city of CINCINNATI

Date: November 13, 2024

To: Sheryl M.M. Long, City Manager

From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*

Copies to: Internal Audit Committee
William Weber, Assistant City Manager
Laura Castillo, Department of Economic Inclusion Director

Subject: **DEI Performance Audit**

Attached is the Department of Economic Inclusion (DEI) performance audit report. The primary objective of this audit was to determine if DEI has strong internal controls in place for managing operations. This audit was conducted in accordance with the current audit agenda.

We would like to thank the management and staff of DEI for their assistance and cooperation during this audit.

If you need any further information, please contact me.

Attachment

Department of Economic Inclusion Performance Audit

November 2024

Lauren Sundararajan, CFE
Internal Audit Manager

Ann Herzner
Senior Internal Auditor

Table of Contents

Executive Summary

Internal Audit (IA) conducted a performance audit of the Department of Economic Inclusion (DEI). The primary objective of this audit was to determine if DEI has strong internal controls in place for managing operations.

The Department of Economic Inclusion's goals are "to ensure economic opportunity and inclusion for all citizens seeking to do business with the City of Cincinnati (City) and serve as a catalyst for the growth of minority and women-owned businesses in the City and throughout the region."[1]

The audit revealed several opportunities for improvement over managing operations. For example, IA found department policies and procedures need to be updated, consolidated and centralized into a manual. Having the information updated regularly and centralized avoids the duplation of materials and provides continuous clarity and direction to department employees. Additionally, IA found communication efforts need improvement. DEI's involvement with the contract monitoring process needs to be explained and recognized by City departments to increase collaboration and promote efficiency.

IA also found opportunities for enhancement in contract monitoring. Certified payroll reports are to be submitted to DEI weekly through an electronic software system. These reports are necessary to show that a contractor and subcontractor are in conformity with local, state, or federal prevailing wage laws. IA sampled 20 payroll periods submitted between a six-month period and found 8 (40%) of the reports were not reviewed by DEI. Continuous monitoring of the software system for payroll reports is necessary to prohibit payment delays to the contractors.

Further, IA found management of contract files needs refinement and there are no performance measures for contract monitoring. Having contract files stored in multiple locations limits the efficiency of the operation and takes unnecessary time to track down specific forms. Performance measures allow management the ability to gauge the employees' effectiveness and work productivity.

To improve the internal controls over DEI operations, IA recommends the following: update, consolidate and centralize policies and procedures into a manual, improve communication among City departments, regularly monitor the software system for payroll reports, centralize the contract files, and establish performance measures for contract monitoring. Implementing these recommendations will ensure internal operations are managed efficiently and effectively.

[1] https://www.cincinnati-oh.gov/inclusion/

I. Introduction

Background

The Department of Economic Inclusion's goals are "to ensure economic opportunity and inclusion for all citizens seeking to do business with the City and serve as a catalyst for the growth of minority and women owned businesses in the City and throughout the region."[2] In order to achieve these goals, the department administers, monitors, and enforces programs including, but not limited to, Living Wage, Minority Business Enterprise (MBE), Women Business Enterprise (WBE) and Small Business Enterprise (SBE) certifications.

Additionally, DEI oversees the creation, monitoring and enforcement of inclusion goals for specific City contracts. This process involves City departments completing a goal sheet, which is reviewed by DEI to determine if inclusion goals apply to a specific contract prior to going out for bid (goal determination). If inclusion goals are applicable, then the information provided is entered into a formula, which calculates the inclusion goal for the specific contract. After the contract has been executed, DEI monitors the inclusion goals to ensure they have been met.[3]

DEI also enforces local, state and federal prevailing wage laws. This process entails wage determination for specific City contracts by completing Form 217. If DEI determines prevailing wage rates apply to a specific contract, DEI is responsible for enforcing the applicable wage rates throughout the duration of the contract period. Site visits are required for state and federally funded prevailing wage projects including Ohio Department of Transportation (ODOT) funded developments. How a project is funded and the duration of that project determine the number of site visits required.

Two systems used by department staff to manage inclusion goals and/or enforce prevailing wage laws in City contracts are the Labor Compliance Program Tracker (LCP Tracker) [4] and Vendor Compliance and Certification System (VCCS).[5] LCP Tracker allows contractors the ability to upload certified payroll reports for review and approval from DEI staff. VCCS allows staff to communicate with contractors via email, upload contract files and key documents, and track inclusion goals and participation.

DEI is led by a director and a deputy director, and has a 16-member advisory board.[6] The department also has five development managers, four contract compliance specialists, and one administrative assistant. Collectively, these positions implement the department's programs to help it achieve its goals.

---

[2] https://www.cincinnati-oh.gov/inclusion/
[3] Metropolitan Sewer District (MSD) manages the inclusion goals for their contracts rather than DEI.
[4] LCP Tracker is a cloud-based software system used by the department to ensure contractors comply with prevailing wage guidelines and labor laws.
[5] VCCS is powered by B2Gnow, which is a software system used by the department to manage contract compliance, certifications, spend tracking, and other areas.
[6] City of Cincinnati Council Minutes 9/5/2024.

Audit Selection
IA conducted this audit in accordance with the Audit Work Plan.

Audit Objective
The primary objective of this performance audit was to determine if DEI has strong internal controls in place for managing operations.

Audit Scope and Methodology
In the interest of time, IA limited the scope of the audit to policies and procedures, City ordinances, goal and wage determination, prevailing wage enforcement, and management review and oversight.

In order to achieve the audit objective and focus, IA interviewed appropriate City staff, reviewed department and City-wide policies, procedures, and ordinances, observed a public forum, and analyzed data and reports from internal systems. Documents reviewed throughout the audit include data and information from fiscal year (FY) 2022 – Present.

Statement of Auditing Standards
As required by the Cincinnati Administrative Code Article II §15, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 5.60 pertaining to external peer review requirements. This exception did not have a material effect on the audit.

IA continues to conduct internal quality reviews to assure the conformance with applicable GAGAS. IA performed the fieldwork in February, and July through September of 2024.

Commendations
IA commends the staff of the Department of Economic Inclusion for their cooperation throughout the audit.

II. Audit Findings and Recommendations

DEI's policies and procedures need to be updated, consolidated and centralized into a manual.

Policies and procedures are key components of an internal control structure. Policies are designed to provide direction to staff on how to properly manage a particular function. Procedures provide employees with instructions on how to carry out day-to-day activities. IA requested the department's policies and procedures and received a multitude of electronic files, some of which contained duplicate information and draft documents. For a department to run efficiently and effectively, a centralized manual must exist and be updated regularly. The manual will provide clarity and direction to employees without conflicting or duplicate information interfering.

Recommendation 1: Update, consolidate and centralize the department's policies and procedures into a manual.

Department Response: Agree. The Department Director and Deputy Director will compile, review, and update our existing documents and procedures. Department will consolidate and centralized policies into the creation of a Department Manual to be completed by December 31, 2025

Communication efforts need improvement.

Communication is necessary for effective operations of the internal control structure and for increasing DEI's awareness in other City departments. For example, IA was informed that DEI does not consistently receive all executed contracts. As a result, DEI began tracking the contracts received for wage and goal determination, and accessing executed contracts from the Cincinnati Financial System (CFS). Although these internal controls are appropriate, the issue persists with DEI's ability to receive all executed contracts, which delays the monitoring of contractor performance.

Additionally, IA was informed that when adjustments are made to contracts managed by various City departments, key information regarding these changes is not shared with DEI. This may cause miscommunication between DEI, City departments, and project managers, as the latter two groups may not fully understand DEI's responsibilities throughout the duration of the contract. Enhancing communication among City departments would allow DEI the opportunity to explain its role in the contracting process and increase collaboration among City employees.

Recommendation 2: Establish the appropriate communication channels with departments to share key information.

Department Response: Agree. The Department Director and Deputy Director will collaborate to create uniform procedures for receiving all executed contracts and will ensure that important contract adjustments are communicated promptly. Department staff will also include the appropriate representatives in all contract-related communications.

Management of contract files needs refinement.

VCCS is used by DEI to monitor contractor activity. VCCS allows contractors to upload specific documents while staff can upload the appropriate contract forms, communicate with contractors and run various reports. IA attempted to review 16 contracts DEI is (currently) overseeing and found management of the contract files needs refinement. For example, DEI is not using VCCS to house all contractual documents. Prior to 2024, contract files were uploaded to the department's shared drive per policy, while other documents were uploaded into VCCS by contractors. Having contract files in multiple locations limits the efficiency of the operation and makes it difficult for management to enforce department policy.

Recommendation 3: Centralize the contract files for proper contract monitoring and to ensure efficiency.

Department Response: Disagree. DEI transitioned to centralizing files on VCCS in early 2024, with all new contracts stored within VCCS moving forward. Contracts prior to this transition will continue to rely on the shared drive for compliance documents, as the department does not have the capacity to retroactively upload all previous documents into VCCS. This approach ensures centralization for current and future contracts, while older files remain accessible on the shared drive. This initiative has been completed.

There are opportunities for enhancement in contract monitoring.

Contractors and subcontractors working on City prevailing wage projects must adhere to the current prevailing wage rates. These rates may include state prevailing wages, which may change during the duration of the project, or federal rates, which are tied to the Davis-Bacon Act. In order for DEI to enforce the rates set forth by the appropriate prevailing wage laws, certified payroll reports are submitted by the contractors through LCP Tracker.[7] These reports document pertinent details about the wages paid to the employees working on site.[8]

IA sampled 20 payroll reports between 1/1/2024 and 6/30/2024[9] and found 8 (40%) of the reports submitted had not been reviewed by DEI.[10] Although IA was informed that LCP Tracker does not notify users of when payroll reports are submitted, it is imperative that staff continuously check the system to prohibit payment delays to the contractors.

Recommendation 4: Review and approve certified payrolls on a routine basis.

Department Response: Agree. DEI Director and Deputy Director will continue to conduct bi-weekly audits for each staff member to ensure consistent review and approval of certified payrolls as this is ongoing. Additionally, management will randomly spot check projects for compliance.

---

[7] https://www.cincinnati-oh.gov/inclusion/bid-contract-requirements/city-state-funded-construction-projects/
[8] Additionally, it is required that a "no work" payroll be submitted for weeks where there is no work performed by the contractor or subcontractor.
[9] The 20 payroll reports selected either contained certified payroll reports or "no work" payroll reports.
[10] The reports were pulled on 9/17 and 9/18/2024 respectively.

There are no performance measures for contract monitoring.

Management uses performance measures to gauge an operation's effectiveness and efficiency. They align with division goals and objectives and can highlight specific areas that need improvement. IA found there are no performance measures for contract monitoring. Examples of performance measures that can be incorporated include reviewing and certifying a specific number of payroll reports per week and conducting a specific number of site visits per month. Without performance measures, it is difficult for management to gauge the employees' effectiveness and work productivity.

Recommendation 5: Establish performance measures for contract monitoring.

Department Response: Agree. DEI Director will establish performance measures for contract monitoring, including targets for payroll report reviews and site visits. DEI will integrate these performance measures into the Department dashboard by December 31st, 2025.

Additional management review and oversight is needed.

Management review and oversight is necessary to ensure processes are functioning as intended, errors are detected, and department objectives are carried out appropriately. IA spoke to four employees in the department, each tasked with managing contracts. The number of contracts managed by each employee varies, as some employees are tasked with additional responsibilities. IA observed that some employees are more organized and efficient in monitoring their contracts. Despite management's monthly meetings with employees to review assignments, additional attention is needed to ensure all employees are consistent in monitoring their contract workload and utilizing the resources provided by the department.

Recommendation 6: Conduct additional review and oversight to ensure employee performance meets department standards.

Department Response: Agree. DEI Director will increase management oversight to increase contract monitoring across employees. We will implement additional reviews and provide targeted support where needed to align performance with department standards beginning immediately.

There is no real-time integration between CFS and VCCS.

IA was informed that CFS and VCCS do not interface; therefore, a monthly data migration process takes place through an Access database. This database produces a report that flags specific records (or contracts) that need attention. Some of the reasons may include, but are not limited to, the contract is missing from the system or the contract was closed in VCCS prior to the final payment being imported.[11] When specific records are flagged, DEI is tasked with finding out why and rectifying the situation. Although DEI has made closing out contracts in VCCS a priority, continuous attention and effort must continue to ensure the data can be used and analyzed by the department and the City administration.

[11] Data Export from CFS to VCCS Guide.

Recommendation 7: Maintain department efforts toward closing out contracts.

Department Response: Agree. DEI will maintain its focus on promptly closing out contracts in VCCS to provide accurate and accessible data for analysis by departmental and City administration. This effort is currently being spearheaded by a Development Manager, with all staff assigned to review contract payments each week.

Quarterly reports have not been issued to City Council since 2019.

Adhering to the Cincinnati Municipal Code (CMC) ensures good governance and transparency of City operations. IA found DEI has not submitted quarterly reports to City Council since 2019. According to section 324-39(d) of the CMC:

> The director shall prepare quarterly MBE and WBE development reports for submission to Council. These reports shall be disaggregated by minority group as defined by section 324-1-M1 of this chapter and shall include: the number of contracts awarded to MBEs and WBEs; a description of the general categories of contracts awarded to MBEs and WBEs; the dollar value of contracts awarded to MBEs and WBEs; the percentage of the dollar value of all contracts awarded to MBEs and WBEs during the preceding year; the actual dollar amount paid to MBE, WBE and non-M/WBE vendors as prime or subcontractors; and the percentage of the dollar amount paid to MBEs and WBEs compared to the total amount paid under the contracts.

Recommendation 8: Adhere to Section 324-39(d) of the CMC.

Department Response: Agree. DEI Director is currently finalizing the spend report and will resume submitting quarterly MBE and WBE development reports to City Council, following Section 324-39(d) of the CMC, to ensure transparency and compliance with reporting requirements. Spend reports will be available by December 31st, 2024.

III. Conclusion

The audit revealed several opportunities for improvement over the internal controls of DEI operations. For example, IA found policies and procedures need to be updated, consolidated and centralized into a manual and communication needs improvement among City departments. Additionally, IA found there are opportunities for enhancement in contract monitoring, management of contract files needs refinement, and there are no performance measures for contract monitoring.

To improve the internal controls over DEI operations, IA recommends the following: update, consolidate and centralize policies and procedures into a manual, improve communication among City departments, regularly monitor the software system for payroll reports, centralize the contract files, and establish performance measures for contract monitoring. Implementing these recommendations will ensure internal operations are managed efficiently and effectively.

IV. Department of Economic Inclusion Response

Recommendation 1: Update, consolidate and centralize the department's policies and procedures into a manual.

Department Response: Agree. The Department Director and Deputy Director will compile, review, and update our existing documents and procedures. Department will consolidate and centralized policies into the creation of a Department Manual to be completed by December 31, 2025.

Recommendation 2: Establish the appropriate communication channels with departments to share key information.

Department Response: Agree. The Department Director and Deputy Director will collaborate to create uniform procedures for receiving all executed contracts and will ensure that important contract adjustments are communicated promptly. Department staff will also include the appropriate representatives in all contract-related communications.

Recommendation 3: Centralize the contract files for proper contract monitoring and to ensure efficiency.

Department Response: Disagree. DEI transitioned to centralizing files on VCCS in early 2024, with all new contracts stored within VCCS moving forward. Contracts prior to this transition will continue to rely on the shared drive for compliance documents, as the department does not have the capacity to retroactively upload all previous documents into VCCS. This approach ensures centralization for current and future contracts, while older files remain accessible on the shared drive. This initiative has been completed.

Recommendation 4: Review and approve certified payrolls on a routine basis.

Department Response: Agree. DEI Director and Deputy Director will continue to conduct bi-weekly audits for each staff member to ensure consistent review and approval of certified payrolls as this is ongoing. Additionally, management will randomly spot check projects for compliance.

Recommendation 5: Establish performance measures for contract monitoring.

Department Response: Agree. DEI Director will establish performance measures for contract monitoring, including targets for payroll report reviews and site visits. DEI will integrate these performance measures into the Department dashboard by December 31st, 2025.

Recommendation 6: Conduct additional review and oversight to ensure employee performance meets department standards.

Department Response: Agree. DEI Director will increase management oversight to increase contract monitoring across employees. We will implement additional reviews and provide targeted support where needed to align performance with department standards beginning immediately.

Recommendation 7: Maintain department efforts toward closing out contracts.

Department Response: Agree. DEI will maintain its focus on promptly closing out contracts in VCCS to provide accurate and accessible data for analysis by departmental and City administration. This effort is currently being spearheaded by a Development Manager, with all staff assigned to review contract payments each week.

Recommendation 8: Adhere to Section 324-39(d) of the CMC.

Department Response: Agree. DEI Director is currently finalizing the spend report and will resume submitting quarterly MBE and WBE development reports to City Council, following Section 324-39(d) of the CMC, to ensure transparency and compliance with reporting requirements. Spend reports will be available by December 31st, 2024.