



Disabled Veteran Business Enterprise Program

The Departments of General Services and
Veterans Affairs Have Failed to Maximize
Participation and to Accurately Measure
Program Success

February 2019

REPORT 2018-114





CALIFORNIA STATE AUDITOR

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February 14, 2019
2018-114

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As the Joint Legislative Audit Committee requested, the California State Auditor presents to you this audit report regarding California's Disabled Veteran Business Enterprise (DVBE) program.

The Department of General Services (General Services) and the California Department of Veterans Affairs (CalVet) are responsible for overseeing the DVBE program, which requires that state governmental entities that award contracts for goods or services (awarding departments) strive to spend at least 3 percent of the cumulative value of all their contracts on DVBE firms (3 percent goal). This report finds that the State lacks accurate data to gauge DVBE program success and that General Services and CalVet have failed to maximize DVBE participation and to accurately measure the program's success.

One indicator that the DVBE program could be improved is that only a small percentage of currently certified DVBE firms actually benefit from the program. Of the 1,671 firms registered in the DVBE program in fiscal year 2017–18, only 133 (or 8 percent) received contracts as prime contractors directly from state agencies. Moreover, 89 percent of the total amount the State awarded directly to DVBE firms that year went to only 30 of those 133 firms.

We reviewed six awarding departments to understand how they identify and contract with DVBE firms, and they explained that they often struggle to find a DVBE firm that can provide the services or products they need. The awarding departments claim that there are not enough qualified certified DVBE firms. Nevertheless, CalVet and General Services have not considered awarding departments' needs in their outreach efforts to encourage more businesses owned by disabled veterans to participate in the DVBE program, nor have they measured the success of those outreach efforts. CalVet also lacks the necessary resources to fully meet its statutory responsibility to assist departments that struggle to meet the 3 percent goal, and we believe that General Services is better equipped to fulfill this responsibility.

Finally, none of six awarding departments we reviewed could fully support the amounts that they told General Services they had spent on contracts with DVBE firms in fiscal year 2017–18. As a result, General Services may have overstated awarding departments' successes in meeting the 3 percent goal, further highlighting the State's need for reliable data by which to measure this program's success.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA
California State Auditor

Selected Abbreviations Used in This Report

Audit Services	General Services' Office of Audit Services
awarding departments	state governmental entities that award contracts for goods and services
Caltrans	California Department of Transportation
CalVet	California Department of Veterans Affairs
Corrections	California Department of Corrections and Rehabilitation
DMV	Department of Motor Vehicles
DVBE	Disabled Veteran Business Enterprise
DVBE firms	businesses certified in the DVBE program
DVBE office	General Services' Office of Small Business and Disabled Veteran Business Enterprise Services
FI\$Cal	Financial Information System for California
General Services	Department of General Services
LPA	Leveraged Procurement Agreement
Public Health	California Department of Public Health

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SUMMARY

The Disabled Veteran Business Enterprise (DVBE) program directs California governmental entities, such as state agencies and departments, to procure goods and services from firms that the Department of General Services (General Services) has certified as meeting the DVBE eligibility criteria required by law (DVBE firms). The DVBE program requires that state governmental entities that award contracts for goods and services (awarding departments) strive to expend not less than 3 percent of the cumulative value of all their contracts on DVBE firms (3 percent goal). In its most recent annual report on state contracting activity, General Services reported that, overall, the State achieved the 3 percent goal each year during fiscal years 2014–15 through 2016–17.

However, the legislative intent of the DVBE program is to honor California’s disabled veterans by having them benefit financially from doing business with the State. A report we issued in 2014 titled *Disabled Veteran Business Enterprise Program: Meaningful Performance Standards and Better Guidance by the California Departments of General Services and Veterans Affairs Would Strengthen the Program* (Report 2013-115) pointed out several shortcomings of the program. Our current review found that many of the issues we reported in 2014 still persist.

A Small Percentage of Firms Have Benefited From the DVBE Program

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The DVBE program continues to benefit only a small percentage of DVBE firms. Just 133 (or 8 percent) of the 1,671 certified DVBE firms received contracts directly from awarding departments during fiscal year 2017–18.¹ Further, 30 of those 133 DVBE firms captured most of the revenue associated with these contracts. Awarding departments stated that they often struggle to find a DVBE firm that can provide the services or products they need, and they attribute this difficulty to a lack of qualified DVBE firms and the complexities involved in using General Services’ procurement system to identify such DVBE firms.

¹ These percentages do not include DVBE firms that are subcontractors and that provide products or services on behalf of primary contractors. Specifically, as we report on page 11, although General Services believes many such firms exist, it lacks the data necessary to quantify the number of DVBE firms that are subcontractors and that financially benefit from doing business with the State.

Page 19**General Services and CalVet Have Not Adequately Overseen the DVBE Program, Hindering Its Success**

The California Department of Veterans Affairs (CalVet) and General Services have not measured the success of their outreach efforts in encouraging more firms owned by disabled veterans to participate in the DVBE program. In addition, until recently neither department had considered the types of products and services that awarding departments struggle to procure from DVBE firms to help inform the two departments' outreach activities. Without considering information from awarding departments about their contracting needs and struggles, CalVet and General Services are missing opportunities to make the DVBE program more successful by increasing the number of DVBE firms that offer those products or services. Further, CalVet lacks the necessary staffing and immediate access to data to fully meet its statutory responsibility to assist underachieving awarding departments in meeting the 3 percent goal. However, given General Services' expertise and access to resources, we believe it is better equipped than CalVet to fulfill this responsibility.

Page 35**The State Lacks Accurate Data to Fully Measure the DVBE Program's Success**

The six awarding departments we reviewed could not fully support the DVBE participation data they reported for fiscal year 2017–18. Most significantly, five of these six departments overstated some DVBE participation amounts. As a result, departments' claimed DVBE participation levels could be significantly inflated and could lead users of this information to draw incorrect conclusions about these departments' success in meeting the 3 percent goal. Additionally, General Services does not have reliable contracting and procurement data to measure the DVBE program's success. General Services plans to use the Financial Information System for California (FI\$Cal) to generate DVBE activity reports beginning with fiscal year 2018–19, which may reduce the likelihood of input error and may alleviate some DVBE reporting issues.

Summary of Recommendations

Legislature

To ensure that awarding departments that fail to meet the 3 percent goal receive the assistance necessary to achieve the goal, the Legislature should amend state law to transfer the responsibility for monitoring and assisting underachieving departments from CalVet to General Services.

CalVet and General Services as Oversight Entities

To ensure that a greater number of DVBE firms benefit from the DVBE program, General Services should work with awarding departments to understand why only a few DVBE firms receive a large number of contract awards. Using its findings, General Services should take the necessary steps to remedy this situation.

To ensure that awarding departments can effectively identify DVBE firms that provide needed products and services, General Services should work with awarding departments to make its procurement system easier to use for identifying such DVBE firms.

To ensure that their outreach efforts are effective and result in a greater number of DVBE firms available to provide the necessary goods and services awarding departments are seeking, CalVet and General Services should assess the effectiveness of their past outreach efforts and work with awarding departments to target specific types of disabled veteran-owned businesses.

Until it begins generating DVBE activity reports using FI\$Cal, General Services should require awarding departments to perform a secondary review of their DVBE activity reports to make sure that the data are supported by documentation.

Awarding Departments

To ensure that DVBE participation data are reported accurately and consistently, Caltrans, Corrections, DMV, General Services, and Public Health should implement or strengthen a secondary review process to ensure that contracts are accurately recorded in their data systems.

Agency Comments

Caltrans, CalVet, Corrections, DMV, and Public Health agreed with the recommendations we made to them and indicated that they will take steps necessary to implement all recommendations. Although General Services generally agreed with our recommendations, it overstated the effectiveness of some of its existing processes.

INTRODUCTION

Background

The Legislature established the Disabled Veteran Business Enterprise (DVBE) program to provide disabled veterans opportunities for entrepreneurship and to recognize the sacrifices of Californians disabled during military service. The Legislature intended for state governmental entities that award contracts for goods or services (awarding departments) to take all practical actions necessary to meet or exceed the goal of awarding at least 3 percent of the total value of their contracts during a fiscal year to firms certified by the Department of General Services (General Services) as meeting the DVBE criteria (DVBE firms), referred to as the *3 percent goal*. For example, a department that awards contracts valued at a total of \$100,000 for goods or services during the year must strive to award at least \$3,000 of that total to DVBE firms. According to the *State Contracting Manual*, if an awarding department does not meet the 3 percent goal, it must develop a plan for improvement. Although state law establishes the 3 percent goal as the minimum level of expected performance, some awarding departments, such as the California Department of Veterans Affairs (CalVet) and the California Department of Transportation (Caltrans), have established their own higher goals. Both departments explained that their rationale for setting a higher goal is to ensure that their departments exceed the state goal.

Awarding departments may meet the 3 percent goal by contracting directly with certified DVBE firms as prime contractors—those contractors who contract directly with the awarding department—or by contracting with non-DVBE firms who use DVBE firms as subcontractors for a portion of the contract work. According to General Services' annual reports on state contracting activity, overall the State achieved the 3 percent goal each year from fiscal years 2014–15 through 2016–17. Further, according to its fiscal year 2016–17 annual report, DVBE subcontractors accounted for 32 percent—or \$105 million—of the State's total reported DVBE participation of \$327 million.

Although the 3 percent goal applies to awarding departments' overall awards for the year, some contracts are exempt from DVBE participation requirements. Departments also have the discretion to waive the requirements for an individual contract under certain circumstances. The text box shows examples of contracts that are exempt from the 3 percent goal.

Examples of State Contracts Exempt from the DVBE Program's 3 Percent Goal

Contracts between awarding departments and the following entities, among others, are exempt from the 3 percent goal:

- Federal, state, and local government agencies
- Public colleges and universities
- Joint powers authorities

Source: State regulations and the *State Contracting Manual*.

General Services Is Responsible for Administering the DVBE Program

State law establishes General Services as the administering agency for the DVBE program, and in this capacity it is responsible for performing several functions. One such function is assessing applicant firms' eligibility to become DVBEs and certifying those firms that meet the requirements. According to General Services'

records, as of December 2018, 1,671 firms were certified as DVBEs. General Services' Office of Small Business and Disabled Veteran Business Enterprise Services (DVBE office) evaluates applications for certification. The text box summarizes the key state DVBE eligibility requirements. As part of its review of applications for certification, the DVBE office requires new applicants to supply proof from the U.S. Department of Veterans Affairs or the U.S. Department of Defense that the business owner has a service-connected disability of at least 10 percent. Furthermore, state law requires the disabled veteran business owner to submit tax returns so that the DVBE office can substantiate that one or more disabled veterans actually own the business. As of January 2019, a certified DVBE must reapply every two years to maintain its certification status.

Key State Disabled Veteran Business Enterprise Certification and Eligibility Requirements

State law generally defines a *disabled veteran business enterprise* as a business which General Services has certified as meeting all of the following requirements:

- At least 51 percent of the business is owned by one or more disabled veterans.
- The daily business operations are managed and controlled by one or more disabled veterans.
- The business is not a subsidiary of a foreign corporation.

The term *disabled veteran* is defined in state law as a veteran who meets all of the following:

- Is a veteran of the U.S. military, naval, or air service.
- Has a military, naval, or air service-connected disability of at least 10 percent.
- Permanently resides in California.

Source: [Military and Veterans Code](#).

In addition to requiring that General Services certify DVBE firms, state law requires that it prepare an annual public report indicating whether each awarding department has met the 3 percent goal. State law further requires General

Services to categorize this information by type of contract, such as contracts for construction, professional services, supplies, and information technology procurements. To enable it to develop this report, the DVBE office requires awarding departments, by August 1 each year, to use a standardized reporting form (DVBE activity report) to report information on the value of all contracts they awarded during the previous fiscal year and the value of contracts they awarded to certified DVBE firms as either prime contractors or subcontractors. To increase the likelihood that the DVBE participation data can be substantiated and are reported properly, General Services requires awarding departments to maintain supporting documentation for their DVBE activity reports. The DVBE office provides training opportunities to awarding departments on how to properly report their DVBE contracting activity.

General Services also has an Office of Audit Services (Audit Services), which, among other functions, reviews awarding departments' business and management practices, including reviewing their DVBE reporting. This review entails determining whether a department has maintained support for its reported DVBE participation data and whether it counted only contracts awarded to certified DVBE firms. Audit Services' 2018 audit plan identified a selection of 40 state departments and agencies that it intends to audit within three years.

Further, state law requires General Services to provide centralized state purchasing and acquisition services. General Services uses the Financial Information System for California (FI\$Cal) to help it meet these responsibilities. FI\$Cal is an integrated financial management system that combines accounting, budgeting, cash management, and procurement operations; and it is used by most state entities. In 2016 General Services transitioned to FI\$Cal as its statewide contracts database.

General Services also has a role in promoting the DVBE program within state government, and it facilitates periodic meetings to which it invites each of the awarding departments' DVBE advocates. State law requires each awarding department to appoint its own DVBE advocate, who in turn is required to assist DVBE firms participating in the contracting process as well as to assist the awarding department in seeking DVBE participation in its contract activities. The periodic meetings General Services hosts address DVBE policies and related matters, such as questions from the advocates themselves and updates related to the DVBE program. The DVBE office has seven staff members who perform outreach activities by attending events to promote the DVBE program. According to General Services, in fiscal year 2017–18, DVBE office staff attended nearly 200 events held at chambers of commerce, state departments, and other organizations for promotional purposes.

Moreover, General Services is responsible for overseeing complaints related to potential abuse of the DVBE program. State law requires awarding departments to report allegations of program abuse to General Services, which must monitor the status of the resolution of these potential violations. State regulations require the awarding departments to investigate each allegation and provide a written report, including recommended actions to take against the program abuser, to General Services within 60 days of the notification or discovery of the alleged violation. General Services is responsible for reviewing the recommendations and for taking further action, if necessary.

CalVet's Responsibilities Under the DVBE Program

CalVet's responsibilities include the following:

- Promoting the DVBE program to the fullest extent possible and maintaining complete records of its promotional efforts.
- Establishing a system to track the effectiveness of its promotional efforts.
- Establishing a method of monitoring adherence to the participation goal.
- Appointing a statewide DVBE advocate responsible to do the following:
 - Oversee, promote, and coordinate efforts to implement the program.
 - Coordinate with administering agencies to achieve the participation goal.
 - Coordinate with awarding departments and their respective DVBE advocates.

Source: Military and Veterans Code.

CalVet Is Responsible for Outreach and for Assisting Awarding Departments

State law generally establishes two key responsibilities for CalVet with respect to the DVBE program. First, state law requires CalVet to monitor awarding departments' performance toward meeting the 3 percent goal. Second, state law makes CalVet responsible for promoting the DVBE program. The text box lists these and other CalVet program responsibilities identified in the Military and Veterans Code. CalVet received nearly \$270,000 in funding from General Services in fiscal year 2017–18 through an interagency agreement to support its outreach efforts in increasing the pool of certified DVBEs. However, as of fiscal year 2018–19, that interagency agreement is no longer in effect.

State Law Encourages the Awarding of Contracts to DVBE Firms

State procurement rules encourage awarding departments to contract with DVBE firms by simplifying the competitive bidding process through a provision referred to as the *DVBE option*. Under state law, the DVBE option provides a streamlined contracting process in which an awarding department can award a contract greater than \$5,000 and less than \$250,000 to a DVBE firm outside of the State's competitive bidding process, as long as it obtains bids from at least two certified DVBE firms. The *State Contracting Manual* explains that when using the DVBE option, an awarding department does not need to advertise the contract opportunity in the *California State Contracts Register*, does not need to secure at least three competitive bids, and does not need to select the DVBE firm with the lowest quote so long as it documents its business reasons for selecting the chosen vendor. Because the DVBE option does not require them to satisfy these requirements, awarding departments may view it as a streamlined and relatively easy approach to contracting while also working toward meeting the State's 3 percent goal.

State procurement rules also encourage DVBE firms to bid on state contracting opportunities by providing them with an advantage, referred to as the *DVBE incentive*, when awarding departments evaluate their bids. According to state regulations, awarding departments have two options when applying the DVBE incentive. If contracts are to be awarded to the lowest bid,

awarding departments can reduce a DVBE's proposed price by up to 5 percent when determining the lowest bid. Similarly, if contracts are awarded on a scoring system in which the bid with the highest score wins the contract, DVBE vendors can receive up to 5 percent in additional points to make their proposals more likely to be selected. The preferential treatment called for under the DVBE incentive applies only during an awarding department's evaluation of bids and does not reduce the value of the contract awarded to the DVBE firm if it is selected. However, during our review period an awarding department could waive the DVBE incentive from its competitive solicitations if it met or exceeded the 3 percent goal in two of the three previous years as published in General Services' most current annual reports.²

Our Prior Review of the DVBE Program Found Significant Issues

In 2014 our office issued a report on the DVBE program noting that General Services and CalVet, as oversight departments, needed to establish meaningful performance standards and provide better guidance to strengthen the program and ensure that it meets the legislative intent of providing financial benefit to DVBE firms.³ Specifically, the report noted that 30 DVBE firms received more than 80 percent of the contract dollars awarded to DVBE prime contractors in fiscal year 2012–13. Moreover, the report identified weaknesses in the process meant to verify that DVBE subcontractors listed in the contract bid actually performed and were paid for the work. The report highlighted awarding departments' inability to support the DVBE participation data they reported and the lack of accurate contract data maintained by General Services. We present a summary of recommendations included in the 2014 report and the current status of their implementation in Appendix B on page 45.

² Effective January 1, 2019, state regulations eliminate the need for a department to have met or exceeded the 3 percent goal in two of the three previous years in order to waive the DVBE incentive. State regulations now provide that the highest ranking official may waive the DVBE incentive with a full and complete written justification as long as such exemption does not prevent achievement of a department's DVBE participation goal.

³ *The Disabled Veteran Business Enterprise Program: Meaningful Performance Standards and Guidance by the California Departments of General Services and Veterans Affairs Would Strengthen the Program*, Report 2013-115.

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A Small Percentage of Firms Have Benefited From the DVBE Program

Key Points

- With only 8 percent of the 1,671 certified DVBE firms receiving contracts as prime contractors from awarding departments during fiscal year 2017–18, the DVBE program continues to benefit only a small proportion of DVBE firms. Further, of the \$146 million in contract awards made to 133 DVBE firms as prime contractors during that fiscal year, a total of \$130 million went to only 30 firms, indicating that an even smaller number of firms are receiving the most revenue.
- Some awarding departments indicated that they often exempt contracts or procurements from DVBE participation because of a lack of qualified DVBE firms. In addition, several departments cited the complexities involved in using General Services' system—Cal eProcure—to search for and identify DVBE firms that provide the services or products they need.

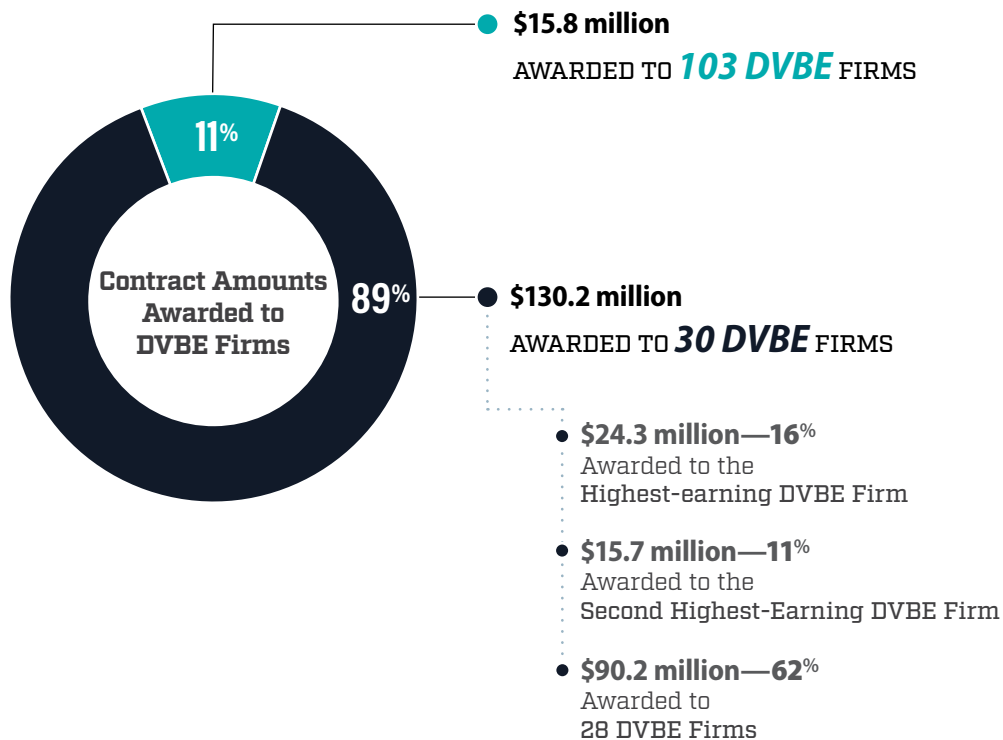
Only Some Businesses Have Benefited From Contracting Activity Under the DVBE Program

A small percentage of certified DVBE firms have financially benefited from doing business with the State. According to contracting data published on General Services' website, only 133 (or 8 percent) of the 1,671 certified DVBE firms contracted with awarding departments as prime contractors during fiscal year 2017–18. Although General Services believes that a number of DVBE firms also benefited from subcontracting, it cannot quantify the number that did so. Specifically, before fiscal year 2018–19, FI\$Cal recorded only prime contractor information and did not consistently record information on subcontractors. General Services stated that it has made modifications to FI\$Cal to start capturing all subcontractor information beginning in fiscal year 2018–19, and it expects to have more robust data on DVBE subcontracting activities by the following fiscal year. Therefore, given the lack of subcontracting information for previous fiscal years, we focused our analysis on DVBE prime contractors.

A December 2018 report (DVBE Program Review report) prepared by an external consulting group and published by General Services further supports our findings. Specifically, the external consulting group reviewed the DVBE program at 10 awarding departments by conducting an analysis of a selection of 298 contracts that included DVBE participation. These contracts included 321 awards to DVBE prime contractors or commitments to DVBE subcontractors, with some contracts having multiple DVBE subcontractors. The report determined that of the 298 contracts reviewed, 256 (or 86 percent) were awarded to DVBE firms serving as prime contractors. These findings suggest that the number of DVBE firms serving as subcontractors is not large.

Further, a handful of DVBE firms have been awarded a disproportionate amount of funds through state contracts. As Figure 1 shows, 30 DVBE firms received 89 percent of the total dollars awarded to DVBE prime contractors during fiscal year 2017–18, with two DVBE firms capturing nearly 30 percent of the total amount. We present the complete list of these 30 DVBE firms in Appendix C starting on page 47. Several of the top 30 DVBE firms in fiscal year 2017–18 have been among the top DVBE firms for multiple years. Specifically, 12 of the top 30 DVBE firms during fiscal year 2017–18 were also among the top 30 DVBE firms in fiscal year 2012–13, the fiscal year we reviewed as part of our 2014 audit report. Moreover, the DVBE firm that was awarded the highest amount as a prime contractor during fiscal year 2017–18 also had the highest amount in fiscal year 2009–10 and the second highest amount in fiscal year 2012–13.

Figure 1
The Top 30 DVBE Firms Received 89 Percent of the Contract Amounts Awarded to DVBE Prime Contractors During Fiscal Year 2017–18



Source: General Services' contracting data for fiscal year 2017–18, as published on its website.

Thirty-six percent of the 133 DVBE prime contractors that did business with the State during fiscal year 2017–18 received very small amounts. As Table 1 shows, 48 of the 133 firms were awarded less than \$50,000 each by awarding departments. Combined, the awards for these 48 DVBE firms accounted for less than \$1 million of the \$146 million awarded to all DVBE prime contractors. Given that the legislative intent of the program is to honor California’s disabled veterans, it seems reasonable to expect that the program would aim to benefit as many businesses owned by disabled veterans as possible. The fact that 30 businesses captured nearly 90 percent of the total funds awarded to DVBE firms serving as prime contractors calls into question whether the program is achieving its purpose.

Table 1
Awarding Departments Awarded Less Than \$50,000 Each to 36 Percent of DVBE Prime Contractors during Fiscal Year 2017–18

TOTAL CONTRACT AWARD RANGE	NUMBER OF DVBE PRIME CONTRACTORS	TOTAL NUMBER OF CONTRACTS AWARDED	COMBINED TOTAL DOLLAR VALUE OF CONTRACTS
Up to \$50,000	48	244	\$920,000
\$50,001 to \$200,000	27	839	2,705,000
\$200,001 to \$1,000,000	26	475	10,026,000
\$1,000,001 to \$5,000,000	26	4,383	60,877,000
Greater than \$5,000,000	6	3,318	71,476,000
Totals	133	9,259	\$146,004,000

Source: Cal eProcure data available on General Services’ website.

To understand why relatively few DVBE firms are contracting with the State, we interviewed officials at the six awarding departments we visited: General Services, CalVet, Caltrans, the California Department of Public Health (Public Health), the Department of Motor Vehicles (DMV), and the California Department of Corrections and Rehabilitation (Corrections). These awarding departments provided a variety of explanations for the low number of DVBE firms receiving contracts, including that the departments do not control which businesses win contracts. Our review of contracts awarded by these departments to 10 of the top 30 DVBE firms found that they followed the appropriate contracting procedures. In fact, solicitations for several contracts we reviewed received bids from more than one DVBE firm and the lowest bidder generally won the contract. Some awarding departments indicated that they require a significant amount of specialized goods or services that few DVBEs, if any, can provide. Further, some departments stated that many DVBEs do not have the capacity to fulfill large or multiregional contracts, such as by being able to deliver goods or services to different parts of California.

Moreover, the leveraged procurement agreement (LPA) program may limit a department's ability to use DVBE firms. Contracting requirements sometimes mandate that awarding departments award contracts to specific vendors under the State's LPA program. LPAs allow departments to buy directly from vendors through existing contracts and agreements, thus enabling General Services to streamline state purchases by removing repetitive, costly, and time-consuming bid processes. General Services maintains a list of available LPAs and the vendors that provide services or products for them. Further, the *State Contracting Manual* directs awarding departments to refer to the user guide instructions specific to each LPA. When procuring certain types of goods and services, and depending on the type of LPA used, the LPAs' user guide instructions may require that awarding departments use specific vendors. When the list of vendors for an LPA does not include any DVBE firms, these firms do not have an opportunity to participate in contracts awarded under that LPA.

The DVBE Program Review report concluded that LPAs offer a significant opportunity for DVBE firms to establish an ongoing relationship with the State because awarding departments will direct their purchases to DVBE firms when they are included as vendors in the user guide instructions for LPAs. However, according to General Services, of the almost 3,500 LPAs available, only 137 list DVBE firms as vendors. Given that the LPA program offers an opportunity for DVBE firms to benefit from contracting with the State and that there is currently limited opportunity for awarding departments to contract with DVBE firms under the LPA program, increasing the number of DVBE firms that participate in LPAs could make the DVBE program more successful.

General Services and CalVet have known for years that relatively few DVBEs benefit from the DVBE program.

General Services and CalVet have known for years that relatively few DVBEs benefit from the DVBE program. For example, our 2014 report found that in fiscal year 2012–13 that there were roughly 1,400 DVBE firms, yet only 256 (less than 19 percent) did business with the State and only 30 DVBE firms accounted for 83 percent of the total amounts the State awarded to DVBE firms as prime contractors. As a result, for our current audit we expected to find that General Services and CalVet had conducted some analysis to assess why this is the case. However, they

had not done so. General Services stated that it has received anecdotal information from DVBE firms that some firms seek DVBE certification only so that they can conduct business with non-state governmental entities, such as cities and counties, and this possibility could influence the actual number of DVBE firms actively seeking business with the State. However, General Services has not conducted an analysis to determine how many DVBE firms choose to use their certification only to conduct business with non-state governmental entities. Further, neither General Services nor CalVet has taken the needed steps since our 2014 report to determine what actions are necessary to increase the number of DVBE firms that receive contracts from awarding departments. Without assessing the reasons for this concentration of contract dollars in relatively few firms, General Services and CalVet are hindered from ensuring that the DVBE program provides its intended benefits.

Awarding Departments Say It Can Be Difficult to Find DVBE Firms That Meet Their Contract Needs

Although the six awarding departments we reviewed reported that they exceeded the 3 percent goal for fiscal year 2017–18, some of them explained that they sometimes exempt contracts or procurements from DVBE participation because they cannot always identify DVBE firms to meet their contracting needs. According to state regulations, awarding departments may exempt a contract solicitation from DVBE participation requirements, but they must document the exemption in the contract file if they do so. Even if awarding departments exempt certain contracts from DVBE participation requirements, they are still expected to meet the overall DVBE participation goal each year. Our review of 10 contracts with DVBE participation exemptions awarded by four of the awarding departments we visited—Caltrans, Corrections, DMV, and Public Health—found that the departments had appropriately documented the reasons for the exemptions.

The justifications for exempting these contracts from DVBE participation requirements varied. For example, DMV exempted a printing services contract valued at more than \$650,000 from DVBE participation requirements. In its justification for the exemption, DMV stated that it was not feasible for a printing service contractor to hire a DVBE subcontractor to provide equipment and labor, since these printing service contractors own and use specialized equipment that only their trained technicians operate. When we asked DMV why it did not consider any DVBE firms as the prime contractor to provide these services, it explained that it was not aware of any DVBE firm that could be the prime contractor and that was capable of printing the volume of

envelopes—more than 51 million—the contract required. Further, DMV asserted that it was not aware of any DVBE contractor that could have directly provided the necessary materials for this type of contract, and that it requires prime contractors on printing contracts to print the requested products to ensure they are in compliance with certain requirements. In fact, when DMV competitively bid the contract, it did not receive any bids from DVBE firms. Some awarding departments indicated that the State needs to increase the number of DVBE firms that can provide the types of services and products that the awarding departments need. We describe the additional efforts General Services and CalVet could undertake to address this issue beginning on page 19.

Some awarding departments also explained that searching for DVBE firms on General Services' procurement website—Cal eProcure—is difficult and does not always yield useful results. Each of the six awarding departments we visited use Cal eProcure's search engine as their primary source for finding qualified DVBE firms to meet their contract and procurement needs. The Cal eProcure profiles of DVBE firms contain self-selected business classification codes and keywords. General Services explained that when applying for certification, a DVBE firm can select from a list of roughly 55,000 codes to describe the services or products it provides. Cal eProcure uses the United Nations Standard Products and Services Code for this purpose, which includes a five-level hierarchical classification code set. However, the sheer volume of options may inhibit DVBE firms from selecting all of the correct codes for their profiles.

When applying for certification, a DVBE firm can select from a list of roughly 55,000 codes to describe the services or products it provides.

For example, if a DVBE firm sells receipts or receipt books, it would need to filter through multiple levels of the code sets for paper materials and products before finding the precise code for its product. Further, the DVBE firm can also create free-form keywords to help awarding departments search for it in Cal eProcure. However, the firm derives these keywords at its own discretion without any parameters, which could contribute to the difficulties some departments experience when trying to identify qualified DVBE firms.

Three of our reviewed departments indicated that DVBE firms might not appear in search results unless the codes or keywords the department uses match exactly with those selected by DVBE firms. General Services' own contracting division stated that it sometimes had trouble finding qualified DVBE firms through Cal eProcure because DVBE firms may not select the appropriate codes. Additionally, CalVet's Office of Procurement and Contracts told us that the keyword searches are not always intuitive as there are thousands of keywords and the keywords used in searches are not always the keywords in a firm's profile. DMV described a hypothetical example in which an analyst searching for a janitor might search Cal eProcure for the keyword "custodial" but might not find a qualified DVBE firm that had selected "janitorial" to describe its business, or a firm may have misspelled the keyword.

General Services acknowledged that it hears from awarding departments that they find Cal eProcure difficult to use for several reasons, including problems with DVBE firms using codes and keywords that are inconsistent with DVBE firms' respective products or services. General Services is developing lists of all the codes commonly used by awarding departments to more precisely identify what the State purchases. It plans to make these lists available online for both DVBE firms and awarding departments to reference. In addition, General Services explained that it advises DVBE firms on how they can update their certification profiles with the most effective codes and keywords.

General Services stated that its outreach unit advises DVBE firms to include a variety of keywords that accurately depict the services they provide or the products they sell. For example, it would advise a DVBE firm selling environmentally friendly disposable paper goods to use keywords such as *napkin*, *plate*, *cup*, *sustainable*, and *biodegradable*. Further, FI\$Cal offers online training and information on using the Cal eProcure system, which includes a course on how to search for DVBE firms. Finally, General Services stated that in October 2018 it reached out to each awarding department's DVBE advocate and asked him or her to identify the department's contracting needs for the next six to 12 months and to post this information prominently on the department's website to inform DVBE firms of opportunities. However, as of early January 2019, General Services knew of only two DVBE advocates who had posted this information on their respective department's website. General Services also told us that it is working with awarding departments to identify additional solutions to streamlining their searches in Cal eProcure. Until General Services does streamline its search criteria in Cal eProcure, some awarding departments will continue to face difficulties in using the system to identify qualified DVBE firms that meet their needs.

Recommendations

To increase the number of DVBE firms that awarding departments can contract with when required to use LPAs, General Services should develop and implement a plan to encourage DVBE firms to participate in LPAs.

To ensure that a greater number of DVBE firms benefit from the DVBE program, General Services should work with awarding departments to understand why only a few DVBE firms receive a large number of contract awards. Based on its findings, General Services should take the necessary steps to remedy this situation.

To ensure that awarding departments can effectively identify DVBE firms that provide needed products and services, General Services should do the following:

- Work with these departments to continue to narrow the codes available to those commonly used by awarding departments to more precisely identify what the State purchases and streamline search criteria in Cal eProcure.
- Ensure that by October 2019 departments identify their contracting needs and then post these needs prominently on their websites as a resource for DVBE firms.
- Continue to provide outreach services to DVBE firms on how to create effective keywords and choose appropriate codes.
- Explore other options for making the Cal eProcure search engine more effective for awarding departments.

General Services and CalVet Have Not Adequately Overseen the DVBE Program, Hindering Its Success

Key Points

- CalVet and General Services do not know whether their outreach efforts are effective in encouraging more businesses owned by disabled veterans to participate in the DVBE program. Further, until recently neither department had attempted to identify the types of products and services that awarding departments need so as to help inform the two departments' outreach activities.
- CalVet has not met its statutory responsibility to assist underachieving awarding departments in meeting the required 3 percent goal. General Services is better equipped than CalVet to fulfill this responsibility because it oversees policies and procedures used by all departments in their purchasing and contracting activities.
- General Services has provided minimal guidance to awarding departments on how to process complaints regarding abuse of the DVBE program and on how to prevent abuse from occurring. As a result, it cannot be certain that it is receiving all complaints regarding program abuse.

CalVet and General Services Have Not Assessed the Effectiveness of Their Outreach Efforts

CalVet has still not adequately addressed the recommendation from our 2014 audit report that it develop stronger measures to evaluate its outreach efforts. CalVet's responsibilities include promoting the DVBE program, which it does by encouraging businesses owned by disabled veterans to apply for certification in the program. In our 2014 report, we found that CalVet conducted outreach to the veteran community to promote the DVBE program and that it recorded some data on the outcomes of these visits—such as the number of interactions with people where DVBE certification was discussed. However, the collected data did not inform CalVet whether the individuals it interacted with subsequently sought and obtained a DVBE certification for their businesses. Without such information, we concluded that CalVet could not demonstrate that it knows whether its promotional efforts have led to an increase in DVBE certifications or if it is maximizing the return on its investment in outreach activities.

CalVet claimed to have fully implemented our recommendation from the 2014 audit; however, we found that the measures it said it had taken do not address the underlying conditions we identified. Specifically, in its six-month response to the 2014 audit, CalVet stated that it interprets and reports quarterly the results of its survey of DVBE firms to evaluate and improve its DVBE outreach efforts. CalVet also explained that it tracks more metrics on promotional efforts in these quarterly reports than it did previously. Further, it stated that it used its fiscal year 2013–14 annual report to develop and improve the outreach plan for the subsequent fiscal year. However, neither the quarterly report nor the annual report includes an assessment of the effectiveness of CalVet's outreach activities.

Although state law requires CalVet to establish a system to assess the effectiveness of its efforts to promote the DVBE program, it has not effectively done so. The quarterly reports CalVet produced during fiscal year 2015–16 lacked meaningful analysis or conclusions, and its survey efforts did not focus on evaluating the effectiveness of its outreach activities. Specifically, the quarterly reports CalVet developed regarding its outreach activities generally just presented information, such as the number of welcome packets CalVet sent to newly certified DVBEs, some of the results of its survey of newly certified DVBEs, and a description of the outreach events staff attended, but it did not provide any meaningful analysis regarding the quality, efficiency, and effectiveness of such activities. For example, these reports identified the number of outreach events CalVet attended but did not describe any correlation between a specific outreach event and the resulting DVBE applications that General Services received; thus, CalVet could not determine whether the outreach effort resulted in more businesses owned by disabled veterans participating in the DVBE program.

CalVet’s reports lack meaningful analysis and conclusions about the effectiveness of its outreach efforts.

Similarly, although CalVet’s annual report for fiscal year 2013–14 provided information on its outreach efforts and the data it tracked related to DVBE certification, that report too lacked meaningful analysis and conclusions. For example, CalVet’s annual report identified two recommendations related to how it could improve its outreach efforts by increasing its participation at certain conferences and meetings in the upcoming fiscal year. However, it did not explain how the recommendations, if implemented, would be effective in increasing DVBE participation.

CalVet also provided a spreadsheet showing that it conducted telephone interviews of nearly 110 DVBE firms in fiscal year 2017–18. When we asked CalVet for documentation of the results of these interviews, it provided high-level summaries of these conversations indicating that the interviews focused on the DVBE firms’ overall experience with the DVBE program and not necessarily on CalVet’s outreach efforts. Thus, CalVet missed an opportunity to ascertain ways in which it could improve its efforts to increase participation in the program. CalVet also conducted a web-based survey of more than 300 DVBE firms in 2016; however, almost all of the 32 questions also focused on the DVBE firms’ overall experience

with the program after being certified. In fact, only one question, which we describe later in this section, related to CalVet's outreach. Because it is not assessing the effectiveness of its outreach activities, CalVet has little way of knowing which, if any, of its DVBE outreach activities yield positive results or need revamping.

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CalVet stated that it has not had access to the data necessary to conduct a meaningful assessment of its outreach activities. According to information provided by CalVet, it attended 18 outreach events during fiscal year 2017–18, and it estimated that staff interacted with an average of 70 attendees at each event. However, CalVet explained that it has not been able to obtain data from General Services to assess the effectiveness of these outreach activities in increasing the number of certified DVBE firms because several years ago, as part of the transition to FI\$Cal, General Services began to automatically recertify DVBEs and at that point it stopped providing monthly data to CalVet regarding newly certified DVBEs. Thus, CalVet indicated that, beginning in October 2017, the data provided by General Services did not differentiate between newly certified DVBE firms and recertified DVBE firms, which prevented CalVet from identifying firms new to the program and performing further analyses of its outreach efforts. Although CalVet asserted that it had requested that General Services provide better data, it could not demonstrate that it had done so. Further, it has not attempted to find alternate ways to assess the effectiveness of its outreach activities. For example, CalVet could track all interactions with businesses owned by disabled veterans at outreach events and subsequently cross-reference these businesses to certified DVBE firms to determine whether they became certified. CalVet could also survey the veterans who attended outreach events to determine how useful they found the events and use this information to improve its outreach activities.

General Services also promotes the DVBE program primarily by attending events hosted by various entities, including veterans' organizations, but it has also failed to assess the effectiveness of its DVBE outreach efforts. General Services provided a list of nearly 200 events it claimed to have attended during fiscal year 2017–18 and at which it specifically promoted the DVBE program. It stated that it has observed a correlation between the number of outreach events it attends to promote the DVBE program and the number of businesses

owned by disabled veterans that become certified. However, General Services has not performed an analysis to support its observation. Further, General Services stated that its staff prepare evaluations of events it attends. We reviewed one of these evaluations and found that General Services compares its expectations for an event, based on its agreement with the organization hosting the event, with the actual experience at the event. General Services explained that these evaluations help it determine whether the event was worth its resources and whether it should attend again in the future. It also pointed to the numerous awards it has received for its contribution to the DVBE program as an indication of its success in promoting the program. However, we question General Services' reliance on these awards as a way to gauge the effectiveness of its outreach efforts, particularly since these awards did not explicitly recognize General Services' outreach efforts for being effective in increasing the success of the DVBE program. In fact, several of the awards simply related to its sponsoring of events and not necessarily to the effectiveness of its outreach.

General Services has not assessed the effectiveness of its DVBE outreach efforts.

General Services acknowledged that it has not conducted a formal assessment, nor does it have metrics by which it can identify the outreach efforts that have contributed the most to an increase in DVBE firms participating in the program. Without strong metrics and assessment of data on the number of businesses owned by disabled veterans in attendance at an event and the number that applied subsequently for certification, General Services cannot have confidence that its outreach efforts are effective.

Despite the lack of a formal assessment, some evidence suggests that the two departments' outreach may not be effective. In its 2016 survey of DVBE firms, CalVet asked only one question related to outreach: how the DVBE firms learned about the DVBE program. Of the nearly 300 DVBE firms that responded to this question, only 11 (less than 4 percent) and 38 (13 percent) stated that they learned about it through CalVet's and General Services' outreach, respectively. In fact, 99 DVBE firms (more than 34 percent) stated that they learned about the program on their own, while 55 (19 percent) stated that they learned about it through veterans' service organizations. The responses to this question from CalVet's survey suggest that the departments' current outreach efforts are not very effective in making veterans aware of the program.

In addition, in planning their outreach, both CalVet and General Services have failed to consider the types of goods and services that awarding departments have difficulty procuring from DVBE firms. As we discuss previously, some awarding departments could not always identify a DVBE firm that provides the products or services they need. We expected CalVet and General Services to be working with awarding departments to understand why they struggle to find DVBE firms to award their contracts to and to use this information to guide their outreach efforts. However, until recently neither department could demonstrate that they had done so. General Services told us that it attends industry-focused events; however, based on our review of the names of nearly 200 events it attended in fiscal year 2017–18, just three were industry-focused. Similarly, CalVet apparently did not consider this information when developing its most recent outreach plan. For example, its fiscal year 2017–18 outreach plan was a spreadsheet that provided only the name, date, location, and type of event that it planned to attend for the year, along with any associated costs. The plan did not demonstrate that CalVet had considered the types of goods or services that state agencies struggle to procure from DVBE firms. Without considering this information, alongside information from awarding departments about their contracting needs, CalVet and General Services are missing opportunities to increase the number of DVBE firms that offer products or services that departments are seeking.

General Services and CalVet stated that they intend to take steps to improve their outreach efforts.

General Services and CalVet stated that they intend to take steps to improve their outreach efforts. In December 2018, General Services completed a case study of 10 awarding departments and reviewed their waivers for exempting contracts from DVBE requirements to, in part, identify potential contract opportunities for DVBE firms. Further, General Services planned to implement an analytics tool in January 2019 to better inform its DVBE outreach. General Services stated that this tool will analyze contracting data and will be able to provide key information on the DVBE program, including how much awarding departments spend on specific goods and services as well as the names of vendors to whom the State awards the most contracts. According to General Services, this analytics tool will allow it to identify goods and services for which there are only a few or no available DVBE firms, and it can use this information to help focus its outreach efforts on those industries that provide the needed products or services.

Similarly, CalVet's deputy secretary of minority veterans, who began overseeing the DVBE program in July 2018, stated that she intends to make significant changes to CalVet's outreach efforts. She explained that since assuming the responsibility for the DVBE program, she has been proactively working with General Services to enhance the CalVet's statewide DVBE advocate role. However, although she is developing a plan to guide the improvements CalVet expects to make, the only item in the plan as of November 2018 for outreach improvement was to engage with other entities, such as veteran services organizations and DVBE-participating state agencies. Although CalVet and General Services have begun to improve their outreach efforts, until they implement outreach improvement plans to better understand the impediments that awarding departments face in increasing DVBE participation, outreach efforts will not be as effective as they could be.

General Services Is Better Suited Than CalVet to Help Underachieving Departments Meet the DVBE Participation Goal

CalVet has not fulfilled its responsibility to assist underachieving departments in meeting the 3 percent goal. State law requires CalVet's statewide DVBE advocate to coordinate with awarding departments to help them meet this goal. In addition, our 2014 report recommended that CalVet work more closely with awarding departments to help them meet the goal and to promote DVBE contracting opportunities. As such, we expected CalVet to be able to demonstrate that it had identified underperforming departments and to provide us with specific examples of the advice and assistance it has offered to such agencies, but that was not the case. We selected five awarding departments that had not met the 3 percent goal during at least one year between fiscal years 2014–15 and 2016–17: the Department of State Hospitals, the California Department of Resources Recycling and Recovery, the Office of Systems Integration, the Office of the Attorney General, and the California Department of Fish and Wildlife. CalVet could not demonstrate that it helped any of these five departments meet the 3 percent goal.

Although CalVet is required to assist awarding departments in meeting the 3 percent goal, it indicated that its approach to helping underachieving departments has been to rely on General Services to identify and schedule meetings with such departments. Until fiscal year 2017–18, CalVet had an interagency agreement with General Services for several years that funded certain positions within CalVet, primarily to perform outreach activities. In fiscal year 2017–18, this agreement provided nearly \$270,000 to fund two positions within CalVet. The interagency agreement also stated that CalVet would work in partnership with General Services

to meet with and provide recommendations and additional resources to assist awarding departments that failed to meet the 3 percent goal.

However, according to CalVet, it believed that General Services was responsible for taking the lead in identifying the underachieving departments and scheduling meetings with them before CalVet developed a plan to assist those departments. For example, General Services listed awarding departments' DVBE participation rates, which indicated whether they met the 3 percent goal, in its *Statewide Consolidated Annual Report* for fiscal year 2016–17. Yet CalVet cited only one instance in which it attempted to assist a department that did not meet the 3 percent goal in fiscal year 2016–17, and it stated that General Services had scheduled a meeting with the underachieving department. In advance of that meeting, CalVet prepared a report, which included proposed solutions to help that awarding department meet the participation goal, but it did not provide the report to the department because General Services canceled the meeting. However, given that CalVet has a statutory responsibility to assist underachieving departments, we expected CalVet to have taken the needed actions independently of General Services' activities. By relying on General Services to take the lead, CalVet missed an opportunity to improve the success of the DVBE program.

CalVet's passive role in assisting awarding departments was also evident when we spoke with the DVBE advocates at selected departments.

CalVet's passive role in assisting awarding departments was also evident when we spoke with the DVBE advocates at selected departments. CalVet claimed that it mainly focuses on assisting DVBE advocates at awarding departments. We interviewed advocates at the five departments that did not meet the DVBE goal and two additional departments that had failed to meet the 3 percent goal during at least one year between fiscal years 2014–15 through 2016–17. In general, each of the seven advocates we interviewed stated that CalVet has never initiated contact with them to offer help. Moreover, five of the seven advocates either were unaware of or were unclear as to CalVet's role in the DVBE program. These responses indicate that CalVet has not taken an active role in improving the success of the DVBE program.

CalVet also lacks the necessary resources to meet its statutory responsibility to help underachieving departments meet the DVBE participation goal. CalVet explained that it has relied on funding from General Services to fund the two positions mentioned earlier. In fact, CalVet told us that the only other position within the department that worked on the DVBE program was a manager who had many other duties besides the DVBE program. As we noted earlier, the interagency agreement between CalVet and General Services is no longer in place, as the two departments reached a mutual agreement that it no longer best served their interests or needs. Therefore, CalVet told us that as of fiscal year 2018–19, it approved temporary internal funding for the two positions in August 2018. It has since filled one position as of January 2019 and is in the process of filling the other position.

CalVet lacks the necessary resources to meet its statutory responsibility to help underachieving departments meet the DVBE participation goal.

CalVet plans to seek additional resources in the near future to ensure that these two positions become permanent when the temporary funding expires in fiscal year 2020–21. However, even with two positions CalVet may not be able to meet its responsibilities. Specifically, CalVet provided us with a document describing a workload analysis that it conducted in March 2018, which concluded that it needs three positions to carry out its responsibilities for the DVBE program. CalVet explained that it plans to perform another workload analysis and request additional resources in the near future.

Even if CalVet were fulfilling its statutory responsibility, we believe that General Services is in a better position to assist underachieving departments in meeting the 3 percent goal. Specifically, as stated in its 2018 strategic plan, General Services serves as the State of California's business manager. As such, its Procurement Division oversees policies and procedures used by state agencies in their purchasing and contracting activities. The Procurement Division also has the strategic direction of developing innovative and effective procurement solutions that will benefit state departments and DVBE firms. Further, General Services maintains contracting data and prepares the annual report compiling the data reported on the awarding departments' DVBE activity reports, giving it immediate access to the necessary information to identify underachieving departments and the number and types of contracts they awarded. In fact, General Services provided us with documentation that it had assessed a couple of departments that did not meet the DVBE goal in fiscal year 2016–17 to identify if there was any assistance it could offer. In each case it concluded that the awarding

departments did not need its assistance, as they were using best practices or had reasonable processes in place. Considering its expertise, resources, and role in the DVBE program, General Services is better suited than CalVet to assist underachieving departments. General Services agreed with this assessment. Such a shift in the departments' responsibilities would also allow CalVet to focus primarily on outreach activities.

General Services Needs to Provide Additional Direction to Ensure That Abuse in the DVBE Program Is Consistently Identified and Addressed

Most awarding departments lack a formalized process for identifying and addressing allegations of abuse in the DVBE program. As a result, such abuse is likely underreported. *Program abuse* is any fraudulent use of the DVBE program, such as knowingly and intentionally representing false participation by a non-DVBE firm in order to receive preference in a contract bid. Members of the public, including DVBE firms, can report alleged program abuse to the relevant awarding department or to General Services' DVBE office.

To learn about the experiences DVBE firms have had with program abuse, we interviewed 24 DVBE firms that were listed as subcontractors on the winning bids of selected contracts awarded by the six departments that we reviewed. As Figure 2 on the following page shows, 12 of the DVBE firms, or 50 percent, informed us that a prime contractor had listed them as a subcontractor but had never used their services. Similarly, in a 2016 survey of DVBE firms that CalVet conducted, 37 of the 78 respondents, or 47 percent, stated that they had been listed as a subcontractor on a bid that had been awarded but they had not received the specified work. More than half of these 37 firms stated that they had experienced this type of program abuse at least three times in the preceding five years.

However, of the six departments we reviewed, only one reported receiving a program abuse allegation regarding one of its contracts during our review period. Specifically, in June 2018 a DVBE firm reached out to the awarding department—General Services—expressing concern that it had not been used on an awarded contract although the prime contractor's bid had listed the DVBE firm as a subcontractor. The DVBE firm explained that it had reached out to the prime contractor to coordinate the work in October 2017, the same month the contract was executed, and again in March 2018, but the prime contractor had not used it. In June 2018, when the DVBE firm contacted General Services, the project had been completed. The contracting division reviewed the complaint and submitted its conclusions to General Services' DVBE office in August 2018 and requested assistance in further investigating the suspected abuse. As of November 2018, this complaint is under review by the DVBE office.

Figure 2
Interviews With 24 DVBE Firms Identified as Subcontractors Indicate That Awarding Departments Are Not Doing Enough to Protect the Interests of DVBE Firms and to Reduce Program Abuse

GENERAL EXPERIENCE WORKING ON STATE CONTRACTS

12
OF 24

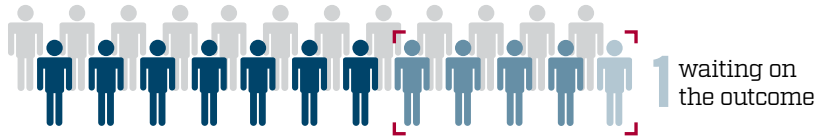
were aware of being listed on at least one winning bid but did not work on the contract



2 others worked substantially less on awarded contracts than indicated in the contracts

12
OF 24

encountered program abuse but only 5 made a complaint



4 OF 5 were not satisfied with the outcome of the investigation after the complaint was closed

EXPERIENCE WORKING ON SPECIFIC CONTRACTS

7
OF 24

did not perform work on the contracts



4 OF 7 were not aware that they had been listed on the contract until we contacted them

8
OF 24

were notified by awarding departments of their inclusion on the winning bid



Source: Interviews with 24 DVBE firms listed as subcontractors on a selection of contracts awarded by six departments we reviewed.

Until recently, General Services' DVBE office had provided inadequate guidance to departments on how to identify and address allegations of program abuse. In fact, the guidance General Services included in its February 2012 *DVBE Advocate Toolkit* (toolkit), which was available on its website as of January 2019, did not specify the types of allegations that constitute program abuse. It also did not explain that awarding departments must provide a written report to General Services with recommended actions against the contractor investigated. Rather, the toolkit only described steps awarding departments should take to address just one type of program abuse. Although the DVBE office posted additional information on its website regarding the roles and responsibilities of awarding departments and the DVBE office in investigating complaints, the information does not adequately explain what constitutes program abuse. Without clearly defining program abuse, awarding departments may not recognize program abuse when it receives an inquiry or concern. In November 2018, to help ensure that awarding departments know how to identify DVBE program abuse, the DVBE office offered its first comprehensive training on the types of violations that constitute abuse. General Services stated that it plans to continue to develop this training and offer it periodically in the future.

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To ensure potential allegations of abuse are handled appropriately, we expect departments to have a formalized process for identifying and documenting complaints, as well as procedures for investigating and tracking these complaints.

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Although these are steps in the right direction, they are recent, and the limited guidance General Services has historically provided to awarding departments may have contributed to their inconsistent approaches to handling complaints. To ensure potential allegations of abuse are handled appropriately, we expect departments to have a formalized process for identifying and documenting complaints, such as a standardized complaint form, as well as procedures for investigating and tracking these complaints. Only Caltrans has procedures such as these in place. Of the five remaining awarding departments we reviewed, only General Services could demonstrate that it tracks complaints that it receives. For the one complaint that General Services' contracting office received during our audit period, for which the investigation is still ongoing, we found that

it processed the complaint in accordance with requirements in state law and regulations. However, General Services' contracting office and the other four awarding departments lack adequate procedures, if any, for addressing complaints. The lack of procedures at these five departments is of concern, particularly given that all four DVBE firms we interviewed that had filed a complaint that had subsequently been closed told us that they were not satisfied with the final outcome. Unless departments consistently document and track complaints received from DVBE firms, they cannot be certain that they have properly identified and addressed allegations of program abuse.

Further, awarding departments have not always been proactive in taking steps to identify one particular type of DVBE program abuse. Specifically, several of the awarding departments we reviewed do not have procedures in place that require staff to notify a DVBE firm that a business that was awarded a contract has named the DVBE firm as a subcontractor. Without such notification, a DVBE subcontractor may not be aware that it should receive work from the prime contractor. General Services' DVBE office has issued guidance suggesting that awarding departments notify DVBE firms of their role as subcontractors on awarded contracts. However, Caltrans, CalVet, Corrections, and one of the three contracting offices of DMV stated that they do not require staff to notify DVBE subcontractors of awarded contracts. As Figure 2 on page 28 shows, only eight of the 24 DVBE firms we interviewed that had been named as subcontractors on the contracts we reviewed stated that they had been notified by the awarding department. In fact, four of the remaining 16 DVBE firms told us that they were not aware that the prime contractor had listed them as a subcontractor on the contracts we selected until we asked about them.

When we asked CalVet and General Services about the frequency of this potential abuse, in which a prime contractor lists a subcontractor in order to receive the DVBE incentive without any intention of using the subcontractor's services, both departments acknowledged that this abuse can occur but they do not know exactly how often it happens.

Four DVBE firms told us that they were not aware that the prime contractor had listed them as a subcontractor on the contracts.

In fact, the six awarding departments we reviewed told us that they do not have a direct relationship with subcontractors. Therefore, awarding departments may not become aware of this abuse unless

DVBE subcontractors file a complaint. However, two of the 24 DVBE firms we interviewed indicated that they were not aware of who to contact to file a complaint, and one said it was not even aware that filing a complaint was an option. If an awarding department does not notify the DVBE firm that it has awarded a contract that lists the firm as a subcontractor, along with basic contract details and information on how to file a complaint, program abuse may go unreported and unaddressed.

In addition, we found that General Services' DVBE office could make better use of its tracking of program abuse allegations from all awarding departments to reduce future abuse. State law requires General Services to monitor the status of all reported violations statewide. General Services' compliance manager explained that he tracks and manages program abuse cases using spreadsheets. However, he acknowledged that General Services has not taken advantage of the potential benefits of program abuse tracking and instead has focused on case management of the abuse allegations it receives. Tracking the main elements of program abuse allegations, such as the type of program abuse and how it was reported or discovered, would allow General Services to identify and address trends in program abuse that otherwise may go unnoticed. For example, if General Services identifies one common type of abuse, it can add safeguards to prevent this type of abuse from occurring and implement procedures for detecting future incidents of such abuse. General Services agreed that this tracking would be beneficial.

Recommendations

Legislature

To ensure that awarding departments that fail to meet the 3 percent goal receive the assistance necessary to achieve the goal, the Legislature should amend state law to transfer the responsibility for monitoring and assisting underachieving departments from CalVet to General Services.

To minimize the occurrence of program abuse involving DVBE subcontractors, the Legislature should amend state law to require awarding departments to notify those DVBE subcontractors when they are named on an awarded contract.

CalVet and General Services as Oversight Entities

To ensure that their outreach efforts are effective and result in a greater number of DVBE firms available that can provide the necessary goods and services awarding departments are seeking, CalVet and General Services should do the following:

- Assess, at least annually, the effectiveness of their past outreach efforts in increasing the number of DVBE firms that become certified.
- Work with awarding departments to identify the types of goods and services for which they struggle to find a DVBE contractor or subcontractor.
- Develop an outreach plan to include outreach activities found to be effective in the past based on their assessment. This plan should also emphasize outreach to increase the number of DVBE firms that provide the types of goods and services that awarding departments struggle to obtain from DVBE firms.
- Develop better tracking of the businesses owned by disabled veterans that attend their outreach events and review certification data to determine whether these businesses obtained their certifications.
- Conduct periodic surveys of businesses owned by disabled veterans that attended their outreach events but chose not to become DVBE certified to determine the reasons for not applying for the certification. The departments should use this information to improve both their outreach and any other areas of the program.

Until the Legislature amends the law to transfer its responsibility for assisting underachieving departments to General Services, CalVet should develop and follow policies and procedures to identify and assist awarding departments that fail to meet, or are at risk of not meeting, the 3 percent DVBE participation goal.

To minimize the occurrence of program abuse and ensure that program abuse cases are handled appropriately and consistently, General Services should do the following:

- Remind the awarding departments about preventive measures, including contract award notification to all subcontractors listed on the winning contractor's bid and providing the subcontractors with the name of the prime contractor, the role of the DVBE firm in the contract, the amount of the contract dollars designated for each subcontractor, and contact information that subcontractors can use if they encounter any issues on the project.

- Develop procedures for awarding departments to help them identify whether a complaint constitutes program abuse, document and track all complaints, and take appropriate steps when investigating program abuse complaints.

To strengthen the enforcement of DVBE laws, regulations, and guidelines, General Services should track program abuse complaints, including the type of program abuse, how it was reported or discovered, and the dates specific actions were taken on the case. This tracking will enable the awarding departments to identify weaknesses within their processes and provide insight into how to address these issues, improving the DVBE program overall.

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The State Lacks Accurate Data to Fully Measure the DVBE Program’s Success

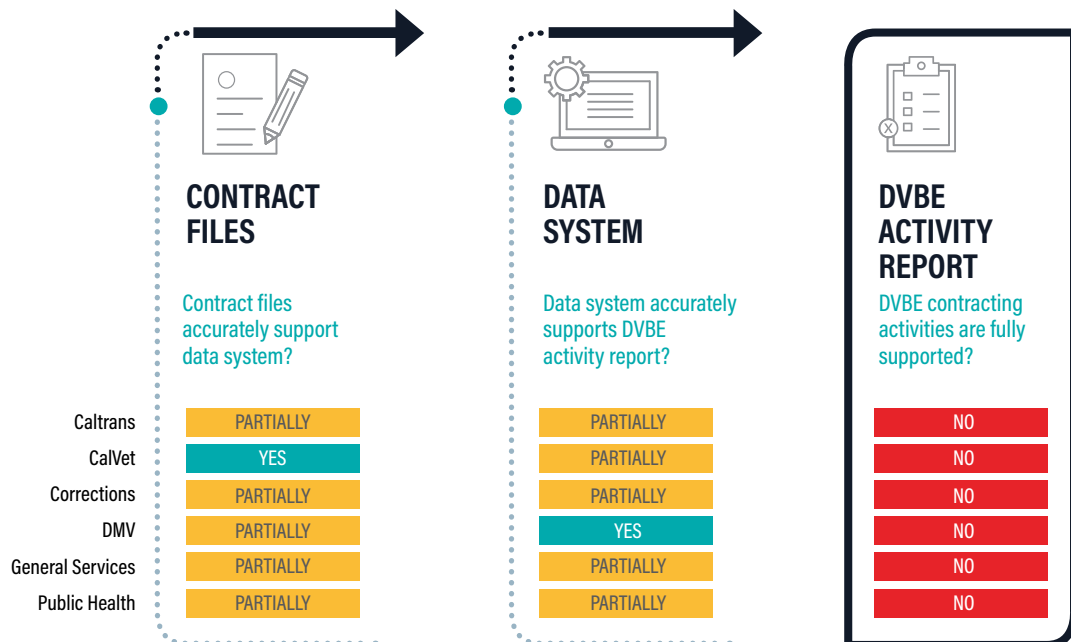
Key Points

- None of the six awarding departments we reviewed could fully support their fiscal year 2017–18 DVBE activity reports. As a result, users of these reports could draw incorrect conclusions about the departments’ success in meeting the 3 percent goal.
- General Services may not be correctly reporting DVBE participation because of inaccurate data that state departments entered into FI\$Cal.

Awarding Departments Inaccurately Reported DVBE Participation Amounts

None of the six departments we reviewed could fully support their reported fiscal year 2017–18 DVBE contracting activity, as shown in Figure 3. These unsupported reports raise concerns about whether awarding departments maintain sufficient documentation to accurately report and assess their DVBE participation.

Figure 3
None of the Six Departments Accurately Reported All DVBE Participation Data



Source: DVBE activity reports for fiscal year 2017–18 and contracting data provided by Caltrans, CalVet, Corrections, DMV, General Services, and Public Health.

State law requires General Services to publish an annual report of statewide contracting activity that consolidates data on departments' DVBE usage. To assist General Services in publishing this report, departments are required by state law to report annually to General Services the value of certain contracts they awarded during the fiscal year, the level of DVBE participation in those contracts, and whether they achieved the DVBE participation goal. Further, General Services requires each awarding department to maintain records, which should include documentation such as a list of contracts and the associated dollar amounts, to support the amounts included on their DVBE activity reports. Each of the departments we reviewed maintains an electronic listing of contracts (data system), along with the respective hard-copy contract files, to support the amounts reported in their activity reports. General Services specifies that the supporting documentation should allow a person viewing it to find the connection between an individual contract and the department's activity report.

Five of the six departments overstated DVBE participation amounts in their data systems for a selection of contracts we reviewed. We selected five to seven contracts at each of the six departments to identify whether they accurately recorded DVBE participation amounts in the data systems they use to complete their DVBE activity reports. Only one department, CalVet, accurately reported all of the contracts we reviewed. The remaining five departments recorded at least one of the contracts we reviewed incorrectly in their data systems, causing us to question whether departments are using accurate information to complete their activity reports. For example, as shown in Table 2, Caltrans inaccurately recorded a contract as having \$10.5 million in DVBE participation in its data system, when the contract included only \$110,000 for a DVBE subcontractor. Similarly, DMV's data system reflected an overstatement of \$631,000 in DVBE participation for one contract. Further, Public Health's supporting documentation reflected \$24,000 in DVBE participation for a contract amendment that did not change the value of the contract and it recorded another contract as having \$5,000 in DVBE participation when in fact it did not include any. These discrepancies, which the awarding departments generally attributed to clerical errors, are of concern. In particular, when awarding departments record DVBE participation amounts for contracts that have no such participation or overstate DVBE participation amounts, the total DVBE participation amounts they ultimately report to General Services could be significantly inflated. As a result, users of these reports could be relying on misleading information about departments' success in meeting the 3 percent goal.

Table 2
Five Awarding Departments Overstated DVBE Participation in Their Data Systems for Some of the Contracts We Reviewed

DEPARTMENT	NUMBER OF SELECTED CONTRACTS REPORTED INCORRECTLY	AMOUNT IN DATA SYSTEM	ACTUAL AMOUNT	AMOUNT OVERREPORTED
Caltrans	1	\$10,456,000	\$110,000	\$10,346,000
Corrections	1	13,000	1,000	12,000
DMV	1	946,000	315,000	631,000
General Services	2	77,000	36,000	41,000
Public Health	2	29,000	0	29,000

Source: Departments' supporting documentation for amounts reported on their fiscal year 2017–18 DVBE activity reports. We found no reporting errors for the CalVet contracts we reviewed.

■ Indicates that the amount of DVBE participation reported in the tracking system does not match the amount reported on the contract.

We also found that five of the six departments submitted DVBE activity reports that were not fully supported by their data systems. Although Caltrans' DVBE activity report matched its data system, we determined that the department could not fully support its DVBE activity report because its data system is incomplete, as we discuss later. As Table 3 on the following page shows, the other four departments overreported or underreported their contracting activity by as much as approximately \$26 million. CalVet stated that it chose not to report a category of contracts for one of its divisions because the division had not certified the total amount before CalVet submitted its activity report. The remaining three departments attributed the inaccurate reports primarily to clerical errors. For instance, Corrections double-counted DVBE participation for one category of subcontracts, causing it to overreport its DVBE contracting activity by \$36,000. Likewise, Public Health overreported its DVBE contracting activity by \$187,000 and underreported its total contracting activity by \$25.7 million—causing it to overstate its DVBE participation. By contrast, General Services' reported DVBE participation matched the amounts in its data system, but the department failed to include all reportable contracts in its system and listed several hundred thousand dollars in the wrong contracting activity categories of the report. These discrepancies had little effect on the departments' reported DVBE participation; however, we question whether departments' DVBE data, and DVBE activity reports generated from these data, can be relied upon, given the inaccurate amounts in the five departments' data systems that we noted in Table 2, as well as some cases of missing data discussed in Table 3 on page 38.

Table 3
Four Awarding Departments' Data Systems Did Not Fully Support Their DVBE Activity Reports

DEPARTMENT	TOTAL CONTRACTING			TOTAL DVBE PARTICIPATION		
	DVBE ACTIVITY REPORT	DATA SYSTEM	AMOUNT UNDERREPORTED	DVBE ACTIVITY REPORT	DATA SYSTEM	AMOUNT OVERREPORTED
Caltrans*	\$1,785,183,000	\$1,785,183,000	\$-	\$87,857,000	\$87,857,000	\$-
CalVet	83,548,000	84,627,000	(1,079,000)	6,960,000	6,960,000	-
Corrections	789,683,000	789,683,000	-	39,531,000	39,495,000	36,000
DMV	91,840,000	91,840,000	-	9,107,000	9,107,000	-
General Services	1,611,307,000	1,614,357,000	(3,050,000)	48,690,000	48,690,000	-
Public Health	553,985,000	579,739,000	(25,754,000)	22,953,000	22,766,000	187,000

Source: DVBE activity reports for fiscal year 2017–18 and supporting documents provided by the six departments.

■ Indicates that the amount reported by the awarding department on the DVBE Activity Report was not supported by the information in the data system.

* Caltrans told us that its data system is unable to quantify the amount of subcontracting for contracts that were collectively worth roughly \$290 million. Therefore, it may have underreported some DVBE participation.

Three of the six departments' data systems did not contain complete contracting data, which also raises questions about the reliability of their DVBE activity reports. We selected 10 contracts from every department we visited to identify whether each department included all reportable contracts in its data system. Two departments, General Services and Corrections, failed to include all of the reportable contracts we reviewed. General Services stated that it did not include two contracts due to human error. For example, a contract worth \$350,000 was omitted from its data system because the contracting office thought a different division had already included it. Corrections also failed to include an amended contract. When we asked Corrections why the amended contract was missing from its data system, the department disclosed that its data system does not track amendments to the value of contracts or the full value of some multiyear contracts. As a result, the department may be underreporting a significant amount of its contracting activity, including DVBE participation. Further, although Caltrans included in its DVBE activity report all 10 contracts we selected, it told us that its data system is unable to quantify the amount of subcontracting for roughly \$290 million in contracting activity, meaning that it may have underreported some DVBE participation.

Beginning with fiscal year 2018–19, General Services plans to use FI\$Cal to automatically generate DVBE activity reports on behalf of other awarding departments that use FI\$Cal, which may alleviate some DVBE reporting issues. For instance, General Services indicated that FI\$Cal is able to track all subcontractors, which should resolve the issue faced by those departments whose data systems are unable to quantify amounts designated to all DVBE

subcontractors. Nonetheless, the transition to reporting through FI\$Cal does not fully eliminate the risk of inaccurate reporting. Specifically, the reliability of each department's DVBE activity report will depend on whether staff accurately enter contract information into FI\$Cal. For this reason, awarding departments' efforts to mitigate the risks of clerical errors is important.

General Services May Not Be Able to Rely on FI\$Cal Data to Track DVBE Program Success

General Services does not have reliable contracting data to measure the DVBE program's success. In our February 2014 report and in our June 2017 report titled *Department of General Services and California Department of Technology: Neither Entity Has Provided the Oversight Necessary to Ensure That State Agencies Consistently Use the Competitive Bidding Process* (Report 2016-124), we noted that General Services' contracting data contained inaccurate or incomplete information. Specifically, its data did not include contracts valued under \$5,000, some agencies were not consistently recording contracts in General Services' system, and the data did not fully track DVBE subcontractors.

To begin addressing these issues, General Services subsequently revised its reporting instructions to require awarding departments to record all contracts in its data system, regardless of dollar value. Additionally, for the more than 135 entities that actively use FI\$Cal to record contracting data as of January 2019, the relevant DVBE contracting data are automatically collected and made available to General Services, reducing the likelihood of input error. General Services also asserted that FI\$Cal started recording subcontractor information in January 2016, and this information should be available for fiscal year 2018–19 DVBE reporting. However, as of December 2018, General Services has not completed the programming necessary to generate the annual reports using this information.

Despite these improvements, General Services' data have an additional problem. As noted in our June 2017 report, any agency that does not primarily use FI\$Cal for contracts must instead enter contracting data into it manually, which creates a risk of data entry errors. In fact, some of the departments discussed previously that could not fully support the figures included in their DVBE participation reports do not use the FI\$Cal system to record accounting and contracting transactions. Instead, they are entering their contracting data manually, resulting in a greater risk of data entry errors and inaccurate reporting.

Recommendations

Awarding Departments

To ensure that DVBE participation data are reported accurately and consistently, Caltrans, Corrections, DMV, General Services, and Public Health should implement or strengthen a review process to ensure that DVBE participation amounts entered into their data systems or FI\$Cal are accurate. This review process should include verification, on a sample basis, of the amounts awarded to, and the certification status of, the DVBE contractor or subcontractor for high-value contracts that include DVBE participation.

General Services as Oversight Entity

Until it begins generating DVBE activity reports using FI\$Cal, General Services should issue a policy to require awarding departments to implement or strengthen a secondary review process to ensure that the DVBE activity reports are accurate and supported by departments' data systems.

To ensure that it can create accurate annual DVBE participation reports, General Services should complete the programming necessary to include DVBE subcontractor information by June 30, 2019.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to 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 specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
California State Auditor

Date: February 14, 2019

APPENDIX A

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (Audit Committee) directed the California State Auditor to review the DVBE program, including following up on issues identified in our February 2014 report. Specifically, the Audit Committee asked, among other things, whether DVBE contracts go to a small number of DVBE certified contractors and whether CalVet has sufficient resources to accomplish its statutory responsibilities. Table A lists the objectives that the Audit Committee approved and the methods we used to address them.

Table A
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, policies, and procedures.
2 Determine whether conditions identified in State Auditor Report 2013-115, <i>Disabled Veteran Business Enterprise Program: Meaningful Performance Standards and Better Guidance by the California Departments of General Services and Veterans Affairs Would Strengthen the Program</i> (Report 2013-115), persist at the California Department of Veterans Affairs (CalVet), the Department of General Services (General Services), the California Department of Transportation (Caltrans), and the California Department of Corrections and Rehabilitation (Corrections), and determine whether similar conditions exist at two additional entities by performing audit procedures similar to those used to address the scope and objectives for Report 2013-115.	<ul style="list-style-type: none"> • Interviewed staff and reviewed relevant documents from Caltrans, CalVet, Corrections, and General Services to understand actions taken to address recommendations from the 2014 report. • Interviewed staff and reviewed relevant documents from DMV and Public Health to understand their processes related to areas of findings from the 2014 report. • Reviewed five contracts each from Caltrans, Corrections, DMV, and Public Health to determine if these departments complied with DVBE participation requirements. • Assessed the process that Caltrans, DMV, General Services, and Public Health have in place to verify DVBE firms' certification status before submitting the DVBE activity report to General Services. • Interviewed staff and reviewed documentation from CalVet and General Services related to their evaluation of the effectiveness of their respective department's outreach efforts. • Interviewed staff at CalVet, General Services, and selected awarding departments that did not meet their DVBE participation goals in at least one of three fiscal years (2014–15 through 2016–17) to understand the level of engagement CalVet had with underachieving departments. • Interviewed staff and reviewed documentation related to CalVet's work with underachieving departments. • Interviewed staff and reviewed documents at General Services to determine whether it has issued any directives or guidance on how to report multiyear contracts on the DVBE activity report.

AUDIT OBJECTIVE	METHOD
<p>3 Obtain updated data on the DVBE program and report the same demographic information on the program as in Report 2013-115. In addition, to the extent possible, report on the following:</p> <p>a. The percentage of certified DVBEs that bid on state contracts in fiscal year 2017–18.</p> <p>b. The percentage of certified DVBEs that won state contracts in fiscal year 2017–18.</p> <p>c. The total value of contracts awarded to certified DVBEs in fiscal year 2017–18.</p> <p>d. The portion of contracts used to achieve the goals of the DVBE program that come from prime contractors and from subcontractors in fiscal year 2017–18.</p> <p>e. If each of the top 30 DVBEs is certified also as a small business or microbusiness.</p> <p>f. The three-year average gross revenue for each of the top 30 DVBEs.</p> <p>g. The number of employees for each of the top 30 DVBEs.</p> <p>h. The statistical distribution of disability ratings for all DVBEs and for the top 30 DVBEs.</p> <p>i. The statistical distribution of DVBE ownership percentages for all DVBEs, the top 30 DVBEs, prime contractors, and subcontractors.</p>	<ul style="list-style-type: none"> Identified the relevant procurement information related to fiscal year 2017–18 purchase orders and contracts data for prime contractors using General Services' Cal eProcure website. Determined that General Services' Cal eProcure database does not capture some data, including information on bids and subcontractors. As a result, we focused our analysis of this information on the 30 DVBE firms that received the most money from state contracts (top 30 DVBE firms). For the top 30 DVBE firms, we reviewed the DVBE certification files to identify three-year average gross revenue, the number of employees, disability ratings, and ownership data. We present various available data for the top 30 DVBE firms in Appendix C.
<p>4 Determine whether DVBE contracts go to a small number of DVBE certified contractors, as noted in Report 2013-115. Determine what actions General Services, CalVet, or participating departments may take to correct this condition.</p>	<ul style="list-style-type: none"> Analyzed the data from General Services' Cal eProcure website for prime contractors to identify the contract number and amounts awarded to all DVBE firms and to the top 30 DVBE firms. Interviewed staff at the six awarding departments to understand their perspectives on why a small number of DVBE contractors are receiving the majority of contract dollars and what actions they have taken to address this condition. Reviewed a total of 10 contracts that the six departments we visited awarded to 10 of the top 30 DVBE firms and determined that the chosen contract method did not unfairly limit participation opportunities for other DVBE firms.
<p>5 Evaluate the effectiveness of General Services' process for handling complaints and allegations of fraud or waste in the program and for protecting whistleblowers. Also, review the types and resolutions of complaints that General Services receives.</p>	<ul style="list-style-type: none"> Interviewed staff and reviewed guidance and policies issued by General Services and the awarding departments to determine how each department handles complaints. Obtained, to the extent available, complaint logs from each of the six departments we reviewed to identify the frequency and type of complaints they received during fiscal years 2015–16 through 2017–18. Reviewed the case file for the only complaint received among the six departments during fiscal years 2015–16 through 2017–18 and determined whether the complaint was investigated appropriately.

AUDIT OBJECTIVE	METHOD
<p>6 Determine whether departments obtain sufficient assurance regarding the amounts paid to DVBE subcontractors, as noted in Report 2013-115. To the extent possible, determine whether DVBE prime contractors contracting with General Services, CalVet, or other departments use non-DVBE subcontractors and determine to what extent those departments have policies or practices to exclude payments from DVBE prime contractors to non-DVBE subcontractors when calculating whether the departments met the DVBE participation goal. Determine what actions General Services, CalVet, or participating departments may take to monitor and correct this condition.</p>	<ul style="list-style-type: none"> • Interviewed staff at the six departments and reviewed departmental policies and procedures, and determined that although departments do not verify payments to DVBE subcontractors, this lack of verification does not affect their reporting of DVBE participation because state law requires awarding departments to report DVBE participation using contract award amounts and not payments. • Interviewed staff at the six departments and reviewed appropriate documents, and determined that state law does not require DVBE prime contractors to report payment information about non-DVBE subcontractors when calculating DVBE participation. • Selected five to seven contracts that each of the six departments awarded during fiscal year 2017–18 and determined whether the total amounts and DVBE participation amounts listed on the contracts were accurately recorded in the respective department’s fiscal year 2017–18 tracking system. • Recalculated each department’s fiscal year 2017–18 DVBE activity report using its tracking system to evaluate the accuracy of the DVBE participation amounts each department reported to General Services. • Haphazardly selected 10 fiscal year 2017–18 contract files from each department and determined whether those contracts were included on the department’s fiscal year 2017–18 tracking system to determine whether the department accounted for all contracts.
<p>7 Identify and evaluate the actions General Services took subsequent to Report 2013-115 to correct or prevent issues identified in that audit at departments other than the five reviewed in Report 2013-115.</p>	<p>Interviewed appropriate staff at General Services and reviewed relevant documentation and determined that General Services has taken reasonable steps to monitor other departments for findings similar to the ones we identified in our Report 2013-115.</p>
<p>8 Evaluate the effectiveness of actions taken by General Services, CalVet, Caltrans, and Corrections in response to recommendations from Report 2013-115.</p>	<p>See Audit Objective 2 regarding the work we performed to determine the effectiveness of the actions the departments took in response to recommendations from the 2014 report.</p>
<p>9 Determine whether the program addresses the special needs of specific populations of veterans.</p>	<p>Interviewed relevant staff at each awarding department. Determined that state law governing the DVBE program does not differentiate between specific populations of or the specific special needs of disabled veterans. Determined that the departments we reviewed do not treat certified DVBE firms differently.</p>
<p>10 Determine whether CalVet has sufficient resources to accomplish statutory responsibilities, especially regarding program outreach and development, and whether the distribution of funding and workload between General Services and CalVet is effective to accomplish program goals.</p>	<ul style="list-style-type: none"> • Interviewed staff and reviewed available documentation at General Services and CalVet. • Assessed whether the statutory responsibilities assigned to these two departments are appropriate given their resources and expertise.
<p>11 Review and assess any other issues that are significant to the audit.</p>	<ul style="list-style-type: none"> • Conducted telephone interviews with a selection of DVBE subcontractors about their experience working with prime contractors and awarding departments. • Assessed DVBE subcontractors’ responses to our interview questions to identify any recurring issues.

Source: Analysis of the Audit Committee’s audit request number 2018-114, as well as information and documentation identified in the column titled *Method*.

Assessment of Data Reliability

In performing this audit, we relied on electronic data we obtained from General Services' Cal eProcure website to calculate the number and dollar amount of contracts and procurements awarded to DVBE firms. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of any computer-processed information we use to support our findings, conclusions, or recommendations. We did not perform any assessment of these data because the supporting documentation is maintained by various state agencies, making accuracy or completeness testing impractical. As a result, we found that these data are of undetermined reliability for audit purposes. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

APPENDIX B

Implementation of Recommendations From Our Previous Audit

In our February 2014 report, we evaluated, among other items, General Services’ and CalVet’s policies, procedures, and practices for administering and overseeing the DVBE program, assisting departments and agencies in reaching the program goals and fulfilling the intent of the program, and reporting on program performance. The report identified several shortcomings. For example, it found that the five departments we reviewed could not fully support their reported DVBE contracting activity. It also found that a sixth department—CalVet—needed to take a more active role in the DVBE program. The report included several recommendations to four of the six departments we reviewed. Table B shows these recommendations and whether the departments have addressed them. Three of the four departments have fully addressed our recommendations from the 2014 report. However, as we discuss earlier in this report, CalVet has not implemented any of the recommendations we made in our previous report.

Table B
Implementation Status of the Recommendations From Our 2014 Report

DEPARTMENT	SUMMARY OF RECOMMENDATION	IMPLEMENTED?
Caltrans	Ensure that it applies the DVBE incentive to all applicable contracts and procurements	Yes
Caltrans	Verify the certification status of the DVBE firms on a sample basis for high-value contracts	Yes
CalVet	Develop stronger measures to evaluate outreach efforts	No
CalVet	Help awarding departments meet DVBE participation goals and promote DVBE contracting opportunities	No
Corrections	Document policies and procedures for applying the DVBE incentive to all applicable contracts and procurements	Yes
General Services	Extract a reliable copy of all of the State’s procurement data from BidSync	Yes
General Services	Verify the certification status of the DVBE firms on a sample basis for high-value contracts	Yes

Source: Review of available documentation provided by the four departments.

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APPENDIX C

Selected Data Related to the 30 DVBE Firms That Received the Most Money From State Contracts

The Audit Committee asked us to identify certain data related to DVBE firms. Specifically, it asked for the percentage of certified DVBE firms that bid on state contracts in fiscal year 2017–18 and the percentage of certified DVBE firms that won state contracts in fiscal year 2017–18. The Audit Committee also asked that we identify specific information, such as the number of employees and average gross revenue, for the 30 DVBE firms that received the highest amounts in state contracts during fiscal year 2017–18. We used General Services’ data related to DVBE prime contractors—those DVBE firms that entered into contracts directly with awarding departments—to identify the top 30 DVBE firms. However, limitations in General Services’ data prevented us from identifying certain information that the Audit Committee requested. For example, General Services’ statewide contracting database does not capture bid information. Further, as we discuss earlier in this report, General Services’ statewide database does not identify DVBE subcontractors. As a result, we could not report data related to DVBE bids and DVBE subcontractors. Moreover, under state and federal law, a veteran’s disability rating constitutes private information. As a result, we do not present this information. However, our review found that the top 30 DVBE firms had a wide range of disability ratings, each of which met the legal requirement for participation in the program. Similarly, we do not present information related to average revenue for the top 30 DVBE firms because the revenue information provided to General Services constitutes confidential federal tax information. Table C on the following page shows the information related to the 30 DVBE firms that received the highest dollar amounts in state contracts as prime contractors during fiscal year 2017–18.

Table C
Top 30 DVBE Firms Participating in State Contracting as Prime Contractors During Fiscal Year 2017–18

DVBE FIRM NAME	DVBE VETERAN PERCENTAGE OF OWNERSHIP	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING DVBE CONTRACTS	TOP FIVE STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRM	TYPE OF GOODS OR SERVICES PROVIDED	NUMBER OF EMPLOYEES	DVBE FIRM'S INITIAL CERTIFICATION DATE	SMALL BUSINESS (SB) OR MICROBUSINESS DESIGNATION (MB)*
1 Allied Network Solutions, Inc.	51%	\$24,340,000	848	78	<ul style="list-style-type: none"> California Department of Technology (Technology) Franchise Tax Board (Tax Board) Department of Industrial Relations Corrections California Department of Justice (Justice) 	Computer hardware and software, among others	Unknown	April 28, 2005	NA
2 Franklin Young International, Inc.	100%	\$15,710,000	57	5	<ul style="list-style-type: none"> Public Health California Department of Food and Agriculture (Food and Agriculture) Department of Toxic Substances Control (DTSC) California Department of Fish and Wildlife (Fish and Wildlife) Corrections 	Laboratory equipment and chemicals, among others	Unknown	August 28, 2009	SB
3 Aviate Enterprises, Inc.	100%	\$9,390,000	452	29	<ul style="list-style-type: none"> Corrections General Services Department of State Hospitals (State Hospitals) California Department of Pesticide Regulation California Exposition and State Fair 	Electrical and welding materials, construction supplies and lumber, and office supplies, among others	10	January 28, 2015	SB
4 California Veteran Supply, Inc.	51%	\$8,670,000	664	18	<ul style="list-style-type: none"> Corrections Caltrans Food and Agriculture Department of Water Resources (Water Resources) State Hospitals 	Janitorial, office, computer, and medical supplies, among others	5	August 15, 2002	SB
5 Global Blue DVBE, Inc.	100%	\$7,740,000	70	28	<ul style="list-style-type: none"> Department of Parks and Recreation (State Parks) Corrections Department of Consumer Affairs (Consumer Affairs) Tax Board California Department of Education 	Data networking, Information Technology services (IT), and computer software, among others	53	April 2, 2011	SB

DVBE FIRM NAME	DVBE VETERAN PERCENTAGE OF OWNERSHIP	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING DVBE CONTRACTS	TOP FIVE STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRM	TYPE OF GOODS OR SERVICES PROVIDED	NUMBER OF EMPLOYEES	DVBE FIRM'S INITIAL CERTIFICATION DATE	SMALL BUSINESS (SB) OR MICROBUSINESS DESIGNATION (MB)*
6 US Control Group, Inc.	100%	\$5,640,000	1,227	11	<ul style="list-style-type: none"> • Corrections • State Hospitals • General Services • California Governor's Office of Emergency Services (Cal OES) • Department of Developmental Services (DDS) 	Commercial and industrial equipment, heating, ventilation, and air conditioning (HVAC), and plumbing, among others	5	December 14, 2007	SB
7 Shade & Partners Technology	51%	\$4,760,000	68	16	<ul style="list-style-type: none"> • Tax Board • Department of Health Care Services (DHCS) • Consumer Affairs • Office of Systems Integration • DDS 	Audit services, web development, and IT services, among others	4	November 14, 2012	SB and MB
8 Natix, Inc.	100%	\$4,170,000	604	71	<ul style="list-style-type: none"> • Caltrans • DMV • Corrections • Justice • Fish and Wildlife 	IT services, computer hardware, and software, among others	3	March 7, 2013	SB and MB
9 Alta Vista Solutions	51%	\$4,000,000	1	1	<ul style="list-style-type: none"> • Caltrans 	Engineering services and construction materials, among others	100	August 5, 2005	NA
10 Pac-West General, Inc.	51%	\$3,950,000	20	1	<ul style="list-style-type: none"> • California Military Department (Military Department) 	Engineering and electrical services, among others	17	October 5, 2009	SB
11 HSB Solutions, Inc.	100%	\$3,810,000	45	20	<ul style="list-style-type: none"> • Consumer Affairs • Water Resources • Department of Business Oversight • DHCS • Department of Child Support Services 	IT services and computer software engineering, among others	3	March 25, 2010	SB
12 Angus Hamer, Inc.	51%	\$3,770,000	37	22	<ul style="list-style-type: none"> • Tax Board • Department of Conservation (Conservation) • Employment Development Department • Department of Rehabilitation • DHCS 	Computer repair, software, hardware, and computer programming, among others	6	July 23, 2014	SB

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DVBE FIRM NAME	DVBE VETERAN PERCENTAGE OF OWNERSHIP	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING DVBE CONTRACTS	TOP FIVE STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRM	TYPE OF GOODS OR SERVICES PROVIDED	NUMBER OF EMPLOYEES	DVBE FIRM'S INITIAL CERTIFICATION DATE	SMALL BUSINESS (SB) OR MICROBUSINESS DESIGNATION (MB)*
13 System Solutions DVBE, Inc.	51%	\$3,040,000	144	31	<ul style="list-style-type: none"> • DMV • Technology • California Public Utilities Commission • California Department of Social Services • Victim Compensation and Government Claims Board 	Computer hardware and software, among others	2	November 14, 2012	SB and MB
14 Staff Tech, Inc.	51%	\$3,040,000	15	7	<ul style="list-style-type: none"> • Water Resources • Military Department • Consumer Affairs • California Air Resources Board (ARB) • DDS 	IT services and computer programming and maintenance, among others	51	April 7, 2015	SB
15 RAM Enterprises	100%	\$3,000,000	70	9	<ul style="list-style-type: none"> • Public Health • DTSC • Conservation • General Services • DMV 	Computers, janitorial supplies, and industrial equipment, among others	1	November 4, 2005	SB and MB
16 Strato Communications, Inc.	100%	\$2,700,000	88	27	<ul style="list-style-type: none"> • DMV • Public Health • CalVet • Corrections • Consumer Affairs 	Computer hardware and software and network security, among others	3	December 19, 2014	SB and MB
17 Mergent Systems, Inc.	51%	\$2,280,000	27	9	<ul style="list-style-type: none"> • State Hospitals • California State Library • General Services • FISCAL • California Department of Forestry and Fire Protection 	Videoconferencing, cloud services, and computer software, among others	Unknown	July 6, 2017	SB and MB
18 DVBE Suppliers	100%	\$2,040,000	390	15	<ul style="list-style-type: none"> • Corrections • General Services • Public Health • ARB • California School for the Deaf—Riverside 	Emergency, office, and computer supplies, cement, asphalt, and paint, among others	4	November 30, 2011	SB and MB

DVBE FIRM NAME	DVBE VETERAN PERCENTAGE OF OWNERSHIP	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING DVBE CONTRACTS	TOP FIVE STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRM	TYPE OF GOODS OR SERVICES PROVIDED	NUMBER OF EMPLOYEES	DVBE FIRM'S INITIAL CERTIFICATION DATE	SMALL BUSINESS (SB) OR MICROBUSINESS DESIGNATION (MB)*
19 TSPS Industries, Inc.	100%	\$2,000,000	518	2	<ul style="list-style-type: none"> • Corrections • State Hospitals 	Rubber products, medical instruments and supplies, orthopedic and prosthetic products, and first aid supplies, among others	6	September 25, 2009	SB
20 Anchor Supply, Inc.	60%	\$1,900,000	464	20	<ul style="list-style-type: none"> • Corrections • Water Resources • General Services • California Highway Patrol (CHP) • Cal OES 	Industrial supplies, electrical supplies, and plumbing tools, among others	4	April 10, 2012	SB
21 Echelon Distribution LLC	100%	\$1,760,000	248	12	<ul style="list-style-type: none"> • Corrections • State Hospitals • General Services • Public Health • Caltrans 	Medical supplies, surveillance systems, and janitorial supplies, among others	3	June 17, 2013	SB
22 Sierra Safety Company	55%	\$1,720,000	30	4	<ul style="list-style-type: none"> • Caltrans • State Parks • California Conservation Corps • DMV 	Equipment for traffic control, traffic signs, and apparel, among others	19	June 7, 1999	SB and MB
23 Brooks Company	100%	\$1,690,000	390	13	<ul style="list-style-type: none"> • Corrections • General Services • State Hospitals • Tax Board • CHP 	Metals, lumber, HVAC, electrical hardware, and plumbing, among others	14	July 14, 1999	SB and MB
24 Gordon Industrial Supply Company	51%	\$1,530,000	415	18	<ul style="list-style-type: none"> • Corrections • Water Resources • General Services • Fish and Wildlife • DDS 	Industrial equipment and supplies, among others	18	September 25, 2002	SB
25 Anthem Builders, Inc.	100%	\$1,510,000	3	2	<ul style="list-style-type: none"> • Military Department • State Parks 	Construction, plumbing, and HVAC services, among others	10	June 13, 2012	SB
26 Granite Financial Solutions, Inc.	65%	\$1,400,000	104	22	<ul style="list-style-type: none"> • CHP • Corrections • Justice • DMV • Caltrans 	Accounting, auditing, and management services and computer hardware and software, among others	12	January 24, 2002	SB

continued on next page ...

DVBE FIRM NAME	DVBE VETERAN PERCENTAGE OF OWNERSHIP	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING DVBE CONTRACTS	TOP FIVE STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRM	TYPE OF GOODS OR SERVICES PROVIDED	NUMBER OF EMPLOYEES	DVBE FIRM'S INITIAL CERTIFICATION DATE	SMALL BUSINESS (SB) OR MICROBUSINESS DESIGNATION (MB)*
27 TJRE Resources, Inc.	90%	\$1,240,000	2	1	<ul style="list-style-type: none"> State Parks 	Construction management, energy systems, painting, and electrical services, among others	7	January 14, 2014	SB
28 Coronado Distribution Company	70%	\$1,210,000	243	19	<ul style="list-style-type: none"> Water Resources Caltrans Corrections General Services Fish and Wildlife 	Office supplies, HVAC, and janitorial, among others	42	October 23, 2013	SB
29 Arktos Incorporated	100%	\$1,180,000	2	2	<ul style="list-style-type: none"> Military Department Fish and Wildlife 	Automatic gates, surveillance products, and electrical services, among others	14	September 27, 2006	SB
30 Livermore Scientific, Inc.	100%	\$1,110,000	43	3	<ul style="list-style-type: none"> Corrections State Hospitals DDS 	Hospital supplies and medical equipment, among others	6	December 7, 2004	SB and MB
Totals		\$130,300,000	7,289						

Source: Cal eProcure database, DVBE certification database, and Government Code and state regulations.

NA = Not Applicable.

* During fiscal year 2017-18, a *small business* was defined, in part, as an independently owned and operated business with an average annual gross receipts of \$15 million or less over the previous three years. A *microbusiness* was defined as a small business with an average gross receipts of \$3.5 million or less over the previous three years. Effective January 1, 2019, the Legislature increased the annual gross receipts threshold for microbusiness to \$5 million.

February 2019



Gavin Newsom
Governor

Brian C. Annis
Secretary

915 Capitol Mall, Suite 350B
Sacramento, CA 95814
916-323-5400
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January 25, 2019

Elaine M. Howle, California State Auditor
California State Auditor's Office
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

Attached please find responses from the Department of Transportation (Caltrans) and the Department of Motor Vehicles (DMV) to your draft audit report regarding the Disabled Veteran Business Enterprise Program (#2018-114) issued January 18, 2019. Thank you for allowing both departments and the California State Transportation Agency (CalSTA) the opportunity to respond. As the draft report was redacted to show only those portions relevant to Caltrans and DMV, respectively, their responses are limited to those portions corresponding to them individually.

As noted in each of their responses, Caltrans and DMV concur with the recommendation directed at each of them in the report and already have established timelines to implement corrective action. We appreciate your identification of opportunities for improvement in the departments.

If you need additional information regarding the departments' responses, please do not hesitate to contact Michael Tritz, CalSTA Deputy Secretary for Audits and Performance Improvement, at (916) 324-7517.

Sincerely,

BRIAN C. ANNIS
Secretary

Attachments

cc: Laurie Berman, Director, Department of Transportation
William Davidson, Acting Director, Department of Motor Vehicles

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February 2019

STATE OF CALIFORNIA—CALIFORNIA STATE TRANSPORTATION AGENCY

Gavin Newsom, Governor

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE DIRECTOR
P.O. BOX 942873, MS-49
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*Making Conservation
a California Way of Life.*

January 23, 2019

Mr. Brian C. Annis
Secretary
California State Transportation Agency
915 Capitol Mall, Suite 350B
Sacramento, CA 95814

Dear Secretary Annis:

Thank you for the opportunity to review and comment on a redacted copy of the California State Auditors' (CSA) draft report entitled, "Disabled Veteran Business Enterprise Program..." (Report 2018-114). As portions of the draft report were redacted, the California Department of Transportation (Caltrans) limits its comments to the portions relevant only to Caltrans.

At the request of the Joint Legislative Audit Committee the CSA conducted an audit of the Disabled Veteran Business Enterprise (DVBE) program, including following up on issues identified in CSA's February 2014 report. Specifically, the Joint Legislative Audit Committee asked CSA, among other things, whether DVBE contracts go to a small number of DVBE certified contractors.

The CSA auditors concluded that Caltrans had fully addressed the recommendations from the 2014 report.

In the draft report the CSA auditors found that Caltrans overstated DVBE participation amounts in Caltrans' data system for 1 of 5 contracts reviewed. The CSA auditors concluded that Caltrans could not fully support the DVBE participation data reported for fiscal year 2017-18. Caltrans had overstated some DVBE participation amounts and, as a result, DVBE participation levels could be significantly inflated and could lead users of this information to draw incorrect conclusions about Caltrans' success in meeting the 3 percent goal for DVBE participation.

They also stated that Caltrans DVBE activity reports were not fully supported because the data system used to produce the activity report is incomplete. Caltrans told the CSA auditors that the data system is unable to quantify the amount of subcontracting for

Mr. Brian C. Annis
January 23, 2019
Page 2

roughly \$290 million in contracting activity which could result in underreporting DVBE participation.

Recommendation:

To ensure that DVBE participation data are reported accurately and consistently, Caltrans should implement or strengthen a review process to ensure that DVBE participation amounts entered into its data system are accurate. This review process should include verification, on a sample basis, of the amounts awarded to, and the certification status of, the DVBE contractor or subcontractor for high-value contracts that includes DVBE participation.

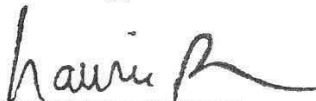
Caltrans Response:

By March 1, 2019, Division of Procurement and Contracts (DPAC) will add procedures to ensure that peer reviewers and managers more stringently review and verify data entered into the Contracts Administrative Tracking System (CATS). DPAC will also perform quarterly random samplings of high-dollar contracts to confirm DVBE certifications and verify that data was entered correctly in CATS. The quarterly samplings will be done in conjunction with the 810 Quarterly Report. The process will be similar to a compliance review, including a checklist and findings to be corrected.

Please note that DPAC is in the process of replacing CATS with a system (CATSII) more capable of capturing, tracking and reporting accurate data. We expect CATSII to be up and running within the next two years.

Caltrans appreciates the opportunity to provide a response to the relevant portions of the draft audit report. If you have any questions or require further information, please contact David Prizmich, Chief, Division of Procurement and Contracts, at (916) 227- 6100, or William E. Lewis, Assistant Director, Independent Office of Audits and Investigations, at (916) 323-7122.

Sincerely,



LAURIE BERMAN
Director

Mr. Brian C. Annis
January 23, 2019
Page 3

- c: David Prizmich, Chief, Division of Procurement and Contracts, California
Department of Transportation
William E. Lewis, Assistant Director, Independent Office of Audits and
Investigations, California Department of Transportation

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CALIFORNIA STATE TRANSPORTATION AGENCY

GAVIN NEWSOM, Governor

DEPARTMENT OF MOTOR VEHICLES

P.O. BOX 932345
SACRAMENTO, CA 94232-3450



January 25, 2019

Brian C. Annis, Secretary
California State Transportation Agency
915 Capitol Mall, Suite 350-B
Sacramento, CA 95814

Dear Secretary Annis:

The Department of Motor Vehicles (DMV) is providing a response to the recommendation contained in the California State Auditor (CSA) draft audit report "Disabled Veteran Business Enterprise Program" (Report 2018-114) issued on January 18, 2019.

At the request of the Legislature and approved by the Joint Legislative Audit Committee (JLAC), the CSA conducted a follow-up audit of Department of General Services and Veterans Affairs pertaining to the issues identified in a February 2014 audit related to the Disabled Veteran Business Enterprise (DVBE) Program. JLAC directed CSA to select two additional departments to identify current conditions related to the DVBE Program. CSA selected DMV as one of the two additional departments.

Below are the CSA Recommendation and DMV response (in bold):

Recommendation

To ensure the DVBE participation data are reported accurately and consistently, DMV should implement or strengthen a review process to ensure DVBE participation amounts entered into the department's data systems or FISCal are accurate. This review process should include verification, on a sample basis, of the amounts awarded to, and the certification status of, the DVBE contractor or subcontractor for high-value contracts that include DVBE participation.

Response:

DMV concurs with the recommendation. The DMV takes the DVBE program very seriously and continues to be committed to exceeding the three-percent goal for state governmental agencies. Additional training was conducted to ensure staff are following proper procedures. Further, beginning February 2019, DMV is implementing a quarterly process to check Small Business/Disabled Veteran Business Enterprise amounts awarded and certification status for high-value contracts exceeding \$100,000. In the interim, to assure program management that the error found during the audit is not a widespread problem, DMV's Internal

Secretary Brian C. Annis
Page 2
January 25, 2019

Audits Office randomly sampled 20 contracts of varying amounts awarded and found the DVBE calculations were correct on all 20 contracts.

Planned completion date: February 2019

We appreciate the opportunity to provide a response to the CSA recommendation. If you have questions or concerns, please contact Aida Singh, Acting Chief of Audits (916) 657-6480 or by email sent to Aida.Singh@dmv.ca.gov.

Sincerely,



WILLIAM DAVIDSON
Acting Director

Elaine M. Howle
January 25, 2019
Page 2

Over the past several years, CalVet has also established a robust network of regional partnerships with county, city, community, and non-profit entities through its annual Leadership Summit. The Department will hold its 4th summit in spring 2019.

- ② CalVet does not oppose the findings in the audit, noting that the State Auditor recognizes that CalVet is not sufficiently resourced to fully meet its statutory responsibilities. While this recommendation proposes to shift responsibilities to the Department of General Services (DGS), I feel it is critical that CalVet maintain a strong advocacy role in this program, should any change occur. Veterans seeking business opportunities in California may also need assistance connecting to their other state and federal benefits, many of which may directly impact their success in creating and growing their business. CalVet possesses the necessary cultural competency to connect veterans with their benefits, access communities of care through its robust stakeholder network, and respond to requests for assistance directly.

The Department acknowledges that the focus of this audit is directed at 2 full-time employees who were provided to the Department through an Interagency Agreement (agreement) with DGS. The responsibilities and job duties of these staff members were also prescribed through the agreement. CalVet and DGS have since terminated the agreement and CalVet is now utilizing those positions to support other program needs. More so, CalVet can now direct the duties of these staff members and prioritize efforts that CalVet believes more efficiently and effectively address the Department's statutory requirements in the Military and Veterans Code. CalVet's Deputy Secretary for Minority and Underrepresented Veterans serves as the state's DVBE Advocate and is training staff and developing an outreach strategy that conforms to the Department's statutory requirements for the program.

CalVet appreciates the efforts of the California State Auditor and its role as an oversight entity. It is our hope that your recommendations will improve the DVBE program and enhance the lives of veterans and their family members in California.

Sincerely,



VITO IMBASCIANI MD
Secretary

COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM CALVET

To provide clarity and perspective, we are commenting on CalVet's response to the audit. The numbers below correspond to the numbers we have placed in the margin of CalVet's response.

Although CalVet states that it employs many different methods to conduct outreach to veterans and includes information regarding the DVBE program, we found that it has not assessed the effectiveness of these outreach efforts as state law requires. As we describe on page 20, we found the reports that CalVet developed regarding its outreach activities did not provide any meaningful analysis regarding the quality, efficiency, and effectiveness of such activities. Because of these shortcomings, we recommend on page 32 that, among other things, CalVet assess the effectiveness of its past outreach efforts in increasing the number of DVBE firms that become certified. It should then develop an outreach plan that includes outreach activities the assessment found to be effective in the past.

①

CalVet states that it wants to maintain a strong advocacy role in the DVBE program, implying that its efforts in the past have been sufficient. However, as we state on page 24, CalVet has not fulfilled its responsibility to assist underachieving departments in meeting the 3 percent goal. Thus, we stand by our recommendation on page 31 to the Legislature that it transfer the responsibility for monitoring and assisting underachieving departments from CalVet to General Services. Nevertheless, if the Legislature were to choose to implement this recommendation, the resulting changes to state law would not preclude CalVet from taking an active role in the DVBE program. In fact, our recommendations on page 32 are intended to ensure that CalVet takes a more active and effective role in the program.

②

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STATE OF CALIFORNIA — DEPARTMENT OF CORRECTIONS AND REHABILITATION

GAVIN NEWSOM, GOVERNOR

OFFICE OF THE SECRETARY
P.O. Box 942883
Sacramento, CA 94283-0001



January 25, 2019

Ms. Elaine M. Howle, State Auditor
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

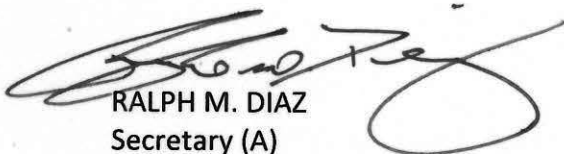
The California Department of Corrections and Rehabilitation (CDCR) submits this letter in response to the California State Auditor's (CSA) Disabled Veteran Business Enterprise (DVBE) Program report.

CDCR takes seriously its responsibility to meet DVBE program requirements. Since CSA's previous DVBE audit in 2014, CDCR has immensely improved its compliance with DVBE program requirements and is committed to continuously evaluating and improving compliance. Additionally, CDCR recently received multiple State Agency Recognition Awards for outstanding small business and DVBE advocacy and for contracting success with small businesses and DVBEs.

To address CSA's recommendation, CDCR has convened a workgroup to ensure it accurately and consistently reports DVBE participation data. CDCR will implement measures to improve the accuracy of contract information captured in and reported by its system of record.

CDCR welcomes the insights provided by the auditors and would like to thank CSA for their work on this report. CDCR will address the specific recommendation in a corrective action plan within the timelines outlined in the report. If you have further questions, please contact me at (916) 323-6001.

Sincerely,


RALPH M. DIAZ
Secretary (A)

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GAVIN NEWSOM
California Governor

January 25, 2019

MARYBEL BATJER
Secretary

Elaine M. Howle, State Auditor
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814



DEPARTMENTS

Office of
Administrative Law
Franchise Tax Board
Department of
General Services
Department of
Human Resources
State Personnel Board
Public Employees'
Retirement System
State Teachers'
Retirement System
Department of
Technology
Victim Compensation
Board
Department of Tax and
Fee Administration
California Complete
Count Office

Re: CALIFORNIA STATE AUDITOR'S REPORT NO. 2018-114

Pursuant to the above audit report, enclosed are the Department of General Services' comments pertaining to the results of the audit.

The Government Operations Agency would like to thank the state auditor for its comprehensive review. The results provide us with the opportunity to better serve our clients and protect the public.

Sincerely,

Marybel Batjer, Secretary
Government Operations Agency

Enc



915 Capitol Mall
Suite 200
Sacramento, CA 95814
TEL: (916) 651-9011
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MEMORANDUM

Date: January 25, 2019

To: Marybel Batjer, Secretary
Government Operations Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

From: Daniel C. Kim, Director
Department of General Services

Subject: RESPONSE TO CALIFORNIA STATE AUDITOR'S REPORT NO. 2018-114

Thank you for the opportunity to respond to the California State Auditor's (state auditor) Report No. 2018-114, Disabled Veteran Business Enterprise Program: *The Department of General Services [Has] Failed to Maximize Participation and to Accurately Measure Program Success*, which addresses recommendations to the Department of General Services (DGS) resulting from its audit. The following response addresses each of the recommendations.

OVERVIEW OF THE REPORT

DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2018-114, and generally agrees with the state auditor's recommendations.

DGS welcomes the opportunity to identify ways to strengthen Disabled Veteran Business Enterprises' (DVBE) opportunities to secure contracts with the State of California. The State is proud of its track record of meeting and/or exceeding the three percent statutory requirement for the past nine years. DGS recognizes that as procurement needs evolve amongst state departments, DGS should continue to adapt its policies and practices to ensure DVBEs continue to have opportunities to compete for state contracts.

DGS is firmly committed to strengthening the Disabled Veteran Business Enterprise (DVBE) program and will strive to implement the recommendations.

RECOMMENDATIONS

A Small Percentage of Firms Have Benefited From the DVBE Program:

RECOMMENDATION # 1: ***To increase the number of DVBE firms that awarding departments can contract with when required to use LPAs, General Services should develop and implement a plan to encourage DVBE firms to participate in LPAs.***

Marybel Batjer

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January 25, 2019

DGS RESPONSE # 1:

DGS agrees with the recommendation. DGS already has a process for regularly encouraging DVBE firms to participate in Leveraged Procurement Agreement (LPA) contracts. Included in that process is the identification of what services or goods can be made available to DVBE firms in large scale contracts, such as those included in the LPA program. DGS will continue to encourage and explore opportunities for DVBE participation in mandatory LPA contracts. ①

RECOMMENDATION # 2: *To ensure that a greater number of DVBE firms benefit from the DVBE program, General Services should work with awarding departments to understand why only a few DVBE firms receive a large number of contract awards. Based on its findings, General Services should take the necessary steps to remedy this situation.*

DGS RESPONSE # 2:

DGS generally agrees with the recommendation. DGS is aware that approximately 97% of the awarded contracts to the top 30 DVBE firms referenced in this audit report were reported by departments as procured in a competitive manner in compliance with Public Contract Code 10180 and 10301. In a competitive procurement environment, departments do not have the ability to determine a DVBE who meets the statutory conditions for responsiveness and responsibility is unable to be awarded a contract simply because that DVBE has already received a certain level of contracts with the State. DGS currently performs extensive outreach to DVBE firms on contracting opportunities with the State. DGS also provides continual guidance to state departments on ways to encourage additional DVBE participation on state contracts and will collaborate with departments on ideas for additional ways to enlist DVBE participation. DGS will continue to perform outreach and education for both the DVBE community and state departments. ②

Additionally, DGS recently launched the eProcurement Business Intelligence Strategies Section (eBISS) SCPRS dashboard. This new dashboard will provide DGS with an in-depth analysis of what goods and services state departments procure, as well as, provide DVBE firms with information on state spend. The dashboard will equip DGS to enhance education to DVBE firms about contract opportunities within the State.

RECOMMENDATION # 3: *To ensure that awarding departments can effectively identify DVBE firms that provide needed products and services, General Services should work with these departments to continue to narrow the codes available to those commonly used by awarding departments to more precisely identify what the State purchases to streamline search criteria in Cal eProcure. It should also ensure that by October 2019 departments identify their contracting needs and then post these needs prominently on their websites as a resource for DVBE firms. General Services should continue to provide outreach services to DVBE firms on how to create effective keywords and choose appropriate codes. Further, General Services should explore other options for making the Cal eProcure search engine more effective for awarding departments.*

Marybel Batjer

-3-

January 25, 2019

DGS RESPONSE # 3:

DGS generally agrees with the recommendation. DGS will continue its work with the Financial Information System for California (FI\$Cal) to implement a succinct custom United Nations Standard Products and Services Code (UNSPSC) set, which accurately reflects what the State procures and encourages state departments to identify the codes they regularly use for purchases.

- ③ The State's system for procurement is FI\$Cal. Requiring departments to post information on their websites is duplicative of and would be administratively redundant to the State's established system, since departments are already required to post contracting needs in FI\$Cal through the online Cal eProcure portal. However, DGS will encourage departments to develop tools for DVBE firms to identify contracting needs specific to each department.

DGS will continue to provide services to DVBE firms on how to select effective keywords and choose appropriate UNSPSC codes when certifying with DGS. Further, DGS will continue to evaluate the effectiveness of the Cal eProcure search engine.

RECOMMENDATIONS

General Services [Has] Not Adequately Overseen the DVBE Program, Hindering Its Success:

RECOMMENDATION # 4: To ensure that their outreach efforts are effective and result in a greater number of DVBE firms available that can provide the necessary goods and services awarding departments are seeking, [Redacted] General Services should do the following:

- ***Assess, at least annually, the effectiveness of [its] [Redacted] past outreach efforts in increasing the number of DVBE firms that become certified.***
- ***Work with awarding departments to identify the types of goods and services for which they struggle to find a DVBE contractor or subcontractor.***
- ***Develop an outreach plan to include outreach activities found to be effective in the past based on [its] [Redacted] assessment. This plan should also emphasize outreach to increase the number of DVBE firms that provide the types of goods and services that awarding departments struggle to obtain from DVBE firms.***
- ***Develop better tracking of the businesses owned by disabled veterans that attend [its] [Redacted] outreach events and review certification data to determine whether these businesses obtained their certifications.***
- ***Conduct periodic surveys of businesses owned by disabled veterans that attended [its] [Redacted] outreach events but chose not to become DVBE certified to determine the reasons for not applying***

Marybel Batjer

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January 25, 2019

for the certification. The department [Redacted] should use this information to improve both their outreach and any other areas of the program.

DGS RESPONSE # 4:

DGS agrees with the recommendation. DGS will annually assess the effectiveness of outreach efforts through post-event survey responses, strategic partner feedback and outreach team observations. DGS will continue to maintain communication with all departments to help identify what types of goods and services departments struggle with finding DVBE firms to provide. This dialogue with departments happens at the quarterly advocate meetings as well as agency visits with departments who fail to meet their Small Business (SB) and/or DVBE goals. The outreach team is currently working on shifting to even more targeted outreach based on the feedback from departments as well as areas identified through past spend data. DVBE outreach attendees will continue to be tracked via post-event surveys as well as a new survey that has been added to the end of the online certification application. These surveys will assess the goals of DVBE firms in becoming certified or identify reasons they may choose not to become certified.

④

RECOMMENDATION # 5: ***To minimize the occurrence of program abuse and ensure that program abuse cases are handled appropriately and consistently, General Services should do the following:***

- ***Remind the awarding departments about preventive measures, including notifying all subcontractors listed on a bid if that contract is awarded and providing the name of the prime contractor, the role of the DVBE firm in the contract, the amount of the contract dollars designated for each subcontractor, and contact information that subcontractors can use if they encounter any issues on the project.***
- ***Develop procedures for awarding departments to help them identify whether a complaint constitutes program abuse, track all complaints, and take appropriate steps when investigating program abuse complaints.***

DGS RESPONSE # 5:

DGS agrees with the recommendation. DGS has already begun implementing these recommendations by incorporating them into the ongoing Program Abuse Training and Best Practices documents including, but not limited to, preventative measures that suggests notification of DVBE subcontractor awards.

DGS will include within the ongoing Program Abuse Training and Best Practices documents, examples and case studies, designed to aid awarding departments in identifying whether a complaint constitutes program abuse as well as, how to track complaints effectively and take appropriate steps when investigating these complaints.

DGS will market this training to awarding departments and schedule class dates, times, and frequency to ensure the opportunity is presented to a wide range of state procurement officials.

Marybel Batjer

-5-

January 25, 2019

RECOMMENDATION # 6: *To strengthen the enforcement of DVBE laws, regulations, and guidelines, General Services should track program abuse complaints, including the type of program abuse, how it was reported or discovered, and the dates specific actions are taken on the case. This tracking will enable the awarding departments to identify weaknesses within their processes and provide insight into how to address these issues, improving the DVBE program overall.*

DGS RESPONSE # 6:

- ⑤ DGS agrees with the recommendation. DGS has already been tracking program abuse cases and has begun implementing these recommendations. Additionally, DGS will include information within the ongoing Program Abuse Training and Best Practices documents on how to track complaints effectively, take appropriate steps when investigating these complaints and reporting complaints to DGS.

RECOMMENDATIONS

The State Lacks Accurate Data to Fully Measure the DVBE Program's Success:

RECOMMENDATION # 7: *To ensure that DVBE participation data are reported accurately and consistently, [Redacted] General Services [Redacted] should implement or strengthen a review process to ensure that DVBE participation amounts entered into departments' data systems or FI\$Cal are accurate. This review process should include verification, on a sample basis, of the amounts awarded to, and the certification status of, the DVBE contractor or subcontractor for high value contracts that includes DVBE participation.*

DGS RESPONSE # 7:

DGS agrees with the recommendation. DGS' Office of Business and Acquisition Services (OBAS) will develop a desk manual for the OBAS SB/DVBE Advocate responsibilities, which will include policies and procedures to strengthen its process for ensuring DVBE participation data is reported accurately and consistently. The process will include, on a sample basis, verification of amounts awarded to and the certification status of DVBE contractors or subcontractors.

RECOMMENDATION # 8: *Until it begins generating DVBE activity reports using FI\$Cal, General Services should issue a policy to require awarding departments to implement or strengthen a secondary review process to ensure that the DVBE activity reports prepared by staff are accurate and supported by departments' data systems.*

DGS RESPONSE # 8:

DGS agrees with the recommendation. The current training on the Consolidated Annual Report (CAR) includes instructions that departments maintain clear and accurate records in their respective procurement files that can be linked to the reported transactions in case of an audit.

Marybel Batjer

-6-

January 25, 2019

Since April 2018, DGS has been working with the FI\$Cal team to develop and implement the Consolidated Annual Report (CAR) functionality in FI\$Cal that will aid in tracking and reporting DVBE participation by providing departments with the ability to query the reported transactions and reconcile with the report at any time.

DGS will incorporate into future CAR training and form instructions that awarding departments do the following:

- Develop, implement or strengthen a secondary review process to ensure that the DVBE activity reports prepared by staff are accurate and supported by documentation.
- Verify on a sample basis, the amount awarded to and the certification status of the DVBE contractor or subcontractor on a contract that includes DVBE participation.

RECOMMENDATION # 9: *To ensure that it can create accurate annual DVBE participation reports, General Services should complete the programming necessary to include DVBE subcontractor information by June 30, 2019.*

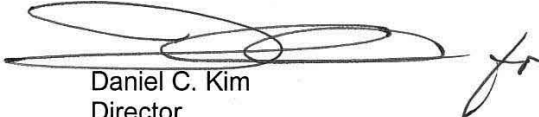
DGS RESPONSE # 9:

DGS agrees with the recommendation. Since April 2018, DGS has been working with the FI\$Cal team to develop and implement the Consolidated Annual Report (CAR) functionality in FI\$Cal with a planned migration to production in March 2019. This implementation will provide all awarding departments transacting in FI\$Cal the ability to accurately capture directly from their FI\$Cal transactions all the DVBE participation achieved either through awarding contracts directly to DVBE prime contractors, or through the use of DVBE subcontractors. Post-migration, DGS will provide training on CAR reporting to departments transacting in FI\$Cal, as well as departments that are deferred and/or exempt from migrating to FI\$Cal during the fiscal year 2018/19.

CONCLUSION

DGS is firmly committed to honoring veterans through strengthening the DVBE program and increasing DVBE participation in the program, wherever possible, by providing greater access to state procurement opportunities. As part of its continuing efforts to improve those processes, DGS will take appropriate actions to address issues presented in the report.

If you need further information or assistance on this issue, please contact me at (916) 376-5012.


Daniel C. Kim
Director

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COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM GENERAL SERVICES

To provide clarity and perspective, we are commenting on General Services' response to the audit. The numbers below correspond to the numbers we have placed in the margin of General Services' response.

Although General Services indicates that it already has a process for regularly encouraging DVBE firms to participate in LPA contracts, we found that this process is not effective. Specifically, as we state on page 14, General Services claims that of the almost 3,500 LPAs available, only 137 of those LPAs list DVBE firms as vendors. Therefore, we stand by our recommendation on page 18 that General Services develop and implement a plan to encourage DVBE firms to participate in LPAs.

①

General Services overstates the extent of its outreach to DVBE firms on contracting opportunities with the State. As we describe on page 14, General Services has known for years that relatively few DVBE firms benefit from the DVBE program. We explain on that same page that we expected to find that General Services had conducted some analysis to assess why this is the case; however, it had not done so. Further, on pages 14 and 15 we state that General Services has not taken steps to determine what actions are necessary to increase the number of DVBE firms that receive contracts from awarding departments. Until General Services does so and uses this information to inform its outreach efforts, it cannot reliably ensure that the DVBE program provides its intended benefits.

②

General Services misunderstands our recommendation. Our recommendation does not suggest that awarding departments duplicate FI\$Cal by posting individual contract solicitations on their websites. Rather, our recommendation is that General Services ensure that all awarding departments comply with its direction to make DVBE firms aware of potential procurement opportunities based on the departments' anticipated needs. Specifically, as we state on page 17, General Services told us that in October 2018 it asked each awarding department's DVBE advocate to identify the department's contracting needs for the next six to 12 months and to post this information prominently on the department's website to inform DVBE firms of opportunities. However, as of early January 2019, General Services knew of only two departments that had followed its direction.

③

- ④ Although General Services indicates that it visits departments that fail to meet the DVBE goal, we did not see an outcome from its visits. As we describe on pages 26 and 27, General Services provided us with documentation that it had assessed a couple of departments that did not meet the DVBE goal in fiscal year 2016–17 to identify if there was any assistance it could offer. In each case, General Services concluded that the awarding departments did not need its assistance because they were using best practices or had reasonable processes in place.
- ⑤ General Services' response implies that its tracking of program abuse cases has been sufficient. However, at our opening conference with General Services, it acknowledged that its tracking of program abuse allegations had shortcomings. In addition, as discussed on page 31, General Services acknowledged that it has not taken advantage of the potential benefits of tracking these abuse allegations. As we conclude on that same page, tracking the main elements of abuse allegations, such as the type of program abuse and how it was reported or discovered, would allow General Services to identify and address trends that otherwise may go unnoticed.



KAREN L. SMITH, MD, MPH
Director and State Public Health Officer

State of California—Health and Human Services Agency
California Department of Public Health



EDMUND G. BROWN JR.
Governor

January 25, 2019

Ms. Elaine M. Howle
State Auditor
1621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle,

The California Department of Public Health (CDPH) reviewed the California State Auditor's draft report titled, "Disabled Veteran Business Enterprise Program." CDPH appreciates the opportunity to respond to the report.

The report concludes that although the State achieved the goal of expending not less than 3 percent of the cumulative value of all of their contracts on Disabled Veteran Business Enterprise (DBVE) firms during the fiscal years 2014-15 and 2016-17, CDPH could not fully support the DVBE participation data reported for 2017-18.

Below, we address the report finding in more detail followed by our response to the auditor's specific recommendations.

Finding 1: CDPH could not fully support the DVBE participation data it reported for fiscal year 2017-18. Most significantly, it overstated some DVBE participation amounts. As a result, the department's claimed DVBE participation levels could be significantly inflated and could lead users of this information to draw incorrect conclusions about the department's success in meeting the 3 percent goal.

Recommendation to Public Health: To ensure that DVBE participation data are reported accurately and consistently, CDPH should implement or strengthen a secondary review process to ensure that contracts are accurately recorded in their data systems.



Elaine M. Howle
January 25, 2019
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Response:

CDPH agrees with the finding presented in the report and will strengthen our secondary review process by updating the trainings required for all staff involved in processing contracts. Currently the data that is entered into CDPH systems is first reviewed by analysts and then reviewed again by managers. These updated trainings for staff and managers will re-emphasize the importance of quality control in accurately recording contract information in our data systems. The training updates will be completed by June 30, 2019.

We appreciate the opportunity to respond to the audit. If you have any questions, please contact Monica Vazquez, Chief, Office of Compliance at (916) 306-2251.

Sincerely,



Karen L. Smith, MD, MPH
Director and State Public Health Officer

