



# Internal Audit Report

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Limited Operational Audit  
Small Contractor & Supplier Program

January 1, 2012 - December 31, 2012

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Report No. 2013-10

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## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Small Contractor and Supplier Program (SCS Program).

The scope of our audit covered information relating to the SCS Program from January 1, 2012, through December 31, 2012.

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.

We extend our appreciation to management and staff of the Office of Social Responsibility for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Internal Audit, Director

## Executive Summary

**Audit Scope and Objective** The purpose of the audit was to determine whether Port management has completely implemented the Small Contractor and Supplier Program (SCS Program) to meet the following five specific goals under Commission Resolution 3618:

1. Provide SCS firms additional opportunities for utilization in Port procurements.
2. Identify and reduce barriers to SCS firms' equal opportunity and participation.
3. Develop comprehensive outreach and communication strategies.
4. Engage with public and private partners for additional resources and best practices.
5. Develop and utilize data monitoring and evaluation resources.

The scope of our audit covered the period January 1, 2012, through December 31, 2012.

**Background** In January 2010, the Port Commission approved Resolution 3618 – the Small Contractor and Supplier Program (SCS Program). The Office of Social Responsibility is responsible for managing the SCS Program. The Port modeled Resolution 3618 after King County's SCS Program, and the two agencies are now partners in recruiting and certifying small businesses to participate in both programs and have access to additional business opportunities. The SCS Program requires that a small business meet the following to obtain certification:

- The business owner's personal net worth must be no greater than \$750,000.
- The business must participate in 15 hours of small business training during the first year of certification.
- The business's annual gross revenue may be no greater than 50% of the US Small Business Administration standards.

The SCS Program intends to increase access to Port procurement opportunities by reducing barriers through the introduction of SCS-specific bidding opportunities, community outreach, and increased internal awareness of the benefits of utilizing small businesses within the Port.

**Audit Result Summary** Port management has materially implemented the Small Contractor and Supplier Program goals required under Resolution 3618, except as discussed in Finding 1.

## Background

In January 2010, the Port Commission approved Resolution 3618 establishing the Small Contractor and Supplier Program (SCS Program). The SCS Program's primary purpose is to develop beneficial opportunities for the Port and for the regional community of small and disadvantaged businesses. The Port Commission modeled Resolution 3618 after King County's SCS Program in the early 2000's. Small businesses that wish to participate must apply for SCS certification, based on the following requirements:

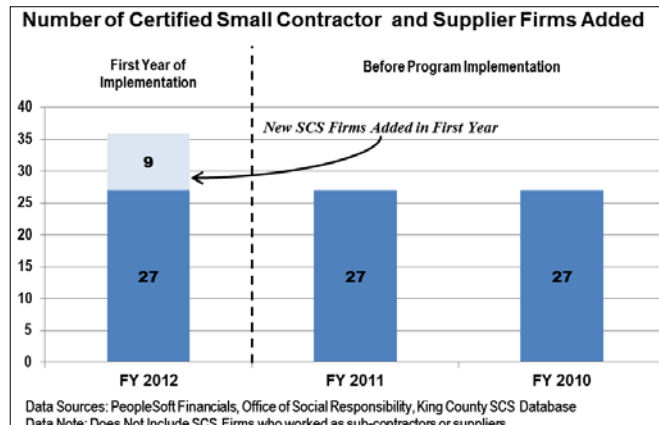
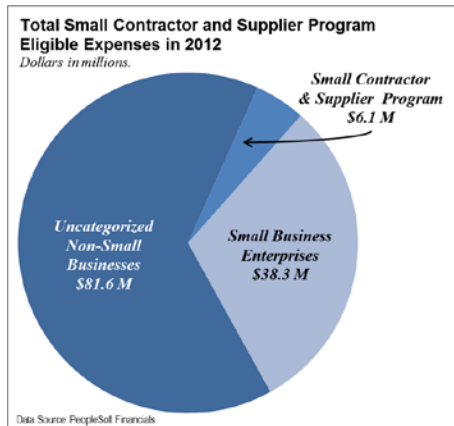
- The business owner's personal net worth must be no greater than \$750,000.
- The business must participate in 15-hours of small business training /development in the first year of certification.
- The business's annual gross revenues may be no greater than 50% of the US Small Business Administration standards (<http://www.sba.gov/content/table-small-business-size-standards>).

In 2011, the Port entered into an Interlocal Agreement with King County to develop a shared certification system for small businesses to participate in either agency's program. Under the Interlocal Agreement, King County is responsible for reviewing SCS Program certifications. The Port pays for each certification, as well as a share of the fixed costs for maintaining the SCS Program database used by both agencies.

Under Resolution 3618, the Office of Social Responsibility (OSR) is the department charged with implementing the five specific, required goals of Resolution 3618:

6. Provide SCS firms additional opportunities for utilization in Port procurements.
7. Identify and reduce barriers to SCS firms' equal opportunity and participation.
8. Develop comprehensive outreach and communication strategies.
9. Engage with public and private partners for additional resources and best practices.
10. Develop and utilize data monitoring and evaluation resources.

These goals support policies to encourage or require using SCS firms for Port business needs. This includes bid pricing and evaluation incentives, as well as commitments by larger businesses to utilize SCS firms as suppliers or sub-contractors for larger and more complex projects. OSR monitors and reports annually on the total SCS Program spending (below, left) and attainment of goals under Resolution 3618 (below, right) to Port departments and to the Port Commission.



## Highlights & Accomplishments

During the audit, we observed the following highlights and accomplishments during the SCS Program's first full year of operation:

- The Port's small business spending, including SCS firms, increased from 25% to 35% of the Port's expenditures in 2012.
- SCS Program disbursements accounted for 5% of the Port's total 2012 spending.
- The SCS firms acquired over \$6 million of contracts and sub-contracting opportunities.
- Over \$1 million of the SCS Program's dollars went to firms certified as Disadvantaged Minority and Women-owned Business Enterprises.

## Audit Scope and Methodology

We reviewed information for the period January 1, 2012, through December 31, 2012. We utilized a risk-based audit approach from planning to the testing phase. We gathered information through research, interviews, observations, and analytical reviews in order to obtain a complete understanding of the Small Contractor and Supplier Program. We assessed significant risks and identified controls to mitigate those risks. We evaluated and tested whether the controls were functioning as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. SCS Firms are provided additional opportunities for utilization in Port procurements:
  - We determined the number of SCS firms awarded Port procurements in 2012 vs. 2011 and 2010.
  - We determined the number of instances in which a SCS firm was automatically selected for procurement.
  - We determined the share of disadvantaged minority and women-owned business enterprises within the SCS Program and the SBE Program.

2. Barriers to SCS firms' equal opportunity and participation are identified and reduced:

- We determined whether the incentive and utilization requirements under Section 2 of Resolution 3618 were implemented in Port procurement policies and procedures as required.
- We reviewed with management other barriers identified during the SCS Program's first year.

3. Comprehensive outreach and communication strategies were developed:

We reviewed management's outreach processes to determine whether they were sufficient for adding SCS firms to the interagency roster.

4. Public and private partners were engaged for additional resources and best practices:

We reviewed OSR's SCS Program planning to identify whether they engaged public and private partners, and discussed with management what best practices they identified.

5. Development and utilization of data monitoring and evaluation resources:

- We verified that management's processes for calculating SCS spending is accurate.
- We verified that OSR helped develop SCS utilization goals for all Port divisions.
- We verified that OSR developed effective metrics to evaluate the SCS program.
- We verified that OSR developed voluntary goals for disadvantaged minority and women-owned business enterprises under Section 5 of Resolution 3618.

## Conclusion

Port management has materially implemented the Small Contractor and Supplier Program goals required under Resolution 3618, except as discussed in Finding 1.

<b>Schedule of Findings and Recommendations</b>
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**1. PORT MANAGEMENT DID NOT IMPLEMENT A REQUIRED PRICING INCENTIVE FOR THE SMALL CONTRACTOR AND SUPPLIER PROGRAM**

In January 2010, the Port Commission approved Resolution 3618 authorizing the Small Contractor and Supplier Program. Under Section 2.A, the Office of Social Responsibility was required to implement the SCS Program's pricing incentive as follows:

*The [Port]...shall develop a tool to give a 5% pricing incentive and to authorize a contract award to a SCS firm that is within 5% of the lowest price submitted by a non-SCS firm. This pricing incentive shall apply to goods and purchased services only where price is the determining factor. The incentive shall begin at the time the new Port SCS certification program is established, which is estimated to be first quarter of 2011."*

Port management did not implement the 5% pricing incentive as required by Resolution 3618. However, Port management publicized the incentive as being available during the audit period.

**Recommendation:**

We recommend Port management:

- Implement the 5% pricing incentive as required by Section 2.A of Port Commission Resolution 3618.
- We further recommend that management implement a system of controls to monitor procurements that contain these and other required incentives to ensure compliance.

**Management Response**

*Upon review of the findings, the Office of Social Responsibility (OSR) concurs.*

*OSR and the Central Procurement Office (CPO) will work together to make the appropriate modifications to bring the SCS program to 100% compliance with Resolution 3618. This one, and only, finding of the 5% pricing incentive that was not internally implemented, yet was being publicized by OSR externally will be corrected. With the assistance of CPO, we will make sure the appropriate policy language will be included within the Ports internal CPO policy documents. This would also include an official system of controls to monitor procurements that contain these and other required incentives to ensure compliance.*