



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Administration of
the Customized Training Program by
the Department of Small Business
Services

FP18-105A

May 16, 2019

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

May 16, 2019

To the Residents of the City of New York:

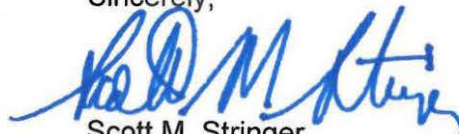
My office has audited the Department of Small Business Services (DSBS) to determine whether DSBS issued Customized Training Program (CTP) awards to eligible businesses and whether businesses were reimbursed for allowable costs in accordance with CTP Guidelines, CTP agreements, and Comptroller's Directive #1. We perform audits such as this to ensure that City agencies are complying with applicable laws and regulations.

The audit found that DSBS approved CTP awards for businesses that met the required eligibility criteria. In addition, DSBS reimbursements did not exceed the maximum award values specified in the businesses' CTP agreements; and the reimbursements paid were for allowable types of training and allowable training costs. However, our audit found that DSBS improperly reimbursed businesses for certain training expenses. Specifically, DSBS overpaid eight businesses a total amount of \$28,977 and at the same time, underpaid four businesses a total of \$517. Our audit also found that DSBS did not conduct required site visits for 3 of the 16 businesses whose awards closed out during Fiscal Year 2017. Finally, we found that DSBS did not properly conduct, document, or consider the results of background checks before approving awards to businesses. For the 15 applications where DSBS did not properly conduct and/or consider the results of due diligence, DSBS awarded 11 businesses a combined maximum amount of \$953,563. The program deficiencies occurred, in part, because DSBS does not have written policies and procedures for administering the CTP.

To address these issues, the audit made seven recommendations, including that DSBS should: recoup combined overpayments of \$28,977 made to eight businesses and pay combined underpayments of \$517 to four businesses; ensure that peer and supervisory personnel fully review reimbursement packages and payment requests to verify that they are adequately supported and correctly calculated; ensure that supervisory personnel monitor and track staff to verify that they properly conduct and document the due diligence process and communicate the results of the due diligence to appropriate personnel before award consideration; track site visits to ensure that Project Managers conduct one or more site visits for each award; and develop written policies and procedures, communicate them to staff, and train staff on their responsibilities for conducting the due diligence process, evaluating applications, granting awards, conducting site visits, and reviewing and approving reimbursement requests.

The results of our audit have been discussed with DSBS officials and their comments have been considered in preparing this report. DSBS' complete written response to the audit is attached to this report. If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,



Scott M. Stringer

TABLE OF CONTENTS

- EXECUTIVE SUMMARY 1**
 - Audit Findings and Conclusions 2
 - Audit Recommendations..... 2

- AUDIT REPORT 4**
 - Background 4
 - Objectives..... 5
 - Scope and Methodology Statement..... 5
 - Discussion of Audit Results 5

- FINDINGS AND RECOMMENDATIONS 6**
 - DSBS Improperly Reimbursed Businesses for Training Expenses..... 6
 - Recommendations..... 7
 - DSBS Did Not Properly Conduct, Document, or Consider the Results of Background Checks..... 8
 - Recommendations..... 9
 - DSBS Did Not Always Conduct Site Visits to Evaluate Training..... 9
 - Recommendation..... 10
 - DSBS Does Not Have Policies and Procedures for Administering the CTP 10
 - Recommendation..... 11

- DETAILED SCOPE AND METHODOLOGY 12**

- ADDENDUM**

THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Administration of the Customized Training Program by the Department of Small Business Services

FP18-105A

EXECUTIVE SUMMARY

The stated mission of the New York City Department of Small Business Services (DSBS) is to unlock economic potential and create economic security for all New Yorkers by connecting them to good jobs, creating stronger businesses, and building thriving neighborhoods across the five boroughs.

This audit is of DSBS' awards and payments made in connection with the Customized Training Program (CTP), which reimburses eligible businesses for up to 70 percent of eligible training costs. DSBS, in partnership with the Workforce Development Corporation (WDC), a City-created not-for-profit corporation, is responsible for administering the CTP.¹ CTP awards are designed to improve employees' quality of life, reduce employee turnover, and enable businesses to stay competitive. In accordance with the terms of the CTP, employees of CTP award recipients are supposed to gain new skills, become more valuable, and then potentially be compensated with wage increases.

To be eligible for the CTP, an applicant must be a for-profit business, located in New York City, and it must demonstrate that it can pay for training upfront, project wage increases for at least 50 percent of trainees, and propose to train at least 10 employees.² Businesses that meet the CTP's eligibility requirements are presented by DSBS to the WDC Board, a majority of which are DSBS employees, including the DSBS Commissioner and First Deputy Commissioner. The WDC Board then votes to decide whether businesses will receive CTP awards and the award amounts. During Fiscal Year 2017, DSBS processed 25 CTP applications, issued 20 awards, and entered into agreements with 8 businesses for a combined maximum total of \$835,408, all or some of which may ultimately be paid out to those awardees that fulfill the terms of the CTP program. In addition, during Fiscal Year 2017, 16 businesses completed their training programs and had their CTP awards closed out for a total reimbursement of \$538,120.

¹ The WDC is a not-for-profit corporation formed by the City that has a contract with the New York City Economic Development Corporation to provide employment and training opportunities for the residents of New York City and to work in conjunction with government officials and agencies to achieve such purposes.

² To be eligible, a business has to project a wage increase for at least 50 percent of the trainees and its close-out payment is dependent on the number of trainees that actually do get a wage increase.

In this audit we determined whether DSBS adequately ensured that CTP awards were issued to eligible businesses and that those businesses were reimbursed for allowable costs in accordance with the CTP Guidelines, CTP agreements, and Comptroller's Directive #1.

Audit Findings and Conclusions

Based on our review of all 25 CTP applications processed during Fiscal Year 2017, we found that DSBS approved CTP awards for businesses that met the following eligibility criteria: that they were a for-profit business located in New York City; had demonstrated their ability to pay for training upfront; had projected wage increases for at least 50 percent of their trainees; and had proposed to train at least 10 employees. In addition, DSBS reimbursements did not exceed CTP agreement-specified maximum award values and were for allowable types of training and training costs.

However, we also found that DSBS had weak controls over its reimbursements paid to participating businesses for certain training expenses. As a result, we found that DSBS overpaid eight businesses \$28,977 (5.4 percent of the total paid out) and underpaid four businesses \$517. Further, we found that once an award was made, DSBS did not always conduct site visits to ensure that businesses provided appropriate training. Finally, we found that DSBS did not properly conduct, document, or consider the results of background checks before approving awards to businesses. The program deficiencies we found occurred, in part, because DSBS does not have written policies and procedures for administering the CTP.

Audit Recommendations

To address the issues identified in this audit, we make the following seven recommendations to DSBS:

- Recoup combined overpayments of \$28,977 made to eight businesses and pay combined underpayments of \$517 to four businesses.
- Ensure that Project Managers request and review supporting documentation for all training expenses.
- Ensure that peer and supervisory personnel fully review reimbursement packages and payment requests to verify that they are adequately supported and correctly calculated.
- Establish formal written due diligence operating procedures for the CTP unit.
- Ensure that supervisory personnel monitor and track staff to verify that they properly conduct and document the due diligence process and communicate the results of the due diligence to appropriate personnel before award consideration.
- Track site visits to ensure that Project Managers conduct one or more site visits for each award.
- Develop written policies and procedures, communicate them to staff, and train staff on their responsibilities for conducting the due diligence process, evaluating applications, granting awards, conducting site visits, and reviewing and approving reimbursement requests.

Agency Response

In its response, DSBS agreed with six recommendations and did not directly address the remaining recommendation. The full text of DSBS' response is included as an addendum to this report.

AUDIT REPORT

Background

The stated mission of DSBS is to unlock economic potential and create economic security for all New Yorkers by connecting them to good jobs, creating stronger businesses, and building thriving neighborhoods across the five boroughs.

DSBS, in partnership with the WDC, a City-created not-for-profit corporation, offers a program known as the CTP, which reimburses eligible businesses for up to 70 percent of eligible training costs. CTP awards are designed to improve employees' quality of life, reduce employee turnover, and enable businesses to stay competitive. In accordance with the terms of the CTP, the employees are supposed to gain new skills, become more valuable, and then potentially be compensated with wage increases.

The CTP is funded by the federal Workforce Innovation and Opportunity Act and the Mayor's Office for Economic Opportunity. Accordingly, DSBS is required to comply with the Workforce Innovation and Opportunity Act as well as relevant New York State Workforce Development System Technical Advisories (Technical Advisory). In addition, Title 20 of the Code of Federal Regulations Section 683.410(a) states, with reference to federally-funded Workforce Innovation and Opportunity Act programs that "[e]ach recipient and subrecipient under title I of [Workforce Innovation and Opportunity Act]...must conduct regular oversight and monitoring of its [Workforce Innovation and Opportunity Act]...program(s) and those of its subrecipients and contractors...."

To be eligible for the CTP, an applicant must be a for-profit business, located in New York City, demonstrate that it can pay for training upfront, project wage increases for at least 50 percent of trainees, and propose to train at least 10 employees. Businesses that meet CTP eligibility requirements are presented by DSBS to the WDC Board, a majority of which are DSBS employees, including the DSBS Commissioner and First Deputy Commissioner. The WDC Board votes to decide whether businesses will receive CTP awards and the award amounts. For an approved business to receive a CTP award, it must sign and execute a contract with the WDC (a CTP agreement) that sets out the business's CTP obligations. CTP agreements specify the maximum amount that businesses may be reimbursed and include an approved training plan.

DSBS developed "CTP Guidelines" to inform businesses about the program and to guide them through the application process.³ The CTP Guidelines state that DSBS can award a business from \$10,000 to \$400,000 to cover a portion of training program costs. The CTP agreements and Guidelines further provide that up to 80 percent of the award may be paid for eligible training costs during the training project and 20 percent of the award will be withheld until project close-out. Project close-outs take place up to six months after the final day of training.

Close-out payments will be made to businesses in full if those businesses provide all of their incumbent trainees with wage increases upon their completion of the training. If less than 100 percent of incumbent trainees receive wage increases, the amount of the close-out payments will be pro-rated accordingly (e.g., if 90 percent of trainees receive wage increases, the business will receive 90 percent of the close-out payment).

The CTP Guidelines provide that CTP awards can be used only to support: (1) training on recently purchased equipment or software; (2) training to offer new services/products to reach new

³ The CTP Guidelines are included as an exhibit in CTP agreements.

markets; (3) training to promote or give current staff new skills to advance into hard to fill positions; and (4) training to update obsolete skills that are necessary in order for the business to be competitive. CTP agreements state that the “request for reimbursement . . . shall be accompanied by appropriate supporting documentation of actual expenditures incurred during the applicable period.”

DSBS’ Project Managers are responsible for vetting businesses, reviewing reimbursement requests and supporting documentation, calculating reimbursements, and conducting one or more site visits to evaluate training.

During Fiscal Year 2017, DSBS processed 25 CTP applications, issued 20 awards, and entered into agreements with 8 businesses for a combined total maximum award amount of \$835,408. In addition, during Fiscal Year 2017, 16 businesses completed their training programs and had their CTP awards closed out for a total reimbursement of \$538,120.

Objectives

The objectives of this audit were to determine whether DSBS adequately ensured that CTP awards were issued to eligible businesses and that businesses were reimbursed for allowable costs in accordance with the CTP Guidelines, CTP agreements, and Comptroller’s Directive #1.

Scope and Methodology Statement

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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

This audit covered the period of July 1, 2016 through June 30, 2017. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with DSBS officials during and at the conclusion of this audit. A preliminary draft report was sent to DSBS and discussed at an exit conference held on March 19, 2019. On April 4, 2019, we submitted a draft report to DSBS with a request for comments. We received a written response from DSBS on April 24, 2019. In its response, DSBS agreed with six recommendations, and did not directly address the remaining recommendation. DSBS stated that it “will continue to explore ways to improve the CTP and will utilize this report as part of that work. DSBS is thankful for the guidance and assistance provided by the Comptroller’s office during this process.”

The full text of DSBS’ response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Based on our review of all 25 CTP applications processed during Fiscal Year 2017, we found that DSBS approved CTP awards for businesses that met the following eligibility criteria: they were for-profit businesses located in New York City; the businesses had demonstrated their ability to pay for training upfront; had projected wage increases for at least 50 percent of their trainees; and had proposed to train at least 10 employees. In addition, DSBS reimbursements did not exceed the maximum award values specified in the businesses' CTP agreements, and the reimbursements paid were for allowable types of training and allowable training costs.

However, we also found that DSBS improperly reimbursed businesses for certain training expenses. Specifically, DSBS overpaid eight businesses a total amount of \$28,977 (5.4 percent of the total reimbursements paid out). We also found that at the same time, DSBS underpaid four businesses a total of \$517. Further, once awarded, DSBS failed to consistently conduct required site visits to ensure that businesses provided appropriate training. Finally, we found that DSBS did not properly conduct, document, or consider the results of background checks before approving awards to businesses. The program deficiencies we found occurred, in part, because DSBS does not have written policies and procedures for administering the CTP.

These matters are discussed in greater detail in the following sections of this report.

DSBS Improperly Reimbursed Businesses for Training Expenses

The CTP agreements entered into by every participating business provide that

“Requests for Reimbursement” shall be submitted once every quarter (90 days) of the Term if training has occurred during that period . . . and shall be accompanied by appropriate supporting documentation of actual expenditures incurred during the applicable period.

Further, CTP agreements specify the allowable forms of supporting documentation, which include employee payroll records, training attendance records, invoices, general ledger reports, cancelled checks, and bank statements.

DSBS Project Managers are responsible for reviewing reimbursement requests and supporting documentation, requesting any necessary additional supporting documentation, calculating reimbursements due to the businesses, and preparing reimbursement packages for peer and supervisory review and approval.⁴ Once approved, a payment request form accompanied by the reimbursement package is submitted for an additional multi-level review and approval process to DSBS and WDC officials for their signatures.

During Fiscal Year 2017, DSBS closed out 16 awards for which it made combined reimbursement payments totaling \$538,120. For 12 of those 16 awards, DSBS improperly reimbursed businesses for certain training expenses. Specifically, DSBS overpaid eight businesses a total of \$28,977 (5.4 percent of the total paid out) and underpaid four other businesses a total \$517.

⁴ The reimbursement package includes the Project Manager's reimbursement calculation, supporting documentation, and a copy of the reimbursement check.

We found that the improper reimbursements occurred for several reasons. Preliminarily, Project Managers only spot-checked reimbursement requests and did not ensure that appropriate supporting documentation was submitted for all reimbursement requests as required. In addition, Project Managers incorrectly calculated reimbursements because they did not reimburse businesses based on the correct formulas or correct information, including the actual number of employees who attended training, employee pay rates, and training hours and days. Lastly, peer and supervisory personnel responsible for reviewing and approving reimbursement packages and payment requests did not detect and correct documentation deficiencies and calculation errors. Consequently, for 12 of the 16 awards, DSBS improperly reimbursed businesses.

Recommendations

DSBS should:

1. Recoup combined overpayments of \$28,977 made to eight businesses and pay combined underpayments of \$517 to four businesses.

DSBS Response: DSBS did not directly address this recommendation, stating, “DSBS was not able to replicate the results of the Comptroller’s Office calculations of errors in payment. In addition, the Comptroller’s office provided DSBS with two different totals for under and over-payments to businesses that differed by approximately \$10,000. DSBS is thoroughly examining each individual business’ reimbursement. Once that review is finalized, DSBS will determine an appropriate course of action for each business.”

Auditor Comment: Upon request by DSBS, we provided a detailed breakdown of the final numbers of overpayments and underpayments prior to the issuance of the draft report. DSBS had ample opportunity to review that information and request further clarification. As specifically discussed at the exit conference, preliminary information we presented during the audit was subject to change based on additional information we received. Accordingly, DSBS was asked to respond to the draft report, which has the most updated information. DSBS did not clearly do that with regard to the recommendation that it recoup the \$28,977 in overpayments and pay the combined underpayments of \$517. We are pleased, however, that the agency will review each businesses’ reimbursements, and we urge it to do so promptly and recoup all overpayments as recommended and pay out all underpayments.

2. Ensure that Project Managers request and review supporting documentation for all training expenses.

DSBS Response: “DSBS agrees with this recommendation. In addition, we have implemented better filing practices to ensure supporting documentation is properly filed.”

3. Ensure that peer and supervisory personnel fully review reimbursement packages and payment requests to verify that they are adequately supported and correctly calculated.

DSBS Response: “DSBS agrees with this recommendation. DSBS had a peer review process in place prior to the audit. The process has been revised to be more rigorous in that each Project Manager must replicate the results of the original Project Manager. . . . Finally, DSBS, as mentioned previously, is developing a detailed guide to ensure that all Project Managers are reviewing all

documentation consistently. The supervisor will review the reimbursement following the peer review process.”

DSBS Did Not Properly Conduct, Document, or Consider the Results of Background Checks

The CTP Guidelines state, “[u]pon submission of the application, program staff will conduct due diligence and clarifications before award consideration.” We found that a single Project Manager was responsible for conducting the due diligence process, documenting results, and communicating those results to personnel responsible for presenting the CTP applications to the WDC Board. Due diligence checks included searches of various databases to determine whether a business is currently registered to operate in New York State and whether it has Occupational Safety and Health Administration (OSHA) violations, outstanding judgments or liens, or other adverse findings. In addition, for on-the-job training programs, DSBS must request that the New York State Department of Labor perform a due diligence check to confirm that the applicant business is responsible.

Even though DSBS completed some aspect of due diligence for all 25 applications processed in Fiscal Year 2017, based on our review, DSBS did not centrally file and document the due diligence process for *any* of the 25 applications.⁵ DSBS officials informed us that the Project Manager conducted the due diligence process, that he documented his work in spreadsheets, and that he communicated the results verbally and in emails sent to the CTP director. However, despite repeated requests, DSBS did not provide us with documentation, such as copies of any emails that reflected that the due diligence results were communicated to CTP.

The Project Manager’s due diligence documents provided to us by DSBS were retrieved from a combination of paper and electronic files that had been saved by the Project Manager. However, the records provided did not demonstrate that DSBS communicated the results of the background checks to appropriate personnel before the awards were considered. Given the high turnover rate we observed in the CTP unit during our audit, appropriate documentation and central access are particularly important for the due diligence documents so that all appropriate CTP staff can have them available.

Further, we found that DSBS did not properly conduct the due diligence process for 12 of the 25 applications. Specifically, the DSBS Project Manager did not check whether 10 businesses had OSHA violations and did not run a LexisNexis report for 2 other businesses. LexisNexis reports include information on business incorporation, judgments, and liens.

In addition, DSBS did not consider the results of its due diligence process (to the extent it was conducted) for 4 of the 25 applications.⁶ Based on available documentation, DSBS’ due diligence process found that four applicants had outstanding liens ranging from \$225 to \$6,683. However, DSBS did not document that this adverse information was communicated to the WDC Board responsible for approving awards and that those findings factored it in the Board’s decision making process.

For the 15 applications where DSBS did not properly conduct and/or consider the results of due diligence, DSBS awarded 11 businesses a combined maximum amount of \$953,563.

⁵ For those 25 applications, DSBS awarded 20 businesses a combined maximum amount of \$1.6 million.

⁶ One of these 4 applicants was among the group of 12 identified above as having not had a proper due diligence check.

Finally, as previously noted, the CTP Guidelines require CTP to conduct due diligence of the applicants prior to their being considered for an award. However, DSBS did not establish formal written operating procedures for the CTP unit and we found that the CTP unit did not provide clear guidance to the single staff member who acted as the Project Manager on how to conduct due diligence, document it, and communicate the results. The lack of formal written procedures significantly increased the risk that the operational deficiencies identified in this audit occurred.⁷ In addition, the deficiencies may have also resulted from the fact that supervisory personnel did not monitor and track whether the Project Manager properly conducted and documented the due diligence process and did not ensure that results were communicated to the WDC Board. These operational weaknesses increase the risk that DSBS might grant awards to ineligible businesses.

Recommendations

DSBS should:

4. Establish formal written due diligence operating procedures for the CTP unit.

DSBS Response: “DSBS agrees with this recommendation. The CTP established a formal, written due diligence process and submitted it to the auditors on 10/25/2018.”

Auditor Comment: As a result of our audit, DSBS took action and prepared a *WDC Due Diligence Process*, which it provided to us in draft form. As of October 26, 2018, DSBS confirmed that these procedures had not been formally approved and were not in use by DSBS. DSBS officials informed us that formal approval would take place after this audit report is issued as a final report.

5. Ensure that supervisory personnel monitor and track staff to verify that they properly conduct and document the due diligence process and communicate the results of the due diligence to appropriate personnel before award consideration.

DSBS Response: “DSBS agrees that improvements need to be made to the way due diligence is documented and communicated. Moving forward, all due diligence will be conducted prior to Board Meetings and due diligence will be confirmed by supervisory personnel and communicated to the Board members prior to award approval.”

DSBS Did Not Always Conduct Site Visits to Evaluate Training

The CTP Guidelines state that “Project Managers will conduct one or more site visits to evaluate training throughout the duration of the Customized Training project.” Project Managers are responsible for observing training sessions and completing Site Visit Reports that detail the date of each visit, the training type and duration of that training, the number of attendees, and an evaluation of the instructor. Site Visit Report instructions state that Project Managers should “evaluate whether businesses are making reasonable progress towards the CTP agreement goals such as course completions or career advancement.”

⁷ The absence of written policies and procedures for administering the CTP is discussed in more detail in the final section of this report.

As previously noted, DSBS closed out 16 awards during Fiscal Year 2017 for which it made combined reimbursement payments of \$538,120. However, we found that DSBS personnel did not conduct site visits for three of those businesses prior to their awards having been closed out. DSBS officials provided documentation asserting that DSBS could not conduct a site visit for one business that received \$740 because the training lasted only a month and a site visit date could not be scheduled. However, DSBS did not properly document why site visits were not conducted for two other businesses, which received combined reimbursement payments totaling \$34,381.

By failing to conduct site visits to evaluate trainings, DSBS increases the risk that it may reimburse businesses for ineligible or fraudulent training costs.

Recommendation

DSBS should:

6. Track site visits to ensure that Project Managers conduct one or more site visits for each award.

DSBS Response: “Although nearly all of the businesses audited received a site visit, DSBS agrees that each business should be visited and that site visits need to be appropriately and consistently documented. DSBS will include such processes and forms in our standard operating manual and ensure proper filing.”

DSBS Does Not Have Policies and Procedures for Administering the CTP

Comptroller’s Directive #1 states that

Internal control activities help ensure that management's directives are carried out. They are, basically, the policies, procedures, techniques, and mechanisms used to enforce management's direction. They must be an integral part of an agency's planning, implementing, review and accountability for stewardship of its resources and are vital to its achieving the desired results. . . . Internal controls should be documented in management administrative policies or operating manuals.

Additionally, in connection with Directive #1, City agencies whose operations are subject to the Comptroller’s Directives must annually complete the Comptroller’s Directive #1 *Financial Integrity Statement Checklist* (Directive #1 Checklist), and attest to the degree to which they have implemented specific requirements set forth in Comptroller’s Directive #1. Among other things, the Directive #1 Checklist cites to the requirement that formal written operating procedures should be established and communicated to appropriate staff in order to maintain a reliable and effective system of internal controls. In its Directive #1 Checklist for Calendar Year 2017, DSBS stated that it had formal written operating procedures.

However, we found that, notwithstanding this representation in its completed Directive #1 Checklist for Calendar Year 2017, DSBS does not have formal written operating procedures for the administration of the CTP. While DSBS officials asserted that the CTP Guidelines and internal schedules and checklists are “the internal program policies and procedures that guide the CTP work performed by the Program Team,” the CTP Guidelines and other documents do not constitute formal written operating procedures. These documents do not provide operational

guidance for the staff carrying out the program; they do not set forth a description of the employees' specific roles or responsibilities; and they do not provide detailed instructions to staff on how to perform key functions, such as conducting due diligence, evaluating applications, granting awards, conducting site visits, and reviewing and approving reimbursement requests.⁸

The absence of formal written operating procedures increases the risk that staff will not be aware of their responsibilities, and that they will fail to perform them consistently, correctly, or at all. The absence of formal written policies and procedures may have contributed to the operational weaknesses cited in this report. DSBS officials informed us that the agency will be hiring new staff to administer the CTP. Consequently, it is all the more important that DSBS establish formal written operating procedures and communicate them to appropriate staff.

Recommendation

DSBS should:

7. Develop written policies and procedures, communicate them to staff, and train staff on their responsibilities for conducting the due diligence process, evaluating applications, granting awards, conducting site visits, and reviewing and approving reimbursement requests.

DSBS Response: “DSBS agrees with this recommendation. While the Customized Training team had policies in place, we are now developing a standard operating manual to document all processes and procedures. Once we have reviewed and finalized the CTP changes, the staff will be trained on all program elements, and an on-boarding plan for future staff will be created.”

⁸ On October 16, 2018, DSBS provided us with a draft of WDC Due Diligence Process where they “intend to outline the due diligence process by describing the basic protocols for requests and result notifications”

DETAILED SCOPE AND METHODOLOGY

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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers Fiscal Year 2017 (July 1, 2016 through June 30, 2017).

To obtain an understanding of DSBS' administration of the CTP, we reviewed DSBS' CTP Guidelines, CTP agreements, Technical Advisories, WDC Fiscal Procedures Manual, Federal Register of Workforce Innovation and Opportunity Act, WDC Board Minutes, as well as criteria from Comptroller's Directive #1, *Principles of Internal Control*. Additionally, to understand the relationship between DSBS and the WDC and their respective roles managing the CTP program, we reviewed the WDC By-laws which shows a majority of the Board being DSBS officials, the contract between WDC and the New York City Economic Development Corporation (EDC), and the contract between the City and EDC.

To gain an understanding of the CTP program operations and internal controls, we interviewed DSBS and the WDC officials responsible for the pre-application, the application, due diligence, the award, site visits, and reimbursement processes. We documented our understanding through narrative memoranda and flow charts.

To understand how DSBS receives, reviews, and stores CTP pre-applications, we observed the shared Training Outlook Inbox where the pre-applications are received, and the internal drive where they are then filed.

We compared DSBS' pre-application data filed in DSBS' internal drive against the New York City Department of Information Technology and Telecommunications' Siebel System data for the CTP online portal. We randomly selected 50 records from each data set to ensure that DSBS accounted for all pre-applications submitted through the CTP online portal. To understand how and where CTP financial transactions are recorded, we met with the DSBS Finance Department, observed the QuickBooks accounting system, and requested and reviewed the QuickBooks report for Fiscal Year 2017. To test the completeness of the population of the reimbursement checks provided and CTP contract close-outs in Fiscal Year 2017, we compared the reimbursement checks paid against the payments recorded in DSBS' QuickBooks general ledgers. Specifically, we compared check dates, payee name, check number, and check amount. We then traced each payment made to the corresponding bank statement to determine if the checks cleared.

For Fiscal Year 2017, DSBS provided a list of applicants and for all 25 businesses that completed applications for CTP awards, we reviewed CTP applications, award notifications, and DSBS' as well as our own independent due diligence data to determine whether applicant businesses met the CTP eligibility requirements. By evaluating the applications and confirming with our own and the CTP's due diligence information, we determined whether businesses were for-profit businesses located in New York City, projected a wage increase for at least 50 percent of trainees, proposed to train at least 10 employees with no more than 50 percent being new hires, and requested allowable training types and awards within \$10,000 to \$400,000.

Additionally, we compared DSBS' Fiscal Year 2017 application files to the notification documents sent to businesses to ensure that all applications were evaluated and that all applicants were notified of the decisions. Since DSBS did not track applications during our audit scope period, it is possible that applications were not recorded on the application list that DSBS provided to us. Nevertheless, we tested the population of applications that DSBS provided to us to determine whether DSBS properly vetted applicants, evaluated applications, and notified applicants of its decision. Based on our testing, we believe that the population provided by DSBS was sufficiently reliable for audit testing purposes.

For the 25 businesses that applied for CTP awards during Fiscal Year 2017, we determined whether DSBS conducted the due diligence process and documented and considered the results before granting each award. We requested and reviewed due diligence documents obtained by DSBS in its due diligence process, including copies of searches on: OSHA; New York State Department of State Entity Information; DNBi Risk Management; LexisNexis Comprehensive Business Report; and other miscellaneous public searches. We determined whether DSBS conducted required searches and considered adverse information before granting an award.

We also independently searched LexisNexis, PASSPort,⁹ and Google to determine whether applicants had outstanding liens or judgments or other adverse findings which would affect their eligibility.

For all 16 awards that were closed-out during Fiscal Year 2017, we requested and reviewed DSBS Site Visit Reports to determine whether one or more site visits had been conducted and whether Site Visit Reports were completed in accordance with the CTP Guidelines. When DSBS did not conduct one or more site visits, we asked DSBS why they were not conducted and requested supporting documentation to support any reasons tendered.

For all 16 awards that were closed out during Fiscal Year 2017, we reviewed reimbursement packages and payment documentation to determine whether reimbursements were for the types of training and training costs allowed by the CTP Guidelines and CTP agreements and whether they were adequately supported by payroll records, training attendance records, invoices, cancelled checks, or other documentation. We also recalculated reimbursements to determine whether they had been correctly calculated, and we ensured that the total reimbursements paid were less or equal to the maximum reimbursable amount allowed by the applicable CTP agreement for each business.

⁹ The Procurement and Sourcing Solutions Portal (PASSPort) is the City's online procurement portal, where vendors and agencies exchange information to create and manage vendor accounts, submit disclosure information, and complete performance evaluations.



careers
businesses
neighborhoods

April 24, 2019

Marjorie Landa
Deputy Comptroller for Audit
City of New York Office of the Comptroller
One Centre Street, Room 1100
New York, NY 10007

Re: Audit Report on the Administration of the
Customized Training Program by the
Department of Small Business Services
FP18-105A

Dear Ms. Landa:

Attached please find the response of the Department of Small Business Services (DSBS) to the above-captioned report by the City of New York Office of the Comptroller (Comptroller's Office).

If the Comptroller's Office has any questions regarding this response please contact SBS Audit Liaison Ismail Mohammed at (212) 618-8733 or imohamed@sbs.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ismail Mohamed".

Ismail Mohamed
Executive Director Budget & Audit

DSBS Response

The Customized Training Program (CTP) reimburses qualified businesses for up to 70 percent of eligible training costs. CTP awards are designed to increase employees' wages, reduce employee turnover, and enable businesses to stay competitive. In accordance with the terms of the CTP, the employees gain new skills, become more valuable, and are compensated with wage increases. Since CTP's inception in 2007, 157 businesses have been awarded over ten million dollars in CTP grants to train over 4,000 employees. The employees retained by businesses received an average wage increase of 11% as a result of their CTP grant.

The Comptroller's office found that the CTP followed the federally mandated eligibility criterion for businesses. In addition, the auditors determined that DSBS reimbursements did not exceed the maximum award amounts and were for allowable types of training and training costs.

The Customized Training Program is an example of a successful public-private partnership that both improves the profitability of businesses and provides workers with training to be more competitive in the job market. Overall, DSBS agrees with a majority of the audit recommendations. DSBS has already begun to redesign the CTP to streamline processes, document standard operating procedures, and improve systems to minimize human error. These changes will address the issues raised in the audit findings.

As part of the redesign process, DSBS has resolved inconsistencies within the Excel templates, developed a more rigorous peer review process for reimbursements, and documented the due diligence process. In addition, DSBS has hired a former small business owner to review and refine program policies and procedures. DSBS will continue to explore ways to improve the CTP and will utilize this report as part of that work. DSBS is thankful for the guidance and assistance provided by the Comptroller's office during this process.

Audit Recommendations & DSBS Responses

1. Recoup combined overpayments of \$28,977 made to eight businesses and pay combined underpayments of \$517 to four businesses.

DSBS Response: DSBS was not able to replicate the results of the Comptroller's Office calculations of errors in payment. In addition, the Comptroller's office provided DSBS with two different totals for under and over-payments to businesses that differed by approximately \$10,000. DSBS is thoroughly examining each individual business' reimbursement. Once that review is finalized, DSBS will determine an appropriate course of action for each business. In addition, DSBS has made the following changes to our policies and procedures:

- In the short term, we have revised the Excel spreadsheets used to calculate reimbursements. In the longer term, we are designing a tool that will tabulate, track, and calculate reimbursements uniformly across businesses to reduce human error.
- All decisions made by the Project Manager are being formally documented within each business applicant's file.

- A detailed guide is being developed, which will include a decision tree, that Project Managers will utilize to make decisions about expenses that are eligible for reimbursement.

2. Ensure that Project Managers request and review supporting documentation for all training expenses.

DSBS Response: DSBS agrees with this recommendation. In addition, we have implemented better filing practices to ensure supporting documentation is properly filed.

3. Ensure that peer and supervisory personnel fully review reimbursement packages and payment requests to verify that they are adequately supported and correctly calculated.

DSBS Response: DSBS agrees with this recommendation. DSBS had a peer review process in place prior to the audit. The process has been revised to be more rigorous in that each Project Manager must replicate the results of the original Project Manager. Any discrepancies found by the peer reviewer will be discussed, in detail, with the original Project Manager and added to each business applicant's file for reference. Finally, DSBS, as mentioned previously, is developing a detailed guide to ensure that all Project Managers are reviewing all documentation consistently. The supervisor will review the reimbursement following the peer review process. As discussed above, we have revised the Excel spreadsheets used to calculate reimbursements. In the longer term, we are designing a tool that will tabulate, track, and calculate reimbursements uniformly across businesses to reduce human error.

4. Establish formal written due diligence operating procedures for the CTP unit.

DSBS Response: DSBS agrees with this recommendation. The CTP established a formal, written due diligence process and submitted it to the auditors on 10/25/2018.

5. Ensure that supervisory personnel monitor and track staff to verify that they properly conduct and document the due diligence process and communicate the results of the due diligence to appropriate personnel before award consideration.

DSBS Response: DSBS agrees that improvements need to be made to the way due diligence is documented and communicated. Moving forward, all due diligence will be conducted prior to Board Meetings and due diligence will be confirmed by supervisory personnel and communicated to the Board members prior to award approval.

6. Track site visits to ensure that Project Managers conduct one or more site visits for each award.

DSBS Response: Although nearly all of the businesses audited received a site visit, DSBS agrees that each business should be visited and that site visits need to be appropriately and consistently

documented. DSBS will include such processes and forms in our standard operating manual and ensure proper filing.

7. Develop written policies and procedures, communicate them to staff, and train staff on their responsibilities for conducting the due diligence process, evaluating applications, granting awards, conducting site visits, and reviewing and approving reimbursement requests.

DSBS Response: DSBS agrees with this recommendation. While the Customized Training team had policies in place, we are now developing a standard operating manual to document all processes and procedures. Once we have reviewed and finalized the CTP changes, the staff will be trained on all program elements, and an on-boarding plan for future staff will be created.