



**Audit of the Residents
Preference Program for DPW
Contracts**

AYCHA SAWA
City Comptroller

ADRIANA MOLINA
Audit Manager

November 2023

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November 6, 2023

Honorable, Mayor Cavalier Johnson
The Members of the Common Council
City of Milwaukee

Dear Mayor and Council Members:

The attached report summarizes the results of the Audit of the Residents Preference Program for DPW Contracts. Specifically included in the scope were:

- DPW contracts closed from January 1, 2020 through December 31, 2022.

The primary focus of the audit was to evaluate whether the internal controls in place over the Residents Preference Program (RPP) for DPW contracts are designed adequately and operating effectively. The audit objective was to determine if DPW, contractors, and sub-contractors comply with MCO 309 related to participation of City residents and apprenticeship.

The audit found that the department does have adequate internal controls to comply with RPP requirements for DPW contracts and certifying qualified RPP workers. Furthermore, the audit determined that DPW monitors RPP progress throughout the contracts and communicates with contractors that are falling short on meeting RPP requirements. Contractors who do not meet RPP requirements when the contract is completed are penalized with a fine.

However, the audit found that the department has a process that is not formally documented and followed to verify that contractors and subcontractors utilize a local workforce development agency as a first source option for recruiting applicants. Also, the audit found that the data in the annual reports does not differentiate between construction and non-construction contracts as required in MCO 309.

Appreciation is expressed for the cooperation extended to the auditors by the personnel of the Department of Public Works.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Adriana Molina'.

Adriana Molina, CPA
Audit Manager

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Why We Did This Audit

MCO 309 requires RPP for DPW contracts to be audited every 3 years.

Objectives

The objective of the audit was to determine if DPW, contractors, and sub-contractors comply with MCO 309 related to participation of City residents and apprenticeship.

Background

The City of Milwaukee helps underemployed and unemployed residents gain access to employment opportunities through its Residents Preference Program (RPP). The RPP certification is designed to promote the use of City residents as part of a contractor's workforce on certain city-funded construction and private development projects. Contractors bidding on Public Works projects financed with public tax dollars must hire a percentage of RPP-certified City of Milwaukee residents and apprentices to work on those projects.

Audit Report Highlights

Audit of the Residents Preference Program for DPW Contracts

Overview

The majority of the controls over the Residents Preference Program (RPP) for DPW contracts are operating effectively. There are two controls identified that could be improved to increase compliance and efficiency. Those two controls involve annual reporting requirements and utilizing a local workforce development agency.

Opportunities for Improvement

Local Recruiting Agency: Currently, there is an informal process to ensure that contractors and sub-contractors utilize a local workforce development agency as a first source option for recruiting applicants. However, the process is not formally established and incorporated into DPW's Policies and Procedures.

Annual Report: The data in the annual reports did not differentiate between construction and non-construction contracts as required by MCO 309.

(Recommendations can be found in the Audit Conclusions and Recommendations section of this report.)

I. Audit Scope, Objectives, and Methodology

Scope

The scope of the audit was DPW contracts that closed from January 1, 2020, through December 31, 2022.

Objectives

The objective of the audit was to determine if DPW, contractors, and sub-contractors comply with MCO 309 related to the participation of City residents and apprenticeship.

Methodology

Audit methodology included developing an understanding of the processes and controls over the Residents Preference Program for DPW contracts. The audit program was developed using criteria outlined by MCO 309-38 and 309-41.

Procedures

The audit procedures developed to evaluate the processes and controls to meet the audit objectives included process walkthroughs, inspection of relevant control documentation, and the testing of controls.

Contract Compliance

Internal Audit chose a total of 15 DPW contracts that closed during the audit scope period. The contracts were selected by choosing the 10 highest dollar amount contracts, skipping any repeat companies, and randomly selecting 5 contracts between \$100,000 and \$500,000 to sample. The testing of these contracts included:

- Validating that the contractors achieved the required RPP, apprentice, and Special Impact Area (SIA) worker hours and that DPW penalized contractors with requirement shortfalls.
- Testing 30 randomly selected RPP, SIA, and apprentice workers from the contracts sample to confirm that DPW verifies their eligibility to qualify them as RPP and SIA workers. Internal Audit reviewed RPP affidavits and verified workers' addresses are in SIA zip codes in payroll records.

Compliance with MCO 309-38 and 309-41 Requirements

- Internal Audit reviewed the sampled contracts with contractors to confirm each one contained the required RPP provisions outlined in MCO 309-38 and 309-41 and a statement acknowledging the provisions from the contractors.
- Internal Audit reviewed the 2020 and 2021 annual reports that were submitted to the Office of Equity and Inclusion for the requirements outlined in MCO 309-41.
 - Please note: the 2022 annual report is not submitted until October 2023 and therefore, it was exempt from testing.

Monitoring Controls

Internal Audit completed process walkthroughs with DPW's Contract Compliance Officer on monitoring controls for the following:

- To determine how DPW monitors and follows up on the performance of each project regarding the ratio of RPP, SIA, and apprentice worker hours.
- Verify DPW cross-checks RPP worker eligibility throughout the project's progress.

Compliance Statement

The audit was conducted 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.

II. Organization and Fiscal Impact

The goal of the Residents Preference Program (RPP) is to provide employment opportunities to unemployed and underemployed City of Milwaukee residents. Contractors bidding on public works projects and development projects financed with public tax dollars must hire a percentage of RPP-certified City of Milwaukee residents to work on those projects. The typical development project requires 40% of labor hours on a project to be worked by RPP-certified workers.

III. Audit Conclusions and Recommendations

The department has monitoring controls to comply with RPP tracking for DPW contracts and certifying RPP workers. The audit determined that DPW monitors RPP progress throughout the contracts and communicates with contractors who are falling short of meeting RPP requirements. Contractors who do not meet RPP requirements when the contract is completed are penalized with a fine. However, the department does not meet the entirety of the requirements for the annual reports as defined in MCO 309. Additionally, the department does not have a process that is formally documented and followed to verify that contractors and subcontractors utilize a local workforce development agency as a first source option for recruiting applicants.

Control Design

MCO 309-41 requires that all contractors and sub-contractors utilize a local workforce development agency as a first source option for recruiting applicants for both new and replacement employment.

Finding: There is a process to ensure that contractors and sub-contractors utilize a local workforce development agency as a first source option for recruiting applicants; however, that process is not formally established. DPW provides a list of RPP-certifying agencies on its website and includes agencies on every bid with RPP requirements under the RPP provisions. Additionally, contractors who request assistance regarding recruitment of RPP employees are referred to the list of agencies on their website.

Risk: Underutilization of RPP workers and the first source employment program. *Risk Rating: Low*

Recommendation 1: DPW should design and document a process to monitor contractor and sub-contractor compliance with the first source employment provisions.

Annual RPP Reports

MCO 309-41 requires that the performance report include the number and dollar amount of non-construction contracts which incorporated a residency requirement.

Finding: The data in the annual reports presented data of all RPP contracts, but did not differentiate between construction and non-construction contracts.

Risk: Decreased visibility to City leaders on the state of the Residents Preference Program. *Risk Rating: Low*

Recommendation 2: DPW should ensure its annual reports differentiate between construction and non-construction data as required by MCO 309-41.



Aycha Sawa, CPA, CIA
Comptroller

Bill Christianson
Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Richard Bare, CPA
Special Deputy Comptroller

November 7, 2023

Honorable Mayor Cavalier Johnson
The Members of the Common Council
City of Milwaukee

Dear Mayor and Council Members:

With this letter, the Office of the City Comptroller acknowledges receipt of the preceding report, which communicates the results of the Audit of the Residents Preference Program for DPW Contracts. I have read the report and support its conclusions. Implementation of the stated recommendations will help improve City processes.

As the City Comptroller, I was not involved in any portion of the work conducted in connection with the audit. At all times, the Audit Division worked autonomously in order to maintain the integrity, objectivity, and independence of the audit, both in fact and in appearance.

Sincerely,

A handwritten signature in dark ink, appearing to read "Aycha Sawa", followed by a horizontal flourish line.

Aycha Sawa, CPA, CIA
Comptroller

October 31, 2023

Ms. Adriana Molina, CPA
Audit Manager
City of Milwaukee Comptroller's Office
City Hall, Room 404

Subject: 2023 Audit of the Residents Preference Program for DPW Contracts

Dear Ms. Molina,

Thank you for the opportunity to respond to your audit of the DPW Contract Administration Office. The Contracts Office appreciates that the findings of your audit revealed areas in which we can improve our current systems. We have taken steps to implement your recommendations as a result.

Please see our summary responses to your recommendations below.

Recommendation 1: DPW should design and document a process to monitor contractor and subcontractor compliance with the first source employment provisions.

DPW will revise section III-E in the current Residents Preference Program Provisions as follow:

“The City recognizes the organizations listed on this website (<https://city.milwaukee.gov/dpw/Residents-Preference-Program>) as first source organizations for RPP-certified employee recruitment. Other organizations or sources of qualified RPP-certified employees can be used at the bidder's discretion.”

DPW will also implement a referral process where contractors can submit requests to DPW Contracts Office to be referred to a first source organization. This referral form will consist of, but not be limited to, the contractor's company name, contact person, phone number, email, and type(s) of job classification(s) they seek to fill with RPP participants.

Implementation date: October 2023

Ms. Molina
October 31, 2023
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Recommendation 2: DPW should ensure its annual reports differentiate between construction and non-construction data as required by MCO 309-41.

DPW will identify construction and non-construction contracts beginning with the 2023 annual RPP report.

Implementation date: October 2023

Sincerely,

DocuSigned by:

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Dan Thomas M.P.A., J.D.
DPW Administration Services Director

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