

TESTIMONY
OF
LAWRENCE PERRY
DISTRICT OF COLUMBIA DEPUTY AUDITOR
COMMITTEE ON BUSINESS, CONSUMER AND REGULATORY AFFAIRS
COUNCIL OF THE DISTRICT OF COLUMBIA
DECEMBER 11, 2014

CHAIRMAN ORANGE AND MEMBERS OF THE COMMITTEE ON BUSINESS, CONSUMER AND REGULATORY AFFAIRS: I am Lawrence Perry, District of Columbia Deputy Auditor. Joining me today are Laura Hopman, Assistant Deputy Auditor, and Lilai Gebreselassie, Senior Supervisory Auditor. Thank you for the opportunity to appear before the Committee to discuss required SBE expenditures of District agencies and report on the Office of the District of Columbia Auditor's compliance with fiscal year (FY) 2014 Small Business Enterprise expenditure goals.

As you know, our most recent report, issued on September 3, 2014, detailed District of Columbia agencies' compliance with Small Business Enterprise expenditure goals through the 3rd quarter of FY 2014. The purpose of the report was to determine whether District agencies were on target to meet the required goal of procuring 50 percent of their expendable budgets with Small Business Enterprises in FY 2014 and evaluate District agencies' compliance with SBE goal establishment and expenditure reporting requirements. In short, we found that out of 82 agencies, 19 agencies met the annual goal of procuring at least 50 percent of their goods and services from SBEs as of June 30, 2014. The 82 agencies, as a whole, spent \$84 million with SBEs through the

3rd quarter of FY 2014. Eighty-four million dollars represents 17 percent of the total FY 2014 SBE expenditure goal, which was \$495 million at the time the report was published.

Year-end SBE expenditure totals for FY 2014 cannot be accurately assessed until the Office of the Chief Financial Officer publishes the Comprehensive Annual Financial Report in early 2015. As a result, at this time we are able to present only rough speculation as to which District agencies will and will not meet their SBE goals for FY 2014.

Despite the limitations in our ability to assess total spending, we believe that approximately 47 agencies will meet their FY 2014 SBE expenditure goals and approximately 35 agencies will not meet their FY 2014 SBE expenditure goals. We believe that SBE expenditures will total approximately \$175 million for FY 2014, roughly 76 percent of the total current SBE expenditure goal of \$232 million. As we noted earlier, at the end of the 3rd quarter of FY 2014, the SBE expenditure goal was \$495 million. Since July 29, 2014 DSLBD reduced the SBE expenditure goal from \$495 million to \$232 million, a 53 percent reduction. We will continue to recommend to DSLBD to review and improve their SBE expenditure goal setting process and establish a reasonable deadline for changes to annual SBE expenditure goals.

When we examine the trends in District agency expenditures with SBEs over the past four fiscal years, we are encouraged by a steady increase in spending:

- In FY 2011, District agencies spent \$107 million with SBEs, which was a 4 percent increase over FY 2010. The total expenditures represented 45 percent of the goal of \$241 million.
- In FY 2012, agencies spent \$133 million, which was a 24 percent increase over FY 2011. The total expenditures represented 20 percent of the goal of \$661 million.

- In FY 2013, agencies spent \$173 million, which was a 24 percent increase over FY 2012. The total expenditures represented 34 percent of the goal of \$507 million.
- In FY 2014, our rough estimates indicate that the total will increase yet again to \$175 million, which is a 1 percent increase over FY 2013. The total expenditures, if met, will represent 76 percent of the current goal of \$232 million.

On a related topic, during recent hearings, the Department of General Services indicated that their agency's expenditures were understated in ODCA's 3rd quarter report. We recently met with DGS and also spoke with DSLBD regarding these assertions. After reviewing the discrepancy in more detail, we stand by our 3rd quarter expenditure totals; however, we recognize that it is very difficult for agencies, such as DGS, to accurately capture capital funds when setting SBE expenditures goals and particularly when calculating expenditures with SBEs. In our meeting with DGS, which we plan on continuing December 16, we agreed that it would be prudent for DSLBD to consider removing capital funds from the current goal-setting and expenditure tracking process and instead monitor capital spending on SBEs separately.

Given the significant economic benefits to the District resulting from compliance with SBE expenditure goals, we urge DSLBD to continue to improve the oversight of SBE participation in agency procurements. We will continue to monitor the program to ensure that DSLBD's efforts facilitate meeting the goals of the Act.

Lastly, regarding the Office of the District of Columbia Auditor, I am pleased to note that we met our FY 2014 SBE goal, spending \$48,918 with SBEs.

Mr. Chairman, this concludes my prepared remarks. I will respond to any questions that you have at this time.