

# OFFICE OF THE STATE AUDITOR

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# DIANA DIZOGLIO

Official Audit Report – Issued December 23, 2024

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## Supplier Diversity Office

For the period January 1, 2021 through December 31, 2022



OFFICE OF THE STATE AUDITOR

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**DIANA DIZOGLIO**

December 23, 2024

William M. McAvoy, Executive Director  
Supplier Diversity Office  
1 Ashburton Place, Room 1411  
Boston, MA 02108

Dear Mr. McAvoy:

I am pleased to provide to you the results of the enclosed performance audit of the Supplier Diversity Office. As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2021 through December 31, 2022. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and all your efforts at the Supplier Diversity Office. The cooperation and assistance provided to my staff during the audit went a long way toward a smooth process. Thank you for encouraging and making available your team. I am available to discuss this audit if you or your team has any questions.

Best regards,



Diana DiZoglio  
Auditor of the Commonwealth

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## LIST OF ABBREVIATIONS

DOBE	Disability-Owned Business Enterprise
HUB	Supplier Diversity HUB system
LGBTBE	Lesbian, Gay, Bisexual, Transgender Business Enterprise
MBE	Minority-Owned Business Enterprise
OSD	Operational Services Division
SDO	Supplier Diversity Office
SDP	Supplier Diversity Program
SDVOBE	Service-Disabled Veteran–Owned Business Enterprise
VBE	Veteran Business Enterprise
WBE	Women-Owned Business Enterprise

## EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Supplier Diversity Office (SDO) for the period January 1, 2021 through December 31, 2022.

In this performance audit, we determined the following:

- to what extent SDO met the goal of maintaining consistent and measurable progress in expanding access and equity of opportunity to state contracting, in accordance with Section 61(a) of Chapter 7 of the General Laws;
- how SDO's Compliance Unit monitored the purchasing performance of each state agency participating in the Supplier Diversity Program (SDP) to ensure that these agencies met benchmarks established in Section 61(m) of Chapter 7 of the General Laws;
- how SDO monitored contracts between statewide contractors and SDP partners to ensure that statewide contractors were in program compliance, as required by Section 61(m) of Chapter 7 of the General Laws; and
- to what extent, if at all, SDO devised equitable policies and procedures to provide training and other services for all SDO programs, as required by SDO's final budgetary language for line items 1775–0200 for fiscal year 2021 and 1780–0100 for fiscal year 2022.

Below is a summary of our findings, the effects of those findings, and our recommendations, with links to each page listed.

<b>Finding 1</b> <b>Page <a href="#">17</a></b>	The Supplier Diversity Office was unable to provide complete evidence that it monitored Supplier Diversity Program–participating state agencies to ensure that they met Supplier Diversity Program spending benchmarks.
<b>Effect</b>	Although SDO has made progress reaching out to SDP-participating state agencies to help them meet spending benchmarks since it was first established as an independent state agency in January 2021, if SDO does not monitor SDP-participating state agencies to ensure that they meet SDP spending benchmarks, then it cannot ensure that state procurement and contracting incorporates diversity and equity practices or the inclusion of diverse and small Massachusetts businesses.
<b>Recommendations</b> <b>Page <a href="#">18</a></b>	<ol style="list-style-type: none"><li>1. SDO should conduct mid-year reviews on all SDP-participating state agencies and make recommendations and provide feedback to help these state agencies meet SDP spending benchmarks.</li><li>2. SDO should meet with all SDP-participating state agencies not meeting their spending benchmarks in order to help them improve in the following fiscal year.</li></ol>

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<b>Finding 2</b> <b>Page <u>19</u></b>	The Supplier Diversity Office did not settle overstated Supplier Diversity Program indirect spending discrepancies reported by statewide contractors.
<b>Effect</b>	As a result of not resolving overstated indirect SDP spending, SDO's Compliance Unit could not confirm indirect spending by SDP partners against the reported amounts by statewide contractors. If SDO does not confirm SDP indirect spending, then opportunities for diverse and small businesses in the Commonwealth may not be met and SDP-participating agencies may not be meeting spending benchmarks to which they agreed.
<b>Recommendation</b> <b>Page <u>20</u></b>	SDO should implement penalties to statewide contractors that are not accurately reporting their SDP spending and always resolve overstated indirect SDP spending.

In addition to the conclusions we reached regarding our audit objectives, we also identified issues not specifically addressed by our objectives. For more information, see [Other Matters](#).

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## OVERVIEW OF AUDITED ENTITY

In November 2020, the Governor filed legislation, which became Chapter 262 of the Acts of 2020, which established the Supplier Diversity Office (SDO) as an independent state agency operating under the oversight of the Executive Office for Administration of Finance. This law went into effect in January 2021. Before this, the functions of SDO were performed by the Operational Services Division (OSD).

According to SDO's website, its mission statement is as follows:<sup>1</sup>

*To promote diversity, equity and inclusion in state contracting by:*

- 1. Certifying diverse businesses (minority, women, veteran, service-disabled veteran, disability and LGBT-owned) and small Massachusetts-based businesses;*
- 2. Connecting these companies with business opportunities and resources that enhance their marketability when bidding on public contracts; and*
- 3. Collaborating with Executive Agencies and public organizations to:*
  - a. Identify and remove barriers for diverse and small businesses; and*
  - b. Increase diverse and small business spending.*

SDO started fiscal year 2021 with 13 employees. These employees were originally OSD employees who were transferred to SDO when it became an independent state agency. By the end of that fiscal year, the number of SDO employees increased to 16. By the end of fiscal year 2022, SDO's employee count had increased again, this time to 28.

According to SDO officials, SDO has expanded its Compliance Unit since becoming an independent agency; however, SDO did not meet its staffing goals for its Compliance Unit until February 2022.

SDO's budgets were approximately \$990,880 for fiscal year 2021 and \$2,477,960 for fiscal year 2022.<sup>2</sup>

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1. In its Supplier Diversity Office Comprehensive Annual Report Fiscal Year 2022, SDO defines a minority-owned business "as a business that is owned by a racially or ethnically diverse individual. While the [term is] meant to define an ethnically or racially diverse individual or business . . . [it is] not meant to denote a smaller or lesser status of the individuals or businesses included in this definition."

2. Note that the fiscal year 2021 budget is significantly lower than the fiscal year 2022 budget because SDO was not established until January 2021. Since fiscal year 2021 started on July 1, 2020, SDO only received a budget for approximately half of that fiscal year.

## SDO Programs

In its mission to provide oversight to promote diversity, equity, and inclusion in state contracting, SDO administers five key programs: the Small Business Purchasing Program, the Certification Program for SDO, the Supplier Diversity Program (SDP), the Municipal Construction Affirmative Marketing Program, and the Individuals with Disabilities in State Procurement and Contracting Program. The scope of this audit covers the following three programs: the Small Business Purchasing Program, the Certification Program for SDO, and the SDP.

### Small Business Purchasing Program

The goal of SDO's Small Business Purchasing Program is to increase state contracting opportunities for small businesses. This program also involves following contract bid solicitation<sup>3</sup> criteria, which ensures that state contracting opportunities are available to small businesses across the Commonwealth.

### Certification Program for SDO

The Certification Program for SDO involves certification for diverse and small businesses that are interested in public and private business opportunities in the Commonwealth. According to SDO's website,

*SDO certification is a marketing tool used to enhance a firm's ability to do business in public and private markets. Although certification does not guarantee that a business will be successful every time it bids, it may add a competitive edge to firms seeking contracts with the government.*

Through this program, SDO offers and awards business certification in different categories. SDO also recognizes some third-party certifications awarded by partnership organizations. During the audit period, SDO offered, awarded, and/or recognized the following business certification categories:

Business Certification Category	Offered and Awarded by SDO	Offered and Awarded by Third Parties; Recognized by SDO
Minority-Owned Business Enterprise (MBE)	Yes	Yes
Women-Owned Business Enterprise (WBE)	Yes	Yes
Veteran Business Enterprise (VBE)	Yes	Yes
Minority Non-profit Organization	Yes	No

3. A contract bid solicitation (which is also known as a request for responses) is an invitation for vendors to offer prices on fulfilling contracts.



Business Certification Category	Offered and Awarded by SDO	Offered and Awarded by Third Parties; Recognized by SDO
Women Non-profit Organization	Yes	No
Veteran Non-profit Organization	Yes	No
Portuguese-Owned Business Enterprise	Yes	No
Service-Disabled Veteran–Owned Business Enterprise (SDVOBE)	No	Yes
Disability-Owned Business Enterprise (DOBE)	No	Yes
Lesbian, Gay, Bisexual, Transgender Business Enterprise (LGBTBE)	No	Yes

In order for SDO to award and/or recognize a business with one or more of the above certifications, that business’s board and voting body must have a membership majority (or 51%) that meets the specific requirements of the certification category(ies) in question.

SDO’s Diverse and Small Business Certification Unit serves as the first point of contact for businesses seeking any of these certifications. This unit is composed of a director, an intake coordinator, a renewal coordinator, four investigators, and an analyst.

## Precertification Workshop

The first step a business must take toward becoming certified by SDO involves attending a two-hour precertification workshop, which is hosted online as a webinar. This workshop includes information about the certification process, qualifications that businesses need in order to become certified, and regulations that certified businesses need to follow to retain their certifications.

After a business successfully completes the precertification workshop, it receives a hyperlink to create a user profile that is connected to the Certrak system (see the “[Certrak](#)” section for more information). Once the business creates its profile, it then completes an application form and submits all supporting documents through Certrak. Next, SDO’s intake coordinator reviews the application for completeness and either accepts or rejects the application.

## Rejected Applications

If the intake coordinator rejects an application, partially or completely, Certrak generates an email to the business, which is given 30 days to correct deficiencies and upload proper documentation. If a business does not make these updates, then the business’s application is inactivated and an SDO

systems analyst informs the business by email about its application's inactivation. In order to reapply through Certrak, the business must either wait 90 days or request and receive a waiver from SDO's intake coordinator or director of diverse and small business certification.

### Accepted Applications

If an application is accepted by the intake coordinator, a unit director assigns an investigator to the application for review. This investigator conducts a desk audit of the application, which includes reviewing all the business's submitted documentation. After this, the investigator conducts either a site visit or telephone interview with the business applicant. The investigator then prepares a detailed report for SDO's Certification Committee, recommending to either approve or deny the application.

SDO's Certification Committee reviews the report, provides feedback (if any) to the investigator, and makes requests for clarifying information (if any) from the business. SDO's Certification Committee notifies the business of its decision through either email or certified mail.

### SDP

One of SDO's goals is to increase opportunities for certified diverse and small businesses in state contracting. One way SDO does this is through the SDP and by setting SDP spending benchmarks. Only businesses certified by SDO or SDO-recognized third-party certification organizations qualify for the SDP.

SDO is responsible for setting annual state agency SDP spending benchmarks in consultation with the Office for Access and Opportunity, which falls under the Office of the Governor. SDO sets these annual SDP spending benchmarks for SDP-participating agencies by the following business certification categories: MBEs, WBEs, VBEs, SDVOBEs, DOBEs, and LBGTes. The annual SDP spending benchmarks are expressed as a percentage of the discretionary budget for each SDP-participating state agency.

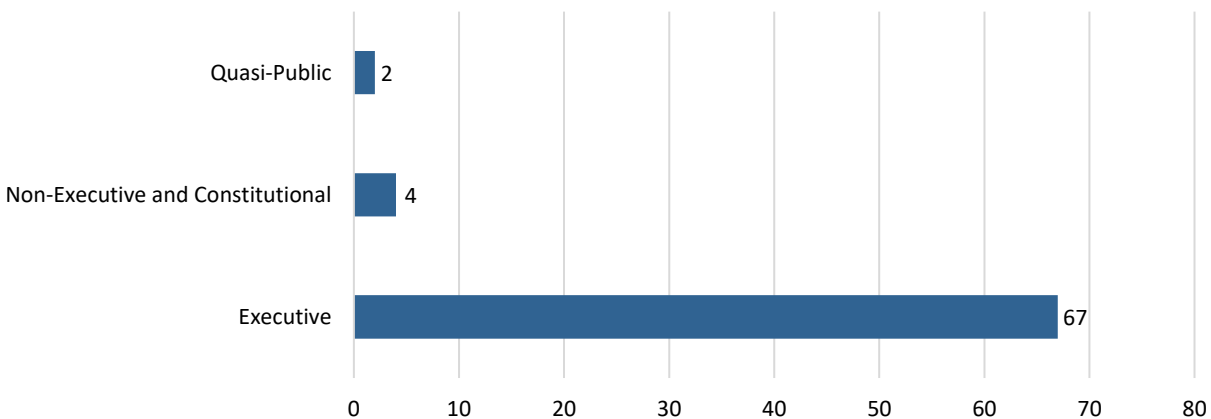
In fiscal year 2021, SDO set the SDP spending benchmarks as follows:

Business Certification Category*	Spending Benchmark (Percent of State Agency's Discretionary Budget)
MBE	8%
WBE	14%
VBE and/or SDVOBE	3%

\* Other business certification categories were not included in this table because they did not have set spending benchmarks during fiscal year 2021.

In fiscal year 2021, 73 organizations participated in the SDP, falling into three organization types: executive branch state agencies, non-executive branch state agencies and constitutional offices,<sup>4</sup> and quasi-public entities.<sup>5</sup> Only executive branch state agencies are required to participate in SDO's procurement programs, which include the Small Business Purchasing Program and the SDP. Non-executive branch state agencies, constitutional offices, and quasi-public entities can voluntarily participate in the SDP.

### SDP Participants by Organization Type During Fiscal Year 2021



Participating organizations may use two types of spending to achieve SDP spending benchmarks: direct spending or indirect spending. In order to be considered SDP spending, direct spending must involve statewide or department contractors with at least one of the following certification categories: MBE, WBE, VBE, SDVOBE, DOBE, or LGBTBE. Indirect spending results from business partnerships between a public purchaser<sup>6</sup> and a contracted vendor that uses MBE-, WBE-, VBE-, SDVOBE-, DOBE-, or LGBTBE-certified vendors or subcontractors.

During the audit period, SDO monitored the progress toward meeting spending benchmarks for the state agencies participating in the SDP—either mandatorily or voluntarily—by requesting SDP spending data from OSD, since OSD manages and collects data on statewide contracts executed by state agencies. SDO analyzes the data and transfers the information into a progress report, which is emailed monthly to each

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4. Constitutional offices are offices of which the lead administrator is elected—as opposed to appointed—to the position. Examples include the Office of the Governor and the Attorney General's Office.
  5. Quasi-public entities are not fully public; they are controlled by a government-appointed board and operate independently of the legislative and executive branches. Examples include the Massachusetts Convention Center Authority and the Massachusetts Housing Finance Agency.
  6. Public purchasers include state executive branch agencies, Massachusetts cities and towns, public school districts, housing authorities, and public higher education groups.

SDP-participating state agency, OSD, and the secretariats that oversee state agencies. This report shows each SDP-participating state agency's progress toward meeting spending benchmarks.

After the audit period, SDO implemented a new monitoring process in March 2023. This new process includes leveraging the Supplier Diversity HUB system (HUB) (see the "HUB" section for more information), which allows SDO to manage all SDP information available in one system. In addition, SDO started holding mid-year reviews, which are optional meetings with SDP-participating state agencies, in which SDO provides these agencies with feedback and recommendations on ways to improve their progress toward meeting spending benchmarks.

### **SDP Spending Compliance Verification**

All statewide contractors are required to report their spending to OSD. Statewide contractors involved with the SDP have additional obligations: They must report the companies with which they have done business each fiscal year.

To ensure that statewide contractors are fulfilling their contractual obligations, SDO's Compliance Unit monitors statewide contractors' indirect spending. To do this, SDO sends a request to OSD for all fiscal year-end indirect spending from statewide contractors, since OSD collects this information. Then, SDO's Compliance Unit emails the SDP partner,<sup>7</sup> asking it to categorize as accurate, overstated, or understated the amount they received from the statewide contractor (see the following bulleted list for more information) and to include the dollar amount reported to it. If an SDP partner does not respond, SDO's Compliance Unit sends it a follow-up email. Once SDO receives a response from the SDP partner, SDO's Compliance Unit records the following information:

- the diversity spending amount category;
  - accurate—the statewide contractor spent within 10% of what it reported to OSD;
  - overstated—the statewide contractor spent less than what it reported to OSD;
  - understated—the statewide contractor spent more than what it reported to OSD;
- whether the SDP partner responded;
- the reported diversity spending amount from OSD;

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7. An SDP partner is a vendor that provides subcontracted and/or ancillary/operational goods and/or services to a statewide contractor and that is certified in at least one SDO-recognized business certification category.

- the confirmed amount from the SDP partner; and
- the percent difference between the reported and confirmed diversity spending amount.

For discrepancies greater than a 10% margin of what was reported by the SDP partner, SDO's Compliance Unit emails the statewide contractor requesting an explanation for the discrepancy and includes OSD on this email, since OSD manages statewide contracts. SDO then works with the statewide contractor to determine the discrepancy. However, not all discrepancies are resolved. If a discrepancy is not resolved, then SDO will escalate the matter to OSD.

### **SDO Marketing, Communications, and Training Unit**

The Marketing, Communications, and Training Unit is responsible for promoting to diverse and small businesses upcoming contract bidding opportunities. This promotion includes notifying certified businesses of upcoming contract bidding opportunities, hosting training sessions, and providing them with needed resources (e.g., technical assistance) to assist them in submitting a bid.

In addition, this unit manages the SDO website to ensure that it contains accurate and up-to-date information for stakeholders. This information includes topics such as any changes in the certification process or any regulations that may affect certified businesses. The Marketing, Communications, and Training Unit also runs SDO's social media platforms (e.g., SDO's accounts with LinkedIn and X, formerly known as Twitter), and a monthly newsletter that goes out to all certified vendors.

This unit also manages training activities. These training activities target public buyers, certified businesses, and potential business applicants. Offered training includes educating participants on how to use HUB and facilitating onboarding processes. According to its website, SDO training is available through instructor-led online sessions, prerecorded videos, and job aids.

### **Certrak**

SDO's Diverse and Small Business Certification Unit uses a proprietary system called Certrak to oversee the certification process. SDO makes its business certification application available to business applicants through its website using Certrak. SDO also uses Certrak to track the SDP-related information of certified businesses.

## **HUB**

SDO's proprietary HUB system allows users to communicate with each other and manage SDO's efforts to connect with diverse and small businesses. HUB also streamlines agency procurement plans for diverse and small businesses, supports state agency and state contractor reporting compliance, and sends notices to diverse and small businesses, SDP-participating state agencies, and state contractors.

HUB users include SDO, state contractors, certified businesses, and public purchasers. Entities wishing to become HUB users can request access to HUB on SDO's website. SDO offers its HUB users HUB trainings in the form of prerecorded webcasts and job aids available on its website.

## **Directory of Certified Businesses**

SDO provides public access to lists of certified businesses on its website through its Directory of Certified Businesses, which allows users to search for diverse and small businesses by location, certification category, or business type. SDO also offers a certification self-assessment tool on its website, where businesses seeking SDO certification can complete the self-assessment and see which certifications they are eligible to apply for.

## **OSD Systems: COMMBUYS, Vendor Report Management Portal, and Uniform Financial Report System**

OSD administers the following three systems, which SDO accesses to obtain information so that it can oversee and promote diversity, equity, and inclusion in state contracting:

- COMMBUYS is the state's web-based procurement platform for Commonwealth agencies and political subdivisions. COMMBUYS allows public purchasers to post contract bid solicitations, enter into contracts with vendors for goods and services, and make purchases on new and existing contracts. COMMBUYS is the only official procurement record system for the Commonwealth of Massachusetts.
- According to OSD's website, "The Vendor Report Management (VRM) portal is a secure, cloud-based tool to streamline the collection of quarterly Sales Reports and Administration Fee payments from Statewide Contract Vendors." SDO uses it to collect SDP data from statewide contractors and to provide vendors with access to the spending history that statewide contractors report.
- According to OSD's website, the Uniform Financial Report System "allows human and social service contractors to file their annual financial statements online. It also provides these statements to the general public at no charge."

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Supplier Diversity Office (SDO) for the period January 1, 2021 through December 31, 2022.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. To what extent, if at all, did SDO meet the goal of maintaining consistent and measurable progress in expanding access and equity of opportunity in state contracting, in accordance with Section 61(a) of Chapter 7 of the General Laws?	To a sufficient extent
2. How, if at all, did SDO's Compliance Unit monitor the purchasing performance of each state agency participating in the Supplier Diversity Program (SDP) to ensure that these agencies met benchmarks established in Section 61(m) of Chapter 7 of the General Laws?	To an insufficient extent; see Finding <u>1</u> and Other Matters <u>1</u> and <u>3</u>
3. How, if at all, did SDO monitor contracts between statewide contractors and SDP partners to ensure that statewide contractors were in program compliance, as required by Section 61(m) of Chapter 7 of the General Laws?	To an insufficient extent; see Finding <u>2</u> and Other Matter <u>2</u>
4. To what extent, if at all, did SDO devise equitable policies and procedures to provide training and other services for all SDO programs, as required by SDO's final budgetary language for line items 1775–0200 for fiscal year 2021 and 1780–0100 for fiscal year 2022?	To a sufficient extent

In addition to the conclusions we reached regarding our audit objectives, we also identified issues not specifically addressed by our objectives. For more information, see [Other Matters](#).

To accomplish our audit objectives, we gained an understanding of the aspects of the internal control environment relevant to our objectives by reviewing applicable SDO policies and procedures and by conducting inquiries with SDO officials who are responsible for the oversight of SDO's programs. In

addition, to obtain sufficient, appropriate evidence to address our audit objectives, we performed the procedures described below.

### Progress in Expanding Access and Equity of Opportunity in State Contracting

To determine to what extent, if at all, SDO met the goal of maintaining consistent and measurable progress in expanding access and equity of opportunity to state contracting, in accordance with Section 61(a) of Chapter 7 of the General Laws, we took the following actions. We requested, and SDO provided, a list of business applicants that submitted applications during the audit period. From this list, we selected a random, nonstatistical sample of 50 businesses out of 592 businesses that submitted certification applications during the audit period.

	Number of Businesses	Percent of Businesses
Businesses That Applied After Attending a Precertification Workshop	592	55%
Businesses That Did Not Apply After Attending a Precertification Workshop	487*	45%
Total Number of Businesses That Attended a Precertification Workshop	<u>1,079</u>	<u>100%</u>

\* Note that 88 out of these 487 businesses that attended a precertification workshop during the audit period submitted applications after the audit period.

We requested the full application for each business applicant in our sample and determined whether the submitted application was accepted or rejected by SDO or whether a business withdrew its application by reviewing each application's Certrak activity log.

- For applications that were accepted, we determined whether an intake coordinator performed an investigation as required by the document "Supplier Diversity Office (SDO) Standard Certification Policy & Procedures" and whether SDO sent a letter to the business, notifying it that SDO approved it for certification.
- For applications that were rejected, we determined whether SDO communicated the application issues to the business applicant and whether SDO allowed the business applicant to take the time allotted by the document "Supplier Diversity Office (SDO) Standard Certification Policy & Procedures" to fix these issues.
- For applications that were withdrawn, we requested and reviewed correspondence from the business applicants in question that communicated the reason why they withdrew their applications.



Furthermore, we calculated the amount of time it took SDO to complete both the full certification process and each step in the certification process.

### Average Number of Business Days in Each Part of the Certification Process

	Average Number of Business Days to Complete				Number of Applications
	Intake Coordinator's Initial Decision	Intake Coordinator's Transmittal to Investigator	Investigator's Decision	Full Process	
Applications Initially Accepted	9	33	23	65	6
Applications Initially Rejected, Then Approved	11	77	28	116	33
Total Applications Approved	—	—	—	—	<u>39*</u>

\* This is the number of applications that were approved out of our sample of 50.

### Point in the Certification Process When Applications Were Rejected and/or Withdrawn

	Number of Applications Rejected/Withdrawn During		Number of Applications
	Intake Coordinator's Step	Investigator's Step	
Applications Ultimately Rejected by SDO	3	2	<u>5</u>
Applications Ultimately Withdrawn by Business Applicant	1	3	<u>4</u>
Total Applications Not Approved	—	—	<u>9*</u>

\* This is the number of applications that were rejected and/or withdrawn out of our sample of 50.

For this objective, we noted no significant issues during our testing. Therefore, we concluded that, during the audit period, SDO met the goal of maintaining consistent and measurable progress in expanding access and equity of opportunity to state contracting.

### Benchmark Monitoring

To determine how, if at all, SDO's Compliance Unit monitored the purchasing performance of each SDP-participating state agency to ensure that these agencies met benchmarks established in Section 61(m) of Chapter 7 of the General Laws, we obtained and reviewed a list of state agencies that participated in the SDP during the audit period. From this list, we selected a random, nonstatistical sample of 20 state agencies out of 73 SDP-participating state agencies.

The list included the SDP spending amount made by each SDP-participating state agency, which would indicate its progress toward meeting SDO’s spending benchmark(s) for years 2021 and 2022. We reviewed one progress report for calendar year 2022 for each state agency in our sample to determine whether SDO monitored the purchasing performance of each state agency.

### Percent of SDP-Participating State Agencies That Met Spending Benchmarks

Certification Category	Percent of State Agencies That Met Benchmark	
	Fiscal Year 2021	Fiscal Year 2022
Minority-Owned Business Enterprise	40%	50%
Women-Owned Business Enterprise	20%	35%
Veteran Business Enterprise	10%	10%

For this objective, we noted certain issues during our testing. See Finding 1 and Other Matters 1 and 3 for more information regarding how SDO’s Compliance Unit monitors the purchasing performance of each SDP-participating state agency.

### Contract Monitoring

To determine how, if at all, SDO monitored contracts between statewide contractors and SDP partners to ensure that statewide contractors were in program compliance, as required by Section 61(m) of Chapter 7 of the General Laws, we requested, and SDO provided, a list of SDP spending transactions by statewide contractors. From this list, we selected a random, nonstatistical sample of 60 contracts from a population of 817 SDP spending contracts for the period July 1, 2020 through June 30, 2022.<sup>8</sup> The information for fiscal year 2023<sup>9</sup> was not available during our audit because the verification process relied on previous fiscal year–end data. We reviewed the work SDO’s Compliance Unit performed during the indirect spending validation process. SDO’s Compliance Unit provided us with each statewide contractor’s self-reported indirect spending; emails SDO sent to each SDP partner requesting that it confirm whether the reported spending by statewide contractors was accurate, overstated, or understated; and the SDP partner’s response. Next, we determined whether SDO logged each SDP partner’s response correctly. Then, we compared the reported spending from each statewide contractor to each SDP partner’s response and determined whether each statewide contractor provided accurate, overstated, or

8. SDO monitors SDP-participating state agency spending at the end of each fiscal year. Fiscal year 2021 began on July 1, 2020.

9. Fiscal year 2023 encompassed the period July 1, 2022 through June 30, 2023.

understated spending with each SDP partner. Lastly, we requested and reviewed follow-up emails SDO sent to each statewide contractor that SDO determined to have overstated SDP spending by more than 10%.

For this objective, we noted certain issues during our testing. See Finding 2 and Other Matters 2 for more information regarding how SDO monitors contracts between statewide contractors and SDP partners.

## **SDO's Equitable Policies and Procedures**

To determine to what extent, if at all, SDO devised equitable policies and procedures to provide training and other services for all SDO programs, as required by SDO's final budgetary language for line items 1775–0200 (fiscal year 2021) and 1780–0100 (fiscal year 2022), we took the following actions: In terms of our testing, we defined the term equitable as providing equal and fair training and other service opportunities to all entities across the Commonwealth. We interviewed SDO's director of marketing, communications, and training. We reviewed SDO's website to determine the types of training it offered as evidence of SDO's outreach and training to support diverse and small businesses. Trainings offered included general topics for public purchasers, topics about the Supplier Diversity HUB system, and topics about how to find SDP partners (which is delivered through webcasts). In addition, we reviewed SDO's *Municipal Supplier Diversity Playbook* (which provides a framework for the establishment and development of municipal SDPs) and the outcomes of SDO's statewide advertising campaign, which it executed with the help of an external marketing firm.

For this objective, we noted no significant issues during our testing. Therefore, we concluded that, during the audit period, SDO devised equitable policies and procedures to provide training and other services for all SDO programs.

We used nonstatistical sampling methods for testing and therefore did not project the results of our testing to any populations.

## **Data Reliability Assessment**

### **Progress in Expanding Access and Equity of Opportunity in State Contracting**

To determine the reliability of the list of business applicants that submitted applications during the audit period, we interviewed SDO system management employees who were knowledgeable about the data in the list. We performed validity and integrity tests on the list of business applicants, which

included (1) testing for duplicate entries; (2) testing for dates outside of the audit period; and (3) inspecting the data for hidden rows and columns, embedded data, and invisible content. Additionally, we selected 20 businesses from the list and vouched<sup>10</sup> these to the hardcopy applications.

### **Benchmark Monitoring**

To determine the reliability of the list of state agencies that participated in the SDP during the audit period, we interviewed SDO system management employees who were knowledgeable about the data in the list. We performed validity and integrity tests on the list of SDP-participating agencies, which included (1) testing for duplicate entries and (2) inspecting the data for hidden rows and columns, embedded data, and invisible content. Additionally, we selected 20 state agencies from the Executive Office for Administration and Finance's budget list, which is available through the Office of the Comptroller of the Commonwealth, and traced them to SDO's list of SDP-participating state agencies. Then we selected 20 state agencies from SDO's list of SDP-participating state agencies and vouched them back to the Executive Office for Administration and Finance's budget list.

### **Contract Monitoring**

To determine the reliability of the list of SDP spending transactions by statewide contractors, we interviewed SDO system management employees who were knowledgeable about the data in the list. We performed validity and integrity tests on the list of SDP spending transactions by statewide contractors, which included (1) testing for duplicate entries and (2) inspecting the data for hidden rows and columns, embedded data, and invisible content. Additionally, we selected a random sample of 20 businesses from this list and vouched them back to SDO's Directory of Certified Businesses, verifying the name of the SDP partner's business and its certification category.

Based on the results of the data reliability assessment procedures described above, we determined that the information we obtained was sufficiently reliable for the purposes of our audit.

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10. Vouching is the inspection of supporting documentation to corroborate data.

## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### **1. The Supplier Diversity Office was unable to provide complete evidence that it monitored Supplier Diversity Program—participating state agencies to ensure that they met Supplier Diversity Program spending benchmarks.**

The Supplier Diversity Office (SDO) was unable to provide us with complete evidence that it monitored Supplier Diversity Program (SDP) spending benchmarks for all SDP-participating state agencies in fiscal year 2021.

Although SDO has made progress reaching out to SDP-participating state agencies to help them meet spending benchmarks since it was first established as an independent state agency in January 2021, if SDO does not monitor SDP-participating state agencies to ensure that they meet SDP spending benchmarks, then it cannot ensure that state procurement and contracting incorporates diversity and equity practices or the inclusion of diverse and small Massachusetts businesses.

### **Authoritative Guidance**

Section 61(m) of Chapter 7 of the Massachusetts General Laws states,

*The SDO shall provide assistance to agencies in achieving diversity program goals and benchmarks. The SDO may refer an agency that fails to meet applicable program spending goals or benchmarks or to provide data, information or assistance as requested by the SDO on or before December 15 of each year to the operational services division, the division of capital asset management and maintenance or the appropriate oversight agency for consideration of whether to suspend or limit the procurement authority delegated to such agency or take other appropriate corrective actions.*

SDO's Massachusetts Supplier Diversity Office Executive Agency / Departments SDP Progress Review report states:

*An email message was sent to executive agencies and their secretariats which included their progress toward the SDP benchmark. . . . We also reviewed their [fiscal year 2022] discretionary spend final numbers as well as their [fiscal year 2023] discretionary spend progress to-date toward their benchmarks.*

*In [fiscal year 2022] prior to the [Supplier Diversity] HUB, this method depended on several manual tasks which involved labor-intensive procedures. The SDP spend data was collected by requesting reports and then copied and pasted into a master document.*

## Reasons for Issue

SDO stated that its first director of compliance and quality assurance was hired in October 2021 and that the Compliance Unit was not fully staffed until February 2022. From the establishment of the Compliance Unit until the end of the audit period, SDO manually sent out monthly emails to SDP-participating state agencies, showing their progress toward meeting spending benchmarks.

## Recommendations

1. SDO should conduct mid-year reviews on all SDP-participating state agencies and make recommendations and provide feedback to help these state agencies meet SDP spending benchmarks.
2. SDO should meet with all SDP-participating state agencies not meeting their spending benchmarks in order to help them improve in the following fiscal year.

## Auditee's Response

### *Auditee's Response to Finding #1:*

*The SDO appreciates the thorough feedback provided throughout the auditing process. The SDO is dedicated to improving processes and the auditing process has allowed us to evaluate and improve upon our current strategic initiatives. This audit period began in January 2021, when the SDO had 13 full-time staff members, none of whom were dedicated to SDO compliance. The SDO did not become an independent agency until halfway through that month and, for the remaining five and a half months of that fiscal year, was not provided any funding to form a Compliance unit. After the passage of the Fiscal Year 2022 budget, the SDO posted the position of Director of Compliance and Quality Assurance, which was filled in October 2021. Upon the Director of Compliance and Quality Assurance starting, the additional compliance officer positions were filled in February of 2022. The Compliance team was thus newly formed and only fully staffed for a portion of this audit period.*

*The SDO currently conducts mid-year reviews on all Executive Agencies participating in the SDP and [the Small Business Purchasing Program (SBPP)] programs. Although this process was not adopted until after the audit period, the SDO has conducted mid-year reviews since Fiscal Year 2023. The SDO will continue these reviews to ensure compliance with Supplier Diversity spend goals.*

*Prior to the development and launch of the Supplier Diversity HUB, Executive Agency Benchmark progress reports and report cards were sent monthly via email to all Executive Agencies during Fiscal Year 2021 and Fiscal Year 2022. The Supplier Diversity HUB was created as a proactive way for Executive Agencies to monitor their progress towards SDP/SBPP goals in real time. In Fiscal Year 2023, the process of emailing progress reports and report cards ended, and Executive Agencies were directed to log into the Supplier Diversity HUB for the most up-to-date progress via a comprehensive dashboard.*

*In addition, SDO holds monthly Supplier Diversity Officers meetings where the overall agencies' year over year progress (discretionary goods and services spending) is displayed. Supplier Diversity Officers are reminded and encouraged every month to utilize the Supplier Diversity HUB to track their progress.*

*The SDO agrees with the recommendation of holding ongoing strategic meetings with Executive Agencies who are not meeting Supplier Diversity goals. Many times, these meetings help to uncover issues faced by Agencies in their efforts to achieve the SDP and SBPP benchmarks. Executive Agencies may have difficulty meeting their SDP spending benchmarks due to a variety of factors. For example, an Executive Agency that does not have any large procurements over \$250,000 in a fiscal year is required to participate in the Small Business Purchasing Program instead of the Supplier Diversity Program. Some other Agencies may have small discretionary budgets and, therefore, do not have many available expenses from which they can achieve the six benchmarks. Other Agencies may have specialized areas of spending, where the SDO may not have many available certified businesses and/or statewide contracts may not have sufficient diverse businesses on contract. We will continue to use these individual Executive Agency meetings as an opportunity to uncover and discuss what issues agencies are facing in their efforts to achieve SDP and SBPP benchmarks.*

### **Auditor's Reply**

SDO agrees with our recommendations, and we commend it for working on steps to better help agencies meet its benchmarks.

## **2. The Supplier Diversity Office did not settle overstated Supplier Diversity Program indirect spending discrepancies reported by statewide contractors.**

While SDO did determine through its indirect spending validation process that 8 statewide contractors out of the 60 in our sample overstated their indirect SDP spending with SDP partners, it did not resolve these discrepancies. Specifically, of these 8 statewide contractors, SDO only reached out to 5 to attempt to resolve these discrepancies.

As a result of not resolving overstated indirect SDP spending, SDO's Compliance Unit could not confirm indirect spending by SDP partners against the reported amounts by statewide contractors. If SDO does not confirm SDP indirect spending, then opportunities for diverse and small businesses in the Commonwealth may not be met and SDP-participating agencies may not be meeting spending benchmarks to which they agreed.

## Authoritative Guidance

According to Section VI (Discrepancies) of SDO's "Supplier Diversity Program (SDP) Indirect Spend Validation" policy,

*If [an SDP] Partner reports a discrepancy more than 10% less than what was reported by the [statewide contractor], then an email should be sent to the [statewide contractor] to explain the difference. . . .*

*Send an email to the [statewide contractor] explaining the discrepancy and request to validate the original amount they reported.*

Section 61(m) of Chapter 7 of the General Laws states,

*The SDO shall establish and maintain a compliance unit for the purposes of ensuring certification, contract and program compliance. SDO shall, after notice and an opportunity to be heard, impose administrative penalties on an applicant for certification or recertification that knowingly provides false or misleading information on its application or in support of its application for certification or recertification as a diverse business, or on a person who fails to comply with any provision of any regulation or approval issued or adopted by the agency or of any law which the agency has the authority or responsibility to enforce.*

*The SDO shall also, after notice and an opportunity to be heard, impose administrative penalties on contractors for knowingly misreporting spending with or the identity of diverse business partners. For agency contracts that are determined by the SDO to be non-compliant with the applicable diversity program, the SDO shall make a recommendation to the agency to take corrective action against the contractor. The agency shall make the determination as to whether to suspend or terminate the contract or take other corrective actions in order to bring the contractor into compliance.*

## Reasons for Issues

SDO did not reach out to two of the statewide contractors that overstated their SDP indirect spending in fiscal year 2021 because the two discrepancies in question predated the creation of the Compliance Unit, which was not fully staffed until February 2022.

## Recommendation

SDO should implement penalties to statewide contractors that are not accurately reporting their SDP spending and always resolve overstated indirect SDP spending.

## Auditee's Response

*Auditee's Response to Finding #2:*



*The SDO agrees that regulations that impose penalties on statewide contractors who falsify Supplier Diversity spending should be explored. The SDO will continue to work with statewide contract managers at [the Operational Services Division (OSD)] to resolve any overstated indirect SDP spending. All statewide contracts and the Vendor Report Management software (used by statewide contractors to report their diverse spend) are owned and managed by OSD.*

### **Auditor's Reply**

SDO agrees with our recommendation, and we will follow up on this issue in approximately six months as part of our post-audit review.

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## OTHER MATTERS

### **1. The Supplier Diversity Office's ability to monitor Supplier Diversity Program spending is limited to that of only executive branch state agencies.**

The Supplier Diversity Office's (SDO's) ability to monitor Supplier Diversity Program (SDP) spending is limited to that of only executive branch state agencies. This is because SDO only has access to executive branch state agencies' spending in the Massachusetts Management Accounting and Reporting System (the state's accounting system). However, SDO does not have access to non-executive branch state agencies, constitutional offices, and quasi-public entities.

SDO has been encouraging non-executive branch state agencies, constitutional offices, and quasi-public entities to voluntarily participate in the SDP. In fiscal year 2021, 12 non-executive branch state agencies, constitutional offices, and quasi-public entities submitted Narrative Reports to SDO.<sup>11</sup> In fiscal year 2022, this number increased to 14 non-executive branch state agencies, constitutional offices, and quasi-public entities.

For SDO to provide an accurate picture of SDP spending across Massachusetts, SDO should increase its efforts to encourage all non-executive branch state agencies, constitutional offices, and quasi-public entities to participate in its SDP.

### **Auditee's Response**

*The SDO has already begun to increase its outreach to encourage non-executive branch state agencies, constitutional offices, and quasi-public entities to participate in its reporting processes. As stated above, over several fiscal years the number of organizations voluntarily participating in the SDP and [the Small Business Purchasing Program] and SDO's Annual Report has steadily increased since this effort started in [fiscal year] 2016. In SDO's last-issued annual report ([fiscal year] 2013), 15 non-executive branch state agencies, constitutional offices, and quasi-public entities submitted Narrative Reports in SDO's [fiscal year] 2023 Annual Report. In November of 2024, SDO hosted a "Supplier Diversity Roundtable" discussion, at which quasi-public entities, non-executive agencies, and constitutional offices were welcomed and given information regarding how the SDO can help them increase their supplier diversity and showcase their achievements in our Annual Report.*

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11. Regarding Narrative Reports: According to SDO's fiscal year 2021 annual report, SDO allows SDP partners to voluntarily submit a short narrative explaining their efforts to meet the spending benchmarks and may include any other information about their efforts to advance diversity and inclusion in procurement.

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## Auditor's Reply

We commend SDO on its increased efforts to get more agencies to participate in the SDP, and we will follow up on this issue in approximately six months as part of our post-audit review.

## 2. The Supplier Diversity Office did not confirm all Supplier Diversity Program indirect spending made by statewide contractors.

SDO did not confirm SDP indirect spending information on 16 out of the 60 SDP partners in our sample.

SDO's "Supplier Diversity Program (SDP) Indirect Spend Validation" policy outlines the following steps SDO needs to take to confirm SDP partner spending:

### V. Internal Tracking

*As you receive the email confirmations back from the Partners, populate the columns within the [Vendor Report Management portal] excel document with the validated information. . . .*

*Responded: [Yes/No]*

- Reported Amount: Already populated the spending amount*
- Confirmed Amount: Add the dollar amount in the Confirmed Amount once validated by SDP Partner via email*
- Difference [percentage]: Percentage auto calculates*
- Results: Select Accurate/Underreported/Overreported. Note: if the results are within a 10% margin, then the validation is considered accurate*
- Compliance Officer: the person responsible for tracking validation information. . . .*

### VII. No Response

*If the SDO [SDP] Partner does not respond to the first email request, then follow up with the Second Notification Reminder email message.*

### VIII. Bounce Backs

*Collect all bounce-backs and undeliverable emails into one document and send the spreadsheet to the SDO Systems and Data Analytics Unit for further review.*

Because SDO did not confirm information on how much statewide contractors expended on SDP indirect spending, SDO is limited in its ability to provide oversight of and confirmation that statewide contractors meet their contractual SDP indirect spending.

We recommend that SDO collaborate with the Operational Services Division (OSD) to obtain accurate spending information as reported by statewide contractors and more details on contractual agreements in order to effectively monitor whether statewide contractors meet SDP indirect spending agreements. In addition, SDO should take additional measures to improve the amount of SDP indirect spending reported by SDP partners by reaching out multiple times for better information confirmation.

### **Auditee's Response**

*The SDO agrees with the recommendation for further collaboration with the Operational Services Division (OSD). The two agencies have been working together since the Audit Period to encourage greater reporting of indirect spending. In addition, SDO and OSD have executed an Interdepartmental Service Agreement (ISA) to document our respective responsibilities for the purpose of increasing diverse and small business representation on and validation of diverse business spending on statewide contracts. It is of note that it is crucial for SDP partners to respond to requests for verification, and while the SDO Compliance Unit reaches out multiple times, not all partners respond.*

*However, since the Audit Period, the SDO's Compliance Unit has increased the number of SDP reported line items confirmed significantly. In [fiscal year] 2023 for example, the SDO Compliance staff verified 1,459 line items, up from only 269 in [fiscal year] 2022. This resulted in verification of over \$307 million in SDP spend. The SDO will continue these efforts.*

### **Auditor's Reply**

We commend SDO on its increased efforts to get more SDP partners to confirm indirect spending, and we will follow up on this issue in approximately six months as part of our post-audit review.

### **3. The Supplier Diversity Office requires greater access to COMMBUYS to increase the involvement of diverse and small businesses in the state's contract bid solicitation process.**

SDO has limited access to COMMBUYS. Without necessary access, SDO cannot determine whether contracts contain language to fulfill diverse and small business requirements or identify potential barriers to entry, such as contract length, before a contract is negotiated and executed.

During the audit period, SDO reached out to OSD and requested view-only access to COMMBUYS to determine whether contracts met requirements; however, OSD denied SDO this access. Because SDO already asked OSD for view-only access to COMMBUYS, we recommend that SDO reach out to the Executive Office for Administration and Finance, which oversees both SDO and OSD, to gain the access needed to provide effective oversight of SDP spending in Massachusetts.

### **Auditee's Response**

*The SDO agrees that greater COMMBUYS access would facilitate better compliance efforts by SDO staff directly. The SDO will collaborate with the Executive Office of Administration and Finance, as well as the Operational Services Division (OSD), to ensure that the two agencies work in partnership to provide increased oversight.*

### **Auditor's Reply**

Based on its response, SDO agrees with our recommendation, and we will follow up on this issue in approximately six months as part of our post-audit review.