A CBE’s physical address did not match the address in DSLBD’s CBE Online system

According to DSLBD employees, there were not enough personnel at DSLBD for a compliance and monitoring unit. As a result, staff stated that DSLBD could not monitor CBEs to determine if they remained compliant and, during the scope of the audit, there was a belief on the part of CBEs that their continued compliance with requirements would not be monitored, violations would not be discovered, and consequences would not be enforced. While conducting an unannounced site visit to a CBE using the address in DSLBD’s CBE Online system, we found that the CBE’s physical address did not match the address in DSLBD’s database. DSLBD has since updated their database. While this address change appeared to invalidate this CBE’s Development Zone Business (DZE) certification, this was one of the missing files, so we could not definitively determine the communications between the firm and DSLBD.

A CBE did not appear to be operating out of its District office location

In another case, we found that a CBE did not appear to be operating out of its recorded District of Columbia office. During two attempted site visits we were unable to enter the office. While we cannot say with absolute certainty that the office was not being used, we obtained additional evidence when a postal carrier in the hallway of the office building told us that they had never seen the lights on or anyone working in the CBE’s office. DSLBD had not performed a site visit for this CBE’s recertification.

While we did not find an example of a JV that was out-of-compliance, we found that DSLBD was not monitoring JVs. For example, DSLBD was not tracking which JVs received contracts, nor enforcing the Act’s requirement that JVs submit quarterly reports if a contract was obtained.

In order to strengthen internal controls and ensure compliance with legal requirements, DSLBD should design and carry-out a compliance and monitoring strategy which includes unannounced site visits for both CBEs and JVs.

5. We recommend that DSLBD establish controls which ensure that the CBE review process is protected from political influence.

GAO's Internal Control standards state that:

“A positive control environment ... provides discipline and structure as well as the climate which influences the quality of internal control. Several key factors affect the control environment. One factor is the integrity and ethical values maintained and demonstrated by management and staff.”

Politicians were able to speed up the review of particular applications by contacting DSLBD

We found that DSLBD's process for ensuring independence from political pressures was not sufficient. While we did not find that the approval or denial of an application was affected by political pressure, DSLBD staff stated that the speed with which applications were reviewed was occasionally subject to political pressure. DSLBD had no policies or firewalls in place to prevent political influence. As a result, politically-connected CBEs may get their applications reviewed ahead of firms that are not as connected.

To protect the CBE application review process from political pressure, DSLBD should establish a system of controls which should be reflected in its policies and procedures.

6. We recommend that DSLBD add supervisory review to the JV certification process.

JV applications were reviewed and approved by only one person, without consistent supervisory review

The GAO states that supervisory review is to be performed continually in the course of normal operations as an internal control. We found that JV applications were reviewed and approved by only one person without consistent supervisory review. According to DSLBD personnel, additional management staff is needed for the JV certification process. We believe that a possible effect of the lack of adequate supervisory staff and review was the wide range of processing times for JV applications, which was anywhere from 1 day up to 46 days.

In order to bolster its internal controls, DSLBD should update internal processes and effectively utilize recently acquired personnel to create a second level of review for JV certifications.

7. We recommend that the DSLBD Certification Manager ensure that performance evaluations are conducted and staff professional development improved.

DSLBD certification personnel were not evaluated during the audit scope

Chapter 14 of the District Personnel Manual requires Annual Performance Plans and Evaluations for all employees. Additionally, GAO standards state that a control environment is influenced by: “management’s commitment to competence... Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.” We found that employee evaluations and professional development opportunities for certification staff were not sufficient.

DSLBD certification personnel did not receive sufficient training or development during the audit scope

We found that certification staff members were not evaluated during the scope of the audit and they did not receive sufficient training or development. High management turnover at DSLBD contributed to the lack of employee evaluations. Additionally, DSLBD staff indicated that budget cuts resulted in the loss of DSLBD’s human resource position. Staff stated that their morale, program measurement, and professional development were all negatively impacted by the lack of regularly scheduled evaluations and training.

To invest in staff competence, the Certification Manager should comply with District requirements for annual performance plans and evaluations as well as research meaningful training opportunities for staff.

8. We recommend that DSLBD immediately formalize a set of CBE & JV certification policies and procedures.

DSLBD lacked approved policies and procedures for the certification process

The GAO states that policies and procedures (P&P) are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Further, the Act required that the DSLBD Director establish procedures for implementation of the CBE Program. We found that the Office of Certification did not have a formalized set of P&P. We found a draft set of P&P, but they omitted several significant process areas, such as the JV certification process. Staff stated there was a range of reasons for the lack of formal P&P, including staff turnover, vagueness in the law, and informal practices.

2 companies were certified without having basic business licenses, which are required by law

Staff reported that the absence of formalized and detailed certification P&P created staff confusion and inefficiencies. The lack of P&P also led to subjectivity in DSLBD personnel's interpretation of certification requirements, which sometimes led to different outcomes for similar CBEs, ultimately weakening the program. For example, we found that DSLBD certified two companies that did not have basic business licenses, which are required by law.

As described previously, the lack of formal policies and procedures resulted in poorly defined certification processes. These inadequate processes had a direct or indirect impact on several other audit findings, such as the lack of supervisory review in the JV approval process, the lack of complete tax returns in CBE applications, and the lack of competence, bonding, and financial statement data in JV applications.

To ensure consistency and compliance with the law, DSLBD should formalize a set of detailed and clear policies and procedures for the certification program, including the JV process.

9. We recommend that DSLBD review and update the portion of the regulation that addresses fixed assets of CBEs.

There was a great deal of leeway in how DSLBD personnel interpreted the regulations on fixed assets

As stated previously, the Act allows CBE applicants four ways to prove that they qualify as a LBE. The first of the four options is to prove that “More than 50% of the assets of the business enterprise, excluding bank accounts, are located in the District.”⁵ The D.C. Municipal Regulations further clarify that “In determining whether the applicant has more than fifty percent (50%) of the assets of the business enterprise located in the District, the Department shall consider the location of fixed assets, including property, plant, and equipment...”

We found that the language of the current regulations allows for a great deal of leeway in the interpretation of “fixed assets.” The regulations provide no guidance for certification staff to answer such questions as: Does 50 percent represent *the value* of the assets or *the number* of assets? What if the applicant only owns one laptop? Is that sufficient to meet this requirement? How long should the assets have been located in the District? What if they were purchased/delivered/installed yesterday?

DSLBD’s certification specialists, each of whom had a great deal of experience in their field, found this portion of the regulation insufficient and unclear and posed some of the questions above.

It is difficult to determine why policy makers chose the specific language when crafting the Act and regulations. However, because the Act and regulations did not specify a minimum value or amount of assets or a minimum timeframe for how long the assets should have been located in the District, DSLBD personnel felt that applicants were certified with minimal and easily transported equipment (i.e. one laptop computer) or after very recently moving the equipment into the office. As a result, staff reported that established companies felt that the process was unfair because new companies came “out of nowhere.” Further, DSLBD stated that there were no best practices on determining fixed assets, which we confirmed by our research of other major cities.

Likewise, staff said that due to the lack of clarity in the regulations, sometimes DSLBD recommended that an applicant get better organized and reapply. DSLBD personnel further indicated that the lack of consistency in this process created confusion, brought negative attention to the program, and created conflict between specialists and management because the determination of whether a

⁵ D.C. Code § 2-218.31. Local business enterprises.

company was truly located in the District based on fixed assets was subjective. Finally, because of the lack of clarity, DSLBD staff stated that they spent too much time determining if an applicant met the requirements which may have resulted in inefficiencies.

To ensure that the intent of the law is carried out, we recommend that DSLBD carefully review and update the portion of the regulation that addresses fixed assets of CBEs to address the identified weaknesses.

Conclusion

Overall, we found that the Department of Small & Local Business Development (DSLBD) ensured most applicants met Certified Business Enterprises (CBEs) and Joint Ventures (JV) requirements; however, internal controls and legal requirements were not sufficient to address the goals of the program.

We crafted recommendations to better ensure that only firms that meet all requirements are certified, internal controls and certification processes are sufficient, and legal requirements are sufficient and clear to address the goal of DSLBD's certification program.

We are pleased that DSLBD agreed with our recommendations and is in the midst of addressing the findings of our report.

Sincerely,

Yolanda Branche, Deputy Auditor

YB: Yolanda Branche
District of Columbia Auditor

Agency Response

On September 6, 2013, the Office of the District of Columbia Auditor submitted the draft report titled, “Audit of the Department of Small and Local Business Development Certified Business Enterprise Program” for review and comment to the Department of Small & Local Business Development (DSLBD).

The Auditor received written comments from DSLBD on September 20, 2013. We are pleased that DSLBD concurred with our recommendations. The DSLBD response is included with this report.

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



MEMORANDUM

TO: Yolanda Branche
District of Columbia Auditor

FROM: Robert Summers
Acting Director *Robert M. Summers*
Department of Small and Local Business Development (DSLBD)

DATE: September 20, 2013

SUBJECT: DSLBD Comments for “Audit of the Department of Small and Local Business Development Certified Business Enterprise Program

This memorandum includes DSLBD comments regarding the draft report titled “Audit of the Department of Small and Local Business Development Certified Business Enterprise Program”.

Summary

DSLBD agrees with the recommendations outlined in the audit report and has already begun implementing strategies consistent with each recommendation.

Recommendations and Responses

1. Recommendation #1 – We recommend that DSLBD ensure adequate proof of District residency by including stronger requirements in D.C Municipal Regulations.

In June 2013 Mayor Gray directed DSLBD to perform a comprehensive review of the CBE program to identify programmatic challenges, areas of legislative and policy improvement, and ongoing resource concerns. The review articulated the weaknesses of the program, and put forward recommendations that if fully supported and adopted, will ensure the CBE Program’s proper administration and further position it as a tool that stimulates the District’s local economy. This recommendation is consistent with the current direction of the department.

2. Recommendation #2 – We recommend that DSLBD enforce the requirement that CBE applicants submit tax returns.

This recommendation is consistent with DSLBD’s CBE Program Review conducted in September 2013 and the current direction of the department.

3. Recommendation #3 - We recommend that DSLBD consistently enforce the requirement that JV Applicants submit bonding and competence documentation and the non-CBE partner's audited financial statements.

This recommendation is consistent with DSLBD's CBE Program Review conducted in September 2013 and the current direction of the department.

4. Recommendation #4 - We recommend that DSLBD implement a compliance monitoring strategy, which includes unannounced site visits.

This recommendation is consistent with DSLBD's CBE Program Review conducted in September 2013 and the current direction of the department. In FY10 the DC Council voted to remove the compliance unit from DSLBD and place at the Office of the DC Auditor. As a result of the Council's actions, DSLBD did not have a CBE compliance unit during the period between October 1 2010, to July 31, 2013. In the fall of 2013, DSLBD re-launched its compliance and enforcement division.

5. Recommendation #5 - We recommend that DSLBD establish controls which ensure that the CBE review process is protected from political influence.

This recommendation is consistent with DSLBD's CBE Program Review conducted in September 2013 and the current direction of the department.

6. Recommendation #6 - We recommend that DSLBD add supervisory review to the JV certification process.

This recommendation is consistent with DSLBD's CBE Program Review conducted in September 2013 and the current direction of the department.

7. Recommendation #7 – We recommend that the DSLBD Certification Manager ensure that performance evaluations are conducted and staff professional development improved

This recommendation is consistent with DSLBD's CBE Program Review conducted in September 2013 and the current direction of the department.

8. Recommendation #8 – We recommend that DSLBD immediately formalize a set of CBE & JV certification policies and procedures

This recommendation is consistent with DSLBD's CBE Program Review conducted in September 2013 and the current direction of the department.

9. Recommendation #9 – We recommend that DSLBD review and update the portion of the regulation that addresses fixed assets of CBEs.

This recommendation is consistent with DSLBD’s CBE Program Review conducted in September 2013 and the current direction of the department.

Should you require any further information, please call me at (202) 727-5077 or email at robert.summers@dc.gov.

**Audit of the Department of Small and Local Business Development’s Fiscal Year 2011
Performance Accountability Report**

Recommendation	Agency Agrees Date Agency will implement recommendation	Agency Disagrees Alternative Recommendation
1. We recommend that DSLBD ensure adequate proof of District residency by including stronger requirements in D.C Municipal Regulations.	Agrees 9/30/2014	
2. DSLBD Management should design policies and procedures that will ensure that the agency is properly collecting and maintaining adequate documentary evidence regarding the number of participants at DSLBD training and education activities.	Agrees 9/30/2014	
3. We recommend that DSLBD consistently enforce the requirement that JV Applicants submit bonding and competence documentation and the non-CBE partner’s audited financial statements.	Agrees 9/30/2014	
4. We recommend that DSLBD implement a compliance monitoring strategy, which includes unannounced site visits.	Agrees 9/30/2014	

5. We recommend that DSLBD establish controls which ensure that the CBE review process is protected from political influence.	Agrees 9/30/2014	
6. We recommend that DSLBD add supervisory review to the JV certification process.	Agrees 9/30/2014	
7. We recommend that the DSLBD Certification Manager ensure that performance evaluations are conducted and staff professional development improved	Agrees 9/30/2014	
8. We recommend that DSLBD immediately formalize a set of CBE & JV certification policies and procedures	Agrees 9/30/2014	
9. We recommend that DSLBD review and update the portion of the regulation that addresses fixed assets of CBEs.	Agrees 9/30/2014	

Auditor's Response to Agency Comments

The Auditor appreciates the comments provided by the Department of Small & Local Business Development (DSLBD). We are pleased that DSLBD is taking positive steps towards implementing the recommendations presented in the report.