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Internal Audit & Licensing

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DATE September 24, 2013  
TO: Zachary Williams, Chief Operating Officer/ Executive Assistant  
FROM: Interim Deputy Director of Finance, Internal Audit and Licensing  
SUBJECT: LSBE Review

**General Information**

The Local Small Business Enterprise (LSBE) Program was enacted in November 2006 to “encourage the participation of small and local businesses in the continuing business of County government; and that the participation of these types of businesses in procurement will strengthen the overall economic fabric of DeKalb County, contribute to the County’s economy and tax base and provide employment to local residents.”

The LSBE program has two types of certifications: Locally Based Inside of DeKalb County (LSBE-DeKalb) and Locally Based Outside of DeKalb County but within the ten County Metropolitan Statistical Area (LSBE-MSA). The Metropolitan Statistical area includes Cherokee, Clayton, Cobb, Douglas, Fayette, Fulton Henry, Gwinnett, and Rockdale Counties.

“For either LSBE certification, the following qualifying definition shall apply: A Small Business shall mean an independently owned and operated business concern whose average gross receipts for the previous three years must not exceed (1) Construction Firms - \$3,000,000 (2) Professional Services Firms - \$2,000,000 (3) Commodity Suppliers - \$1,000,000; the individual owners of such business concern may not possess a personal net worth that exceeds \$1,000,000, including a spouse or adult child’s net worth but excluding the individual’s ownership interest in their primary residence.”

LBSEs that have participated in the program for ten (10) years “shall automatically graduate from the program at the expiration of the ten (10) year and shall no longer be certified as a LSBE.” LSBEs that have graduated from the LSBE program can participate in the mentor-protégé program. This program was established for prime contractors (mentor) with an approved contract over \$5,000,000 by “offering training related to the project that will assist the LSBE” (protégé) in building their business.

**Purpose and Scope**

The purpose of our review was to ensure compliance with the established LBSE guidelines and to evaluate the efficiency and effectiveness of the program.

We reviewed the policies and procedures, interviewed staff to obtain an understanding of the LSBE certification process, and examined LSBE certification applications and its supporting documentation.

This review covered LSBE certifications between March 2009 and August 28, 2013.

Included in this report is an exhibit that provides a listing of LSBEs that have been granted contracts during the abovementioned period.

## **Findings and Recommendations**

### **Policies/Procedures**

We reviewed the Local Small Business Enterprise Program ordinance (Chapter 2, Article VII) enacted in November, 2006. We interviewed the staff to obtain an understanding of the LSBE certification process.

### **Issues**

- No standard operating procedures exist to ensure uniformity in the LSBE certification process.
- The ordinance/policy does not prohibit LSBEs from bidding as a subcontractor with multiple prime bidders for the same proposal, Invitation to Bid (ITB) or Request for Proposal (RFP).
- The ordinance/policy does not prohibit LSBE from bidding as a subcontractor and a prime on the same proposal (ITB/RFP).
- Some LSBEs, performing as a subcontractor, were given over 50% of the contracted work. The LSBE ordinance/policy does not establish guidelines of minimum and maximum percentage requirements for subcontract work.
- Although the contract is between the prime contractor and the County, the policy does not require the prime contractor to demonstrate competency or qualifications of the subcontractor in their proposal.
- Requirement to submit life insurance cash value does not specify life insurance type (term or group life).
- No tools are in place to measure the success of the LSBE program. (Example: Subcontractors that have graduated from the LSBE program and moved to the Mentor-Protégé program to mentor other subcontractors)
- No suspension or debarment list exists for subcontractors that do not perform adequately. Also, the policy does require the prime contractors to obtain from subcontractors, certification that their organization and its principal are not suspended or debarred.



## **Recommendations**

- We recommend Purchasing and Contracting implement procedures that outlines the LSBE certification process and requirements. In addition, the procedures should include codes of conduct and unacceptable bid practices.
- The LSBE policy should prohibit the practice of subcontractors bidding with multiple prime contractors for the same bid. This gives the subcontractors who are listed on multiple prime contractor proposals a competitive advantage against other subcontractors who are paired with only one prime contractor. Furthermore, once a LSBE is required to interview with more than one short-listed prime bidder on one bid, it reduces transparency of the RFP interview process by allowing LSBE to have knowledge and provide the other prime bidders with the interview questions.
- We recommend the LSBE policy prohibit bids of contractors that include subcontractors in its bid that are competing for the prime contract. This type of bidding practice may result in collusive bidding.
- The LSBE policy should outline minimum and maximum percentage for subcontracted work to LSBEs. Establishing the subcontractor percentage limit will reduce the opportunity for bid rigging schemes such as bid rotation or subcontracting arrangements.
- We recommend Purchasing and Contracting require prime contractors provide scope of work and competency of subcontractor(s) with their proposal for RFP bids over \$100,000. This will reduce the occurrences of substandard work by subcontractors; thus, increase quality of work, reduce project delays, and project cost associated with terminating or replacing the subcontractor.
- The “Life Insurance-Cash Surrender Value Only” should specify life whole life insurance, which has a living benefit. Term life insurance cash benefit should not be included on the Personal Financial Statement form because it offers death benefits only. Therefore, the term life insurance cash benefit should be excluded from assets when calculating the “Net Worth.” As of September 24, 2013, Purchasing and Contracting informed Internal Audit that additional verbiage has been added to the Personal Financial Statement form.
- We recommend Purchasing and Contracting establish a tracking mechanism to measure the success of the LBSE program; and LSBEs that have graduated to the mentor-protégé program.
- We recommend Purchasing and Contracting establish a disbarment list of subcontractors who consistently provide inadequate work. In addition, the policy should require that the participating subcontractor(s) provide certification that their organization and its principal are not suspended or debarred.

## **Compliance with Policy**

A sample of 15 companies was selected out of 349 registered LSBEs. Internal Audit reviewed the files and supporting documentation for each application.

### **Issues**

- An applicant certified as LSBE-DeKalb listed a DeKalb County address on the application, but submitted proof of current Occupational Tax Certificate from Henry County.
- LSBE applicants were given LSBE certification without providing adequate documentation to support reported gross receipts.

### **Recommendations**

- We recommend that all applicants certified as LSBE-DeKalb provide a current copy of their Occupational Tax Certification from DeKalb County Business License Office.
- Adequate documentation should be required to support the three year gross receipts requirement for LSBE certification. This ensures that the Purchasing and Contract-Contract Compliance Division has performed their due diligence in obtaining necessary documents to support each LSBE certification.

### **System Controls**

We reviewed the input of LSBE certification data in Oracle and LSBE reports provided from the Oracle system.

### **Issue**

- In reviewing some reports and the process of inputting the LSBE data in Oracle some fields were not required. If net worth or gross income is omitted, the LSBE form in Oracle can be completed without the required information.

### **Recommendation**

- We recommend that Purchasing and Contracting Department work with Information Technology Department to ensure that pertinent eligibility information, such as net worth and gross receipts, are required fields on the Oracle system.

### **Other**

#### **Issue**

- Confidentiality forms are not required to be signed by the Selection Committee members or the interviewee during the RFP process.

#### **Recommendation**

- All selection committee members and interviewees should be required to sign confidentiality forms explaining the confidentiality requirements and repercussions for violation of the requirements.



**Conclusion**

Internal Audit believes the LSBE program is an excellent program that encourages “the participation of small and local businesses in the continuing business of County government.” However, the ability of the LSBE program to attract small businesses and promote increase participation for socially and economically disadvantage businesses is ineffective. Since 2006, out of 349 registered LSBEs only 54 LSBE have obtained subcontract work with County. Some LBSEs have had as many as 16 contracts with the County.

Internal Audit would like to thank Purchasing & Contracting’s staff for their cooperation.

Sincerely,



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Cornelia Louis

cc: Gwen Brown-Patterson, Interim Chief Financial Officer  
Kelvin Walton, Director of Purchasing & Contracting  
John Matelski, Chief Information Officer/Director of Information Technology  
Claudette Leak, Administrative Project Manager

**LSBE CONTRACT SUMMARY  
EXHIBIT I**

<b>SUB-CONTRACTOR</b>	<b>NUMBER OF CONTRACTS</b>
CORPORATE ENVIRONMENTAL RISK MANAG	16
LCW ENGINEERING INC	15
ACCURA ENGINEERING AND CONSULTING	12
A PLATT COMPANY	8
Q SOLUTIONS	8
R2T	8
BANNEKER ENERGY LLC	7
CURRENT-C PROPERTIES LLC	7
K C TRUCKING	7
KUN-YOUNG CHIU AND ASSOCIATES INC	7
AMERICA'S CHOICE PORTABLE TOILETS INC	6
CAROLYN'S HAULING INC	6
CHARTER CONSTRUCTION SERVICES INC	6
FM SHELTON INC	6
MECHANICAL JOBBERS MARKETING	6
BENCHMARK MANAGEMENT LLC	5
EAST ATLANTA CONTRACTING INC	5
GM CONSTRUCTION AND EQUIPMENT	5
LORI'S TRANSPORTATION & EXCAVATION	5
MC SQUARED INC	5
STEELE PROGRAM MANAGERS LLC	5
SUPERIOR PIPELINE SERVICES INC	5
T O STARKS AND ASSOCIATES	5
AGILITY SURVEYING CO INC	4
ALLIED LOGISTICS INC	4
BOWLER ENGINEERING INC	4
BROWN DESIGN GROUP INC	4
D&R CONTRACTING	4
DIVERSIFIED ENVIRONMENTAL MANAGEMENT	4
G E L ENTERPRISES	4
K 2 GEAR INC	4
RUSSELL DAVIS & ASSOCIATES	4
SOL CONSTRUCTION LLC	4
SYCAMORE CONSULTING INC	4
TECHNASERV CORPORATIONS	4
A S A P LANDSCAPE MANAGEMENT GROUP	3
BETHEA AND ASSOCIATES LLC	3
BLASH TRUCKING SERVICE LLC	3
BOWLER ENGINEERS INC	3
CONSCIOUS RECRUITING INC	3
COSTING SERVICE GROUP INC	3
DESMEAR SYSTEMS INC	3
DMD ENGINEERING & CONSTRUCTION INC	3
EDWARD'S PAINTING & CONTRACTING INC	3
GNG ELECTRICAL CONSTRUCTION LLC	3
GROUND WORKS CONSTRUCTION INC	3

SUB-CONTRACTOR	NUMBER OF CONTRACTS
KELLYCONSTRUCTION COMPANY INC	3
MCCALL ENTERPRISES INC	3
MCNEAL PROFESSIONAL SERVICES INC	3
MST COMPANY	3
RELIABLE BUILDERS GROUP LLC	3
RLM MASONARY INC	3
T & J INDUSTRIES CONTRACTING & DEVEL	3
VERNELL BARNES ARCHITECT	3