

EXECUTIVE SUMMARY



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D. Wilson Consulting Group conducted a study to determine whether a disparity exists for minority and women owned emerging business enterprises (EBEs) working on City of Milwaukee construction, professional services and goods & services contracts. A disparity exists when there are more available EBEs ready, willing and able to conduct work on City of Milwaukee contracts than are utilized. The study included four years of procurement activity from January 2005 through December 2008. All data analyses components of the study are applicable only to the City of Milwaukee with the exception of the Anecdotal Analysis. The Milwaukee Metropolitan Sewerage District participated with the City in this component of the study.

On March 29, 1983, the City of Milwaukee (City) adopted Ordinance 2-291, creating the Minority Business Enterprise Committee (MBEC). The creation of the MBEC was the City's first M/WBE initiative. In 1985, Charter Ordinance Chapter 37 created a combination set-aside and outreach program. The goal of the program was to have each contracting department utilize MBEs and WBEs on 28% of total dollars expended on construction services, professional services, and the purchase of supplies. In addition, a 5% bid preference was also established. The ordinance creating this program was submitted to the voters in Referendum 555 in April 1987 and defeated. The MBEC continued to certify MBEs, consider waivers, and enforce compliance with the program. In 1986, an inter-agency agreement was established, creating the Joint Certification Program to certify businesses as disadvantaged, minority and women-owned. Then in November 1987, Chapter 360 of the Milwaukee Code of Ordinances was created and the City expanded its combination set-aside and outreach program. The program was changed from MBEC to the Equal Opportunities Enterprise Committee (EOEC). EOEC was responsible for creating, monitoring, and enforcing procedures. In addition, the City adjusted its existing 28% goal to be phased in over a seven-year period.

After the Croson decision, the City passed a revised ordinance on September 1, 1989, which authorized fundamental changes to the D/M/WBE combination set-aside and outreach program. The program became a race/gender neutral program, targeting businesses controlled by one or more disadvantaged individuals. In addition, the goal was to have DBE's utilized for 18% of the dollars annually expended on construction services, professional services, and supplies.

In 1989, the City enacted the Emerging Business Enterprise (EBE) Program, through Chapter 360 of the Milwaukee Code of Ordinances. The EBE Program, formerly known as the

DBE program, was created to assist and protect the interests of individuals who are disadvantaged and small business concerns in order to promote and encourage full and open competition in the City of Milwaukee. Chapter 360 of the Milwaukee Code of Ordinances was revised in 2002 to utilize city-certified EBEs in all contracting activities by approving an annual 18 percent EBE utilization requirement for each contracting department, and all other operating departments.

The City of Milwaukee's Emerging Business Enterprise Program name positively reflects and promotes small businesses that strive to become competitive in the mainstream marketplace. Eliminating the reference to small businesses as disadvantaged eliminates any pre-conceived notions that small businesses are unable to perform or provide superior products and quality services.

MMSD has a long standing policy goal that the contractors, engineering firms, vendors and workers that do business with MMSD should reflect the diversity of the region. To that end, MMSD Procurement Policy 2-78.01 was created to establish an annual goal of spending 20% of its total procurement with Small, Women, and Minority Owned Businesses (SWMBE). This participation goal further specifies that 13% of the purchase order or contract awards should be with certified minority owned businesses, 5% with certified small businesses, and 2% with certified women owned businesses.

BACKGROUND

The 1989 U.S. Supreme Court decision in *City of Richmond v. J.A. Croson Company* established the standard of review for state and local governments that take race into account when awarding contracts. In *Croson*, the Court ruled that the strict scrutiny standard be applied to race-conscious programs. The strict scrutiny standard requires minority business programs to be predicated upon two factors.

First, an owner must establish a "compelling governmental interest", as evidenced by ongoing effects of past or present discrimination against minority-owned businesses. Second, race-conscious programs must be "narrowly tailored" to remedy the effects of such discrimination. In other words, programs must not be overly broad; rather, they should be narrowly designed to address the specific forms of discrimination identified by the agency.

SCOPE

- Legal analysis of relevant court decisions on minority business programs;
- Analysis of construction, professional services and goods & services contract data to determine EBE participation by SIC code in the relevant market area for each business category during the study period;
- Utilization Analysis of construction, professional services and goods & services prime and contract data;
- Availability Analysis of prime and subcontractors ready, willing and able to provide construction services, professional services and goods & services to the City of Milwaukee;
- Disparity Analysis to determine if a statistically significant disparity exists between the number of minority-owned and women-owned business enterprises that are ready, willing, and able to provide goods and services to the City and the number of minority-owned and women-owned businesses that were actually providing goods and services to the City;
- Regression Analysis to determine the extent to which identified disparities may be attributable to various factors including race, gender, and other factors that appear to be neutral i.e., length of time in business and size of firm;
- Anecdotal data and analysis of any specific instances of discrimination and/or patterns and practices of the City and MMSD in the procurement of goods and services; and
- Findings and Recommendations.

UTILIZATION DATA

Construction Contracts

- Of the total dollars paid to Prime Contractors, EBE firms received 14.78 percent;
- Of the total dollars paid to Subcontractors, EBE firms received 16.82 percent;
- Of the total dollars paid to Prime and Subcontractors, EBE firms received 31.60 percent; and
- 92.60 percent of the prime contracts were for less than \$750,000 and EBE firms received 16.44 percent of those prime contracts; and
- 87.33 percent of subcontracts were for less than \$50,000 and EBE firms received 82.08 percent of those subcontracts.

Professional Services Contracts

- Of the total dollars paid to Prime Contractors, EBE firms received 4.08 percent;
- Of the total dollars paid to Subcontractors, EBE firms received 0.32 percent;
- Of the total dollars paid to Prime and Subcontractors, EBE firms received 4.40 percent; and

- 67.33 percent of the prime contracts were for less than \$50,000 and EBE firms received 2.94 percent of those prime contracts; and
- Only one (1) subcontractor was awarded a professional services subcontract; this subcontract in the amount of \$31,226 was awarded to an EBE owned firm.

Goods & Services

- Of the total dollars paid to Prime Contractors, EBE firms received 7.55 percent;
- Of the total dollars paid to Subcontractors, EBE firms received 8.48 percent;
- Of the total dollars paid to Prime and Subcontractors, EBE firms received 16.03 percent; and
- 70.00 percent of the prime contracts were for less than \$100,000 and EBE firms received 9.88 percent of those prime contracts; and
- Regardless of the size of the subcontracts, EBE firms received 100 percent of those subcontracts.

AVAILABILITY DATA

The available firms were established using a master database and secondary data relying on the following sources:

- City of Milwaukee Vendor List,
- City of Milwaukee Emerging Business Enterprise Vendor List,
- Dun & Bradstreet Data,
- City of Milwaukee Prime and Subcontractor Data
- Subcontractor Verification Mail-out,
- Central Contractor Registry (CCR),
- Wisconsin Department of Transportation (WisDOT),
- Wisconsin Small Business Development Centers,
- Regional Chambers of Commerce, and
- Local Business and Community Organizations.

After the master database was compiled, the data was filtered to extract a subset of qualified, willing and able firms from the overall pool of firms. Key elements used to evaluate firm eligibility for further analysis included:

- Willingness to work on City of Milwaukee projects;
- Firm capability based on available resources; and
- Past performance on similar size and type projects.

Based on the above analysis, 941 prime contractors, 903 subcontractors were identified as available for construction contracts, 249 prime and 324 subcontractor professional services

firms were identified as available for professional services contracts and 624 prime and 603 subcontractor goods & services firms were identified as available to provide goods & services. These firms represent the universe of all firms available to perform work for the City of Milwaukee, regardless of race, ethnicity, or gender.

DISPARITY ANALYSIS

Availability and utilization data were analyzed to determine if EBEs received a fair and equitable share of the subcontracting dollars. A disparity analysis was conducted by dividing the percent of utilization by the percent of availability and multiplying the result by 100. A disparity index of 100 indicates parity, a balance between utilization and availability.

Courts have held that a disparity index of less than 80 indicates significant underutilization and that project specific EBE goals should only be used to address significant underutilization. In construction subcontracting, African American, Asian American and nonminority Women owned firms were significantly underutilized. Native American, Hispanic American and nonminority Women owned firms were significantly underutilized in goods and services subcontracting. The following are the disparity analysis results for construction, professional services and goods & services subcontracts with the City of Milwaukee for calendar years 2005 through 2008:

- Construction – **Table ES-1** shows:
 - African American owned firms were significantly underutilized as subcontractors with a disparity index of 52.86
 - Asian American owned firms were significantly underutilized as subcontractors with a disparity index of 0.00
 - Nonminority Women owned firms were significantly underutilized as subcontractors with a disparity index of 30.95
- Goods & Services – **Table ES-2** shows:
 - Native American owned firms were significantly underutilized as subcontractors with a disparity index of 0.00
 - Hispanic American owned firms were significantly underutilized as subcontractors with a disparity index of 17.18
 - Nonminority Women owned firms were significantly underutilized as subcontractors with a disparity index of 0.72
 - African American owned firms were underutilized but not significantly with a disparity index of 86.97
- Professional Services - Professional Services is not included in the analysis because there was only one subcontract awarded during the study period in the amount of \$31,226, which represents 0.32 percent of the total contract dollars.

**Table ES-1
Subcontractor Disparity Analysis
Construction
Calendar Years 2005 – 2008**

Ethnicity Classifications	# of Awarded Contracts ¹	Contract Dollars ²	% of Dollars ³	% of Firms Available ⁴	Disparity Index ⁵	Disparity Impact Under/Over Utilization
OVERALL						
African Americans	117	\$2,412,724	2.94%	5.57%	52.86	* Under
Native Americans	57	\$1,627,153	1.99%	0.10%	1,985.60	Over
Asian Americans	0	\$0	0.00%	0.07%	0.00	* Under
Hispanic Americans	250	\$6,653,631	8.12%	3.41%	238.10	Over
Nonminority Women	97	\$1,854,140	2.26%	7.31%	30.95	* Under
Other EBEs	34	\$1,233,684	1.51%	0.01%	15,054.52	Over

Source: City of Milwaukee for the period of January 1, 2005 through December 31, 2008

Note: Total dollars awarded may not equal the total due to rounding

¹ The number of contracts awarded to subcontractors

² The dollars awarded to subcontractors

³ The percentage of dollars from the prime contractor utilization

⁴ The percentage of available firms

⁵ The disparity index is % utilization divided by % availability multiplied by 100

⁵ The disparity index of less than 100 indicates underutilization or overutilization if greater than 100

* Significantly underutilized

**Table ES-2
Subcontractor Disparity Analysis
Goods & Services
Calendar Years 2005 – 2008**

Ethnicity Classifications	# of Awarded Contracts ¹	Contract Dollars ²	% of Dollars ³	% of Firms Available ⁴	Disparity Index ⁵	Disparity Impact Under/Over Utilization
OVERALL						
African Americans	5	\$1,285,615	6.25%	7.19%	86.97	Under
Native Americans	0	\$0	0.00%	0.17%	0.00	* Under
Asian Americans	1	\$245,629	1.19%	0.63%	189.64	Over
Hispanic Americans	3	\$114,104	0.55%	3.23%	17.18	* Under
Nonminority Women	1	\$25,273	0.12%	17.09%	0.72	* Under
Other EBEs	3	\$72,607	0.35%	0.17%	207.74	Over

Source: City of Milwaukee for the period of January 1, 2005 through December 31, 2008

Note: Total dollars awarded may not equal the total due to rounding

¹ The number of contracts awarded to subcontractors

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* Significantly underutilized

REGRESSION ANALYSIS

The overall results of the Regression Analysis show that race and gender do not have a consistent statistically significant impact on winning a contract with the exception of being African American. Overall, the results show a negative relationship with the variables White Female, Native American, African American and Hispanic American.

The analysis also shows that Native Americans are 1.5 times less likely to be awarded a contract with the City of Milwaukee than white males, while African Americans are 1.7 times less likely to be awarded a contract with the City of Milwaukee than white males.

ANECDOTAL ANALYSIS

Several methods were utilized to collect anecdotal data from individuals representing both M/WBE and non-M/WBE businesses. The anecdotal data collected were a result of:

- **Personal Interviews** – Sixty-two (62) personal interviews were conducted with business owners who conducted business with or attempted to conduct business with the City or the Milwaukee Metropolitan Sewerage District (MMSD). An interview guide was developed that covered a range of questions concerning a firm's experiences in conducting or attempting to conduct business with the City or MMSD, experiences contracting with general contractors on projects and firm's business operations and instances of discrimination experienced by the firm.
- **Business Demographics Survey** – An online Business Demographics Survey of firms located within the identified statistically relevant market area was conducted. A total of 5,045 email invitations were sent to prime and subcontractors within the relevant market area. A total of 743 individuals participated in the survey. The survey included 39 questions, many of them open-ended, which allowed some qualitative data to be obtained, in addition to the quantitative business information. The questions were divided into four (4) categories:
 - General demographic and availability/capacity questions were asked about the business, goods and services, ownership, and bonding and insurance levels
 - Questions related specifically to the WisDOT DBE and City of Milwaukee's EBE programs
 - Questions that addressed possible barriers that business owners may have encountered attempting to do business with the City or MMSD
 - Questions that addressed possible discriminatory practices by prime contractors and the City
- **Public Meetings** – A total of three (3) public meetings were conducted; one on June 26, 2009, one on July 19, 2010 and one on December 20, 2010. The meetings provided information regarding:
 - The purpose and process of the Disparity Study;
 - The Preliminary Findings of Phase I of the Disparity Study; and
 - The Findings and Recommendations of Phase I and Phase II of the Disparity Study

FINDINGS AND RECOMMENDATIONS

The findings are based on the analyses of the data represented in Chapters 2.0 through 9.0. In summary, the data supports the continuation of the City of Milwaukee Emerging Business Enterprise (EBE) program with modifications. The statistical analyses documents disparity in utilizing EBE firms in comparison to their availability. For purposes of this report, EBE firms are all minority and women owned firms that are ready, capable and willing to perform work for the City. EBE firms are not limited to the City's certified EBEs.

The primary objectives of the study were to determine and/or identify:

1. If a statistically significant disparity exists between the number of minority-owned and women-owned business enterprises that are ready, willing, and able to provide goods and services to the City and the number of minority-owned and women-owned businesses that were actually providing goods and services to the City during calendar years 2005, 2006, 2007 and 2008;
2. The extent to which minority and women owned businesses participate in the procurement of contracts with the City of Milwaukee in construction services, professional services and goods and services;
3. Whether minority and women owned business participation is representative of the availability of minority and women owned businesses ready, willing and able to participate in contracts within the City of Milwaukee's market area;
4. The effectiveness of any race/gender neutral initiatives that have been used by the City and MMSD in eliminating discrimination and/or increasing minority and women participation in public procurement;
5. If discrimination exists, does anecdotal evidence show specific instances of discrimination and/or patterns and practices of the City and MMSD in the procurement of goods and services;
6. If discrimination exists, recommend and/or identify narrowly tailored race/gender based activities to remedy the effects of any discrimination identified.

FINDING 1: Relevant Market Area

The Relevant Market Areas for the City are:

Construction

County, State	# of Contracts	% of Contracts	# of Firms	% of Firms	Dollars	% of Dollars	Cum%
MILWAUKEE, WI	119	45.95%	36	52.17%	\$37,731,556.40	40.12%	40.12%
WAUKESHA, WI	90	34.75%	19	27.54%	\$31,974,730.55	34.00%	74.12%
WASHINGTON, WI	34	13.13%	2	2.90%	\$12,241,457.05	13.02%	87.14%

Professional Services

County, State	# of Contracts	% of Contracts	# of Firms	% of Firms	Dollars	% of Dollars	Cum%
MILWAUKEE, WI	65	52.85%	46	48.42%	\$3,705,760.25	32.99%	32.99%
WAUKESHA, WI	10	8.13%	8	8.42%	\$2,188,211.30	19.48%	52.47%
WASHINGTON, WI	1	0.81%	1	1.05%	\$365,000.00	3.25%	55.72%
COOK, IL	7	5.69%	5	5.26%	\$169,040.20	1.50%	57.22%
DANE, WI	4	3.25%	4	4.21%	\$196,399.10	1.75%	58.97%
DU PAGE, IL	2	1.63%	2	2.11%	\$387,118.30	3.45%	62.41%
KANE, IL	3	2.44%	2	2.11%	\$262,300.00	2.33%	64.75%
SAN DIEGO, CA	2	1.63%	2	2.11%	\$212,503.40	1.89%	66.64%
LOS ANGELES, CA	2	1.63%	2	2.11%	\$68,009.00	0.61%	67.25%
DALLAS, TX	2	1.63%	2	2.11%	\$35,724.24	0.32%	67.56%
PIMA, AZ	2	1.63%	2	2.11%	\$32,955.00	0.29%	67.86%
SPOKANE, WA	1	0.81%	1	1.05%	\$2,000,000.00	17.80%	85.66%

Goods & Services

County, State	# of Contracts	% of Contracts	# of Firms	% of Firms	Dollars	% of Dollars	Cum%
MILWAUKEE, WI	78	53.79%	59	50.86%	\$14,645,545.50	55.88%	55.88%
WAUKESHA, WI	28	19.31%	24	20.69%	\$3,937,131.85	15.02%	70.90%
OZAUKEE, WI	1	0.69%	1	0.86%	\$139,085.00	0.53%	71.43%
COOK, IL	9	6.21%	7	6.03%	\$1,837,823.47	7.01%	78.44%

RECOMMENDATION 1.1:

The City should limit its EBE program to the Metropolitan Statistical Area.

Prime and Subcontractor EBE Utilization City of Milwaukee

Utilization Summary	Dollars Awarded	% of Dollars
Total EBE Dollars	\$423,724	4.40%
Total Non-EBE Dollars	\$9,199,297	95.60%
Total	\$9,623,021	100.00%

FINDING 2: Disparity Analysis - Construction

The statistical analysis identified disparity for several EBE groups as follows:

Construction

- African Americans – 52.86 disparity index
- Asian Americans – 0.00 disparity index
- Nonminority Women – 30.95 disparity index

**Subcontractor Disparity Analysis
Construction
Calendar Years 2005 – 2008
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Note: EBEs include certified and non-certified minority and women owned businesses

¹ The percentage of dollars from the prime utilization.

² The percentage of available firms.

³ The disparity index is % utilization divided by % availability multiplied by 100.

* Significantly underutilized - disparity index below 80.00.

RECOMMENDATION 2.1:

The City of Milwaukee should amend its EBE Program to set race/gender-specific annual participation goals for construction subcontracts for the following EBE-owned firms:

- African American-owned firms
- Asian American-owned firms
- Nonminority Women-owned firms

RECOMMENDATION 2.2:

The City of Milwaukee should closely monitor on a quarterly basis the utilization of all EBEs to ensure that their utilization on construction contracts does not fall below their availability. If the situation occurs, the City should adjust its annual participation goals by including only the groups who continue to be underutilized.

RECOMMENDATION 2.3:

The City should review the utilization of EBE firms on a quarterly basis and report to the Common Council.

FINDING 3: Disparity Analysis – Goods & Services

The statistical analysis identified disparity for several EBE groups as follows:

Goods & Services

- Native Americans – 0.00 disparity index
- Hispanic Americans – 17.18 disparity index
- Nonminority Women – 0.72 disparity index
- African Americans – 86.97 disparity index

**Subcontractor Disparity Analysis
Goods & Services
Calendar Years 2005 – 2008
City of Milwaukee**

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RECOMMENDATION 3.1:

The City of Milwaukee should amend its EBE Program to set race/gender-specific annual participation goals for goods & services subcontracts for the following EBE-owned firms:

- Native American-owned firms
- Hispanic American-owned firms
- Nonminority Women-owned firms

RECOMMENDATION 3.2:

The City of Milwaukee should closely monitor on a quarterly basis the utilization of all EBEs to ensure that their utilization on goods & services contracts does not fall below their availability. If the situation occurs, the City should adjust its annual participation goals by including only the groups who continue to be underutilized.

FINDING 4: Professional Services Contracts

- 101 Professional Services contracts were included in the sample analyzed
- Prime Contractor EBE participation included African American, Asian American and nonminority Women owned firms
- Subcontractor EBE participation included an African American owned firm
- There is a large availability pool of Professional Services subcontractors

**Professional Services Subcontractors
Availability**

Business Category	African American	Asian American	Hispanic American	Native American	Other EBEs	Nonminority Women	Subtotal EBE	Nonminority	Total EBE and Nonminority
Professional Services	37	7	10	0	2	71	128	196	324

RECOMMENDATION 4.1:

All City Departments should review professional service contracts to identify subcontracting opportunities prior to advertising.

RECOMMENDATION 4.2:

The City should implement an Outreach Program to make women and minority-owned businesses aware of subcontracting opportunities.

FINDING 5: Data Collection and Tracking

The City of Milwaukee utilizes the following methodologies/processes to track procurement activity:

- City's Financial Management Information System (Prime Contractor payments)
- BusinessSense System (EBE tracking)

RECOMMENDATION 5.1:

The City should track all contract awards and payments to prime and subcontractors. All records should be maintained in a database that captures the data variables requested during the data collection process of the study. This process should include all business categories.

RECOMMENDATION 5.2:

The City of Milwaukee should implement the following:

- Identify one (1) tracking system to collect and monitor all procurement activity including contractors and subcontractors for all projects awarded;
- Establish and implement strict guidelines by type of procurement activity that includes pertinent information from requisition to final payment or completion of project;
- The tracking system should be maintained for accuracy with quality control checks; and
- The tracking system must include all awards and payments to all (EBE and non-EBE) contractors/vendors.

FINDING 6: Contract Compliance – Verification and Follow-up

During many personal interviews with M/WBEs, business owners noted lack of verification and follow up of reported EBE participation. Prime contractors reported payments to the City that were never made to EBE firms. EBE firms reported that they did not participate or know that they were listed as subcontractors on certain contracts with the City. EBE firms agreed upon levels of participation are not verified.

RECOMMENDATION 6.1

The City should conduct random audits of prime contractors payments to EBE owned firms that require documented proof of payments. Additionally, the City should follow-up periodically with EBE firms to ensure that they have been paid and participated in the contracting process.

FINDING 7: Contract Compliance – Payment Practices

Numerous M/WBE owned firms voiced concerns regarding delayed payments or a reduction in the negotiated and agreed upon price for work performed. M/WBE businesses are generally small and nonpayment and/or late payment produces significant cash flow issues. They often do not have the cash reserves or access to capital necessary to maintain their business operations when they do not receive payments timely. Therefore, M/WBEs are disparately impacted by a prime contractor's failure to make prompt payments.

The City currently requires that prime contractors make payment to subcontractors for work performed within ten (10) days of receipt of their payment from the City; MMSD currently requires that prime contractors make payment to subcontractors for work performed within seven (7) days of receipt of their payment from MMSD. Prime contractors invoices that are submitted to the City must be paid within sixty (60) days of receipt, this timeframe could ultimately result in a subcontractor receiving payment seventy (70) days after completion of work. MMSD must pay prime contractor invoices within thirty (30) days of receipt, resulting in the possibility of a subcontractor receiving payment thirty-seven (37) days after completion of work.

RECOMMENDATION 7.1

The City and MMSD should ensure that prime contractors are making timely and accurate subcontractor payments to M/WBE and non-M/WBE owned firms. This can be accomplished by reviewing and enhancing the current process for tracking payments made by primes to subcontractors.

RECOMMENDATION 7.2

The City should consider adopting MMSDs payment policies for both prime contractors and subcontractors.

FINDING 8: Barriers to Contract Bidding

There are several barriers to contract participation that exist because the procedures in place to ensure compliance with M/WBE requirements are not strictly enforced or monitored. During the interviews, several M/WBE firms reported that prime contractors do not allow sufficient time for submission of subcontracting quotes. This bidding practice allows prime contractors to submit the required documentation showing that they attempted to obtain M/WBE participation, without actually providing a meaningful opportunity. This results in the prime contractor obtaining a waiver of the City's and MMSDs M/WBE requirements. Another barrier to contract participation is bid shopping. M/WBEs will submit bid quotes to a prime contractor; the prime will pressure them to lower their bid because they have shopped around and indicate that they can get the job done for a specific lower price or the prime will submit a bid with a specific subcontractor, win the bid and try to pressure the subcontractor to lower the original bid.

FINDING/COMMENDATION:

The City's EBE Program and MMSD's SMWBE Program have participation requirements that must be submitted at the time of bid submission. Prime contractor reporting requirements are also in place after contract award. Some of these include:

- EBE Participation Form that must be submitted at time of bid submission
- EBE Monthly Report Form that must be submitted by the 20th of the Month
- EBE Subcontractor Payment Certification
- MMSD provides administrative and on-site monitoring to ensure that promised participation is achieved

RECOMMENDATION 8.1:

The City and MMSD should conduct an audit of their current compliance processes to determine their effectiveness and make modifications based on the findings. The audit should include validation of the information received from both prime and subcontractors.