

The California State Auditor released the following report today:

## 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*

### BACKGROUND

Intended to benefit Disabled Veteran Business Enterprise (DVBE) firms financially, the statewide contracting DVBE program requires state entities that award contracts for goods or services to have an annual goal of spending at least 3 percent of their total contract expenditures on certified DVBE firms. As the administering agency, the California Department of General Services (General Services) certifies firms that meet eligibility requirements, compiles statewide DVBE performance statistics, and prepares a public report annually indicating whether each awarding department has met the program's 3 percent goal. The California Department of Veterans Affairs (CalVet) is responsible for promoting the DVBE program and monitoring awarding departments' performance toward meeting the 3 percent goal.

### KEY FINDINGS

During our review of the DVBE program, we noted the following:

- Because the State measures the success of the program on the value of the contracts that departments award—not necessarily the amounts actually paid—to DVBE firms, the measure may distort how well the program is financially benefiting DVBE firms because awarding departments may pay less than the value stated on a particular contract.
  - ✓ We noted that one department awarded a DVBE firm \$2.5 million yet ultimately paid the firm nearly \$234,000 less than that amount. Another department paid a DVBE firm approximately \$821,000 less than the amount awarded.
- During fiscal year 2012–13, only 19 percent of the State's nearly 1,400 certified DVBE firms contracted with awarding departments as a prime contractor. Moreover, the top 30 firms made up 83 percent of the total amount the State awarded to DVBE businesses directly.
- The five departments we visited lacked adequate support for the overall DVBE participation data they reported for fiscal year 2012–13.
  - ✓ The California Department of Corrections and Rehabilitation could only account for 35 percent of the amount reported and the California Department of Transportation overstated its DVBE participation activity by \$28.5 million—more than a third of the amount they had reported.
  - ✓ The California Department of Water Resources could not substantiate roughly \$1.8 million—or roughly 12 percent—of the amount it originally reported.
- Because General Services allows awarding departments to decide how best to report DVBE participation on contracts extending beyond one year, the departments we visited used different methods to report on these contracts.
- General Services' inability to properly manage its contract with a vendor that administers its Web-based procurement program puts the state procurement data at risk—the contractor was unwilling to share with us the information we needed to verify the integrity of the procurement data.
- CalVet needs to take a more active role in the DVBE program and does not know which of its promotional efforts have led to an increase in DVBE certifications, limiting its ability to determine the success of its efforts.

### KEY RECOMMENDATIONS

We made several recommendations to the Legislature, General Services, and CalVet. To the Legislature, we recommended that it amend DVBE reporting requirements to require that awarding departments report participation based on amounts paid. We also recommended that it enact legislation aimed at increasing the number of those DVBEs that contract with the State. To General Services, we recommended that it enforce its contractual right to obtain a complete copy of its procurement data from the contractor, and that it and other departments verify the certification status of the DVBE firms before submitting DVBE activity reports. Moreover, we recommended that CalVet develop stronger measures to evaluate its outreach efforts and work more closely with awarding departments to help them meet participation goals.

Date: February 18, 2014

Report: 2013-115