

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

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February 18, 2014

2013-115

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 requested by the Joint Legislative Audit Committee, the California State Auditor (state auditor) presents this audit report concerning the California Disabled Veteran Business Enterprise (DVBE) program.

This report concludes that the DVBE program would be strengthened by more meaningful performance standards and better guidance from the California departments of General Services (General Services) and Veterans Affairs (CalVet). State law requires state agencies and departments that award contracts for goods or services (awarding departments) to meet or exceed a statewide participation goal for DVBE firms of not less than 3 percent of the overall dollar amounts expended each year (3 percent goal). However, state law also requires awarding departments to report their level of DVBE participation based on amounts awarded—not paid—to DVBE firms. The use of the different terms *expended* and *awarded* raises significant questions as to whether the State is measuring the DVBE program's performance appropriately. Given that the goal of the program is to have DVBE firms financially benefit from doing business with the State, and given that DVBE firms only benefit when they are actually paid for their goods and services, reporting the DVBE program's performance based on amounts actually paid to DVBEs is a more appropriate measure.

Our report also found that reporting DVBE performance based on amounts paid—which can be corroborated and verified through accounting records—could also improve the consistency and reliability of the information the Legislature and public use to evaluate the DVBE program. During the audit, we visited five awarding departments to evaluate the documentation used to support their reported DVBE participation data. All five departments could not fully support the amounts reported, and four of the five had significant errors. In some cases, departments failed to maintain supporting records or manually counted their DVBE data incorrectly, such as double-counting DVBE contracts or taking credit for working with firms who were not DVBEs. The departments we visited also used different methodologies for reporting their DVBE data, thus limiting the public's ability to compare the performance of different awarding departments. Following our review, some of these awarding departments resubmitted their DVBE data to General Services, resulting in the elimination of millions of dollars in overstated or unsupported DVBE participation data. We also noted that relatively few DVBE firms seem to benefit from the program. In fiscal year 2012–13 there were roughly 1,400 DVBE firms, yet only 256 DVBEs (nearly 19 percent) did business with the State and only 30 DVBE firms accounted for 83 percent of the total amount the State awarded to DVBE businesses. Finally, we believe CalVet should take a more active role in promoting DVBE contracting opportunities. Our report recommends ways the Legislature might further promote a broader-base of DVBE participation.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The Disabled Veteran Business Enterprise (DVBE) program directs state governmental entities, such as state agencies and departments, to procure goods and services from DVBE firms that the California Department of General Services (General Services) has determined have met the eligibility criteria required by law to be a certified DVBE firm. Principally established in the California Military and Veterans Code, the DVBE program requires that, collectively, state governmental entities that award contracts for goods and services (awarding departments) *expend* not less than 3 percent of the value of all their contracts on firms that are owned by disabled veterans (3 percent goal). However, the performance reporting requirements established in the State's Public Contract Code require awarding departments to report their levels of DVBE participation based on the amount of the contracts *awarded* to DVBE firms. The use of the different terms *expended* and *awarded* raises significant questions as to whether the State is measuring the program's performance in a manner consistent with legislative intent.

The legislative intent of the DVBE program is to target DVBE firms and have them benefit financially from doing business with the State. DVBEs benefit financially when they are paid for their services. However, based on the performance reporting requirements specified in the Public Contract Code, the State currently measures the success of the DVBE program by the value of the contracts that state departments and agencies have awarded—and not necessarily the amount ultimately paid—to DVBE firms. This performance measure may distort an assessment of whether the program is meeting the legislative intent, because awarding departments can subsequently amend or cancel their contracts with a DVBE if their procurement needs change. It is difficult to know the magnitude of the difference between amounts awarded and ultimately paid to DVBEs statewide because awarding departments enter into thousands of contracts with DVBEs each year, and the timing of when these contracts are completed and final payments are made varies. Nevertheless, we identified examples where some of the departments we visited had reduced the value of their contracts with DVBE firms after the original award. In one instance, the California Department of Transportation (Caltrans) had an on-call contract with a DVBE firm with a total award amount that was not to exceed \$13.2 million, and it ultimately paid the DVBE roughly \$12.4 million—approximately \$821,000 less than the award amount. Although differences between the amount awarded and the amount paid may be permissible under state contracting laws, depending on each contract's terms, the variations

Audit Highlights . . .

Our audit of the Disabled Veteran Business Enterprise (DVBE) program highlighted the following:

- » *The State's current method of measuring the success of the DVBE program may distort an assessment of whether the program is meeting the legislative intent.*
- » *The data in the State Contract and Procurement Registration System indicates that only a relatively small subset of DVBE firms enjoy the major part of the State's business—during fiscal year 2012–13, 83 percent of the DVBE contract award amounts went to only 30 DVBE firms.*
- » *All five of the awarding departments we visited lacked adequate supporting documentation for their reported fiscal year 2012–13 DVBE contracting activity.*
- » *The California Department of General Services (General Services) has not provided clear guidance as to what level of support and documentation is sufficient to support their reported DVBE performance data nor how to report DVBE participation on multiyear contracts.*
- » *General Services currently lacks the ability to obtain a complete and accurate copy of the State's procurement data—as currently maintained in the eProcurement data system.*
- » *The California Department of Veterans Affairs' management confirmed that it has not taken an active role in coordinating with awarding departments to promote DVBE contracting opportunities.*

underscore that DVBE participation reporting based on amounts awarded is not a good measure of whether the program is meeting the legislative intent.

In addition to lacking a true measure for the extent to which DVBE firms benefit financially from the program, the data in the State Contract and Procurement Registration System (SCPRS) maintained by General Services provide a strong indicator that only a relatively small subset of DVBE firms enjoy the major part of the State's business. Specifically, we noted that during fiscal year 2012–13, 83 percent of the DVBE contract award amounts went to only 30 DVBE firms. There do not appear to be any clear common traits among these top 30 firms, other than they seem to be successful at securing business with the State. For example, SCPRS data indicate that these top 30 DVBE firms have reached their levels of success either by winning a few state contracts or by winning a large number of state contracts. Specifically, eight DVBE firms were awarded five or fewer contracts, while the remaining 22 DVBE firms typically were awarded numerous state contracts with many different departments. For instance, one DVBE firm was awarded two contracts from Caltrans totaling \$20 million. Conversely, another DVBE firm entered into 922 contracts with six different awarding departments, totaling nearly \$3.5 million. The disabled veteran ownership interest in these top 30 DVBE firms also varied from 51 percent to 100 percent, with 16 of the top 30 DVBE firms being wholly owned by a disabled veteran business owner or owners.¹ We also noted that of the top 30 DVBE firms, 21 have been certified for less than 10 years, and five of those firms first became certified in 2012.

Given that during fiscal year 2012–13, 30 DVBE firms accounted for 83 percent of all DVBE contract amounts reported in the SCPRS, we believe that the Legislature should enact additional legislation that promotes the use of more DVBE firms in state contracting. For example, the Legislature could expand on existing laws designed to increase the likelihood of contracting with a DVBE firm. Such existing laws include the DVBE incentive, which allows a department, when awarding a contract to the lowest bidder, to give up to a 5 percent preference to DVBE firms, thus making the DVBE more cost-competitive for evaluation purposes. The Legislature could expand on the DVBE incentive to include additional incentives when the bidder is a DVBE firm that the department has not previously used or when the DVBE is a prime contractor.

¹ One of the criteria General Services verifies in certifying a firm as being a DVBE is that at least 51 percent of the firm is owned by one or more disabled veterans.

We also noted that all five of the awarding departments we visited—General Services, Caltrans, the California Department of Corrections and Rehabilitation (Corrections), the California Department of State Hospitals, and the California Department of Water Resources—lacked adequate supporting documentation for their reported fiscal year 2012–13 DVBE contracting activity.² For example, Corrections reported approximately \$52.7 million in contracts that it asserted were awarded to DVBEs during fiscal year 2012–13. However, it had not maintained supporting records as of the date it reported its DVBE participation activity, even though General Services’ instructions require awarding departments to do so. Corrections tried to reconstruct the support, but was only able to provide information that accounted for approximately \$18.4 million—or 35 percent of the amount it reported. Moreover, of the four awarding departments we visited that *did* maintain supporting documentation for their DVBE data, two departments decided to revise their DVBE activity reports during our review—resulting in a combined reduction of approximately \$30 million in the amount these two departments originally reported as their claimed DVBE participation. We also found that, in conflict with state law, General Services and Caltrans initially included in their supporting documentation amounts awarded to businesses that were not DVBEs.

A significant cause of the problems we noted at these departments can be attributed to weak guidance from General Services—the department responsible for administering the DVBE program and for compiling and reporting statewide performance statistics. For example, General Services allows awarding departments to decide for themselves how best to report DVBE participation on contracts with terms that exceed one year (multiyear contracts). Specifically, General Services has not provided clear guidance on whether departments should report DVBE participation on these contracts all at once at the beginning of the contract or over the contract’s performance period. The extent of General Services’ guidance on this topic has been simply to refer departments to the reporting requirements found in state law and report multiyear contracts following a consistent approach from year to year. However, if departments can follow different reporting methodologies—as they do even within General Services’ own divisions—the Legislature and the public cannot make meaningful department-to-department comparisons and identify departments that consistently outperform others to reveal potential best practices.

² For the purposes of our report, we considered adequate supporting documentation to mean an awarding department’s ability to provide a list of contracts and purchase orders that agreed with the dollar amounts reported on its DVBE activity report submitted to General Services on or before August 2013.

General Services has similarly deferred to awarding departments decisions regarding what level of support and documentation they can choose to use when validating their reported DVBE performance data. Specifically, General Services' reporting instructions simply require awarding departments to "maintain records to support total dollar amounts reported and to validate submissions," without further guidance. The fact that General Services allows awarding departments to use different approaches for reporting multiyear contracts, along with the lack of clear guidance as to what level of support and documentation is sufficient to support their reported DVBE performance data, has resulted in inconsistencies in the DVBE reporting process. To better measure the program's success, we believe the Legislature should amend the Public Contract Code to require departments to report DVBE participation based on actual payments to DVBE firms. Because state departments and agencies have payment information readily available in their accounting systems that identifies how much they have paid on each of their contracts, such a change should have little effect on awarding departments.

Our audit also found that General Services currently lacks the ability to obtain a complete and accurate copy of the State's procurement data—as currently maintained in the eProcurement data system. During the audit, we attempted to obtain procurement data from the eProcurement data system in order to identify, to the extent possible, the total number of DVBEs that have participated in state contracts over the past five years, along with additional information on the demographics of those DVBE firms, the value of the contracts awarded, the type of work the DVBEs performed, and the departments with which the DVBEs contracted. Although the terms of General Services' contract with the vendor that runs this system, BidSync, Inc. (BidSync),³ clearly establishes that the State has ownership of all of its data contained within the eProcurement system, BidSync was unwilling to provide the information we needed to verify the integrity of the State's procurement data, citing legal concerns over providing us with access to data that may include information not related to the State's data. Further, it is unclear what options General Services has to enforce the State's right to its data should BidSync fail to export and provide the State with all of its procurement data, because General Services did not assign a specific cost or due date for this service. Nevertheless, as of January 2014, it appears that General Services and BidSync have taken initial steps to ensure the State ultimately obtains its data.

³ At the time of the original contract, BidSync's legal business name was RFP Depot, LLC.

Finally, the California Department of Veterans Affairs (CalVet) should take a more active role in fulfilling its responsibilities under the DVBE program. State law indicates that CalVet is primarily responsible for promoting the DVBE program by encouraging new disabled veteran-owned businesses to become certified and for coordinating with awarding departments to help them meet the DVBE program goals. While CalVet does participate in outreach events, it could not demonstrate whether its promotional efforts have been successful, thus limiting its ability to determine whether it is maximizing the return on its outreach activities. Nevertheless, to its credit, CalVet has recently started taking proactive steps to make positive contributions to the DVBE program, such as surveying former DVBE firms that had allowed their certifications to expire; this should help CalVet identify, among other things, barriers preventing DVBEs from successfully participating in the program. Moreover, CalVet indicated that it will develop a formalized process for evaluating and interpreting these survey responses and incorporate them into its DVBE outreach plans.

CalVet is also responsible for appointing the statewide DVBE advocate, a position established in state law to help awarding departments meet the 3 percent goal. However, CalVet management confirmed that it has not taken an active role in coordinating with awarding departments to promote DVBE contracting opportunities. For example, CalVet's fiscal year 2013–14 outreach plan is targeted to veterans groups but does not specifically address the needs of state departments to help them meet the DVBE participation goals. To address this concern, CalVet indicated that going forward it would be more active in the DVBE program, such as taking a more prominent role in leading DVBE advocate meetings.

Recommendations

The Legislature

To provide a more meaningful measure of how well disabled veteran-owned businesses benefit financially from the DVBE program, the Legislature should amend the DVBE reporting requirements in the Public Contract Code to require that all awarding departments report DVBE participation annually based on amounts paid, and maintain accounting records and certifications from DVBE subcontractors, as applicable, that support the DVBE participation data reported.

If the Legislature chooses not to amend the DVBE reporting requirements in the Public Contract Code—to require awarding departments to report DVBE participation based on amounts paid, not amounts awarded—the Legislature should amend the Public Contract Code to do the following:

- Require awarding departments to maintain detailed support for their DVBE activity and to establish review procedures to ensure the accuracy and completeness of the amounts reported.
- Include instructions to awarding departments on how they should report multiyear contracts, either at the time of the award or by an equal distribution of the award over the life of the contract.

For the DVBE program to financially benefit a broad base of disabled veteran-owned businesses, the Legislature should enact legislation aimed at increasing the number of those DVBEs that contract with the State, including increasing the amount of the DVBE incentive that awarding departments can apply when considering bids on state contracts. Such an incentive could include additional preference points for certain bids when the bidder is a DVBE firm that the department has not previously used or when the firm is bidding as a prime contractor.

General Services

To ensure that the State enforces its contractual right to obtain a complete copy of its procurement data, General Services should take all necessary steps to ensure that it can extract a reliable copy of all the State's procurement data from BidSync so that the data can be used and analyzed to the State's benefit. These steps should include testing to ensure that the data it obtains from BidSync is accurate and complete.

General Services and Caltrans

To help ensure that General Services and Caltrans do not improperly report businesses that are not certified DVBEs, they should verify, at least on a sample basis for high-value contracts, the certification status of the DVBE firms before submitting their DVBE activity reports to General Services.

CalVet

To ensure that CalVet is meeting its statutory obligations for the DVBE program, it should do the following:

- Develop stronger measures to evaluate its outreach efforts, including formalizing a process for interpreting and evaluating its DVBE survey results and incorporating those results into its DVBE outreach plan.
- Work more closely with awarding departments to help them meet the DVBE participation goals and promote contracting opportunities, including taking a more active role in leading DVBE advocate meetings.

Agency Comments

Corrections, Caltrans, and CalVet generally agreed with our conclusions and recommendations. Although General Services also generally agreed with our conclusions and recommendations, it offered additional comments regarding our recommendations to the Legislature. Because we did not make specific recommendations to the California departments of State Hospitals and Water Resources, they did not need to respond in writing to the audit report.

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Introduction

Background

The Disabled Veteran Business Enterprise (DVBE) program directs state governmental entities, such as state agencies and departments, to procure goods and services from DVBE firms that the California Department of General Services (General Services) has certified. Principally established in the Military and Veterans Code, the DVBE program requires state governmental entities that award contracts for goods or services (awarding departments) to meet or exceed a statewide participation goal for DVBE firms of not less than 3 percent of the overall dollar amounts expended each year (3 percent goal). Put simply, an awarding department that spends \$100,000 for goods or services during the year must establish a goal of spending at least \$3,000 of that amount on certified DVBE firms. According to the governor's 2001 executive order, if an awarding department does not meet the 3 percent goal, it must develop a plan for improvement. Although the Military and Veterans Code 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, have established their own higher goals at 5 percent. Awarding departments may meet the 3 percent goal by contracting directly with certified DVBE firms as prime contractors or by requiring prime contractors to use DVBE firms as subcontractors for a portion of the work. In fact, DVBE firms frequently work as subcontractors. According to General Services' annual report on state contracting activity in fiscal year 2011–12, DVBE subcontractors accounted for nearly 41 percent—or \$151.5 million—of the State's total reported DVBE participation of \$373.9 million. The 3 percent goal applies to awarding departments' overall spending for the year. The text box shows examples of contracts where the 3 percent goal does not apply.

Examples of State Contracts Exempt From the Disabled Veteran Business Enterprise Program's 3 Percent Goal

Based on guidance issued by the California Department of General Services, 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

Sources: *State Contracting Manual* and Disabled Veteran Business Enterprise Program Activity Reporting Instructions.

General Services' Administrative Responsibilities

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 an applicant firm's qualifications to become a DVBE and then certifying those firms that meet eligibility requirements. According to General Services' records, in December 2013

Key State Disabled Veteran Business Enterprise Certification and Eligibility Requirements

State law generally defines a Disabled Veteran Business Enterprise as a business where:

- At least 51 percent of the firm 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 service-connected disability of at least 10 percent.
- Resides in California.

Source: Military and Veterans Code, Section 999(b)(6) and (7).

approximately 1,350 firms were certified as DVBEs. General Services' Office of Small Business and Disabled Veteran Business Enterprises Services (DVBE office) evaluates applications for certification. The key state DVBE eligibility requirements are summarized in the text box. As part of its review of applications for certification, the DVBE office requires new applicants to supply proof from the United States Department of Veterans Affairs that the business owner has a service-connected disability. Furthermore, state law requires the veteran business owner to submit tax returns so that the DVBE office can substantiate that disabled veterans actually own and manage the business. In general, a certified DVBE must reapply each year to maintain its certification status. However, a certified DVBE that is also certified by the DVBE office as a *microbusiness*—a firm whose average annual gross receipts do not exceed a certain amount, or who is a manufacturer with 25 or fewer employees—only needs to reapply for DVBE status once every two years.

In addition to certifying DVBE firms, state law requires General Services to prepare a public report annually indicating whether each awarding department has met the 3 percent goal. State law further requires General Services to compile this information by certain types of contracts, such as contracts for construction, professional services, supplies, and information technology procurements. To develop this report, by August 1 of each year the DVBE office requires awarding departments to use a standardized reporting form (DVBE activity report), which allows departments to report information on the value of the contracts they awarded during the fiscal year—and of that amount, the value they awarded to certified DVBE firms as either prime contractors or subcontractors. To increase the likelihood of receiving DVBE performance data that can be substantiated and are reported properly, the DVBE activity report instructs awarding departments to maintain supporting documentation for their data, and the DVBE office provides training to awarding departments on how to properly report their DVBE contracting activity. General Services also has an Office of Audit Services that reviews awarding departments' business and management practices, which includes a review of 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 reviews a selection of state departments and agencies at least once every seven to eight years.

Further, state law requires General Services to provide, among other things, centralized state purchasing and acquisition services. To help it meet these responsibilities, General Services contracted with BidSync, Inc. (BidSync).⁴ to administer the eProcurement system, a web-based program that allows state agencies to solicit proposals for upcoming state contracts and to notify suppliers of intent to award, among other things. The eProcurement system also provides a process that allows disabled veteran-owned businesses to apply for DVBE certification.

General Services also has a role in promoting the DVBE program within state government and facilitates periodic meetings to which it invites each of the awarding departments' DVBE advocates. The Military and Veterans Code requires each awarding department to appoint its own DVBE advocate, who is in turn required to assist DVBE firms participating in the contracting process and to assist the awarding department's own contract officers in finding DVBE firms that can provide needed services. These quarterly meetings include discussions regarding DVBE policies or other matters, such as questions from the advocates themselves or updates from the governor's office. The DVBE office has seven staff focused on performing outreach activities through attending events to promote the DVBE program. In fiscal year 2012–13, DVBE office staff attended numerous events sponsored by chambers of commerce, state departments, and other organizations.

CalVets' Responsibilities for Outreach and Coordination

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 some of CalVet's key responsibilities identified in the Military and Veterans Code.

CalVet uses funding from General Services through an interagency agreement to support its outreach efforts to increase the pool of certified DVBEs. In fiscal year 2012–13, General Services and CalVet executed a \$225,000 agreement under which CalVet

The California Department of Veterans Affairs' Responsibilities Under the Disabled Veteran Business Enterprise Program

The California Department of Veterans Affairs' responsibilities include:

- Promoting the Disabled Veteran Business Enterprise (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 goals.
- Appointing a statewide DVBE advocate to:
 - Oversee, promote, and coordinate efforts to implement the program.
 - Coordinate with administering agencies (the California Department of General Services and the California State Treasurer) to achieve the 3 percent goal.
 - Coordinate with awarding departments and their respective DVBE advocates.

Source: Military and Veterans Code, sections 999.5 and 999.11.

⁴ At the time of the original contract, BidSync's legal business name was RFP Depot, LLC.

would perform certain steps, including developing a DVBE outreach plan that would result in increasing the pool of certified DVBEs by 10 percent. Other items identified in the contract included the expectation that CalVet would counsel and aid prospective DVBE firms in successfully completing General Services' certification process and that it would provide informational assistance to state agencies and departments as well as veterans organizations regarding business opportunities and participation requirements for the DVBE program.

Provisions in State Law Encourage Contracting With DVBEs

State procurement rules encourage awarding departments to contract with DVBE firms by simplifying the competitive bidding process for DVBE firms by providing them with an advantage when awarding departments evaluate their bids on state contracting opportunities. These provisions are commonly referred to as the *DVBE option* and the *DVBE incentive*. As established in the California Government Code, 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 without complying with the State's normal competitive bidding requirements as long as it obtains bid solicitations from at least two certified DVBE firms and awards the contract to a DVBE firm. The *State Contracting Manual* explains that when using the DVBE option, an awarding department does not need to publicly 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 with the lowest quote as long as it documents its business reasons for selecting the chosen vendor. Awarding departments might view the DVBE option as a streamlined and relatively easier approach to contracting, since it avoids the requirement to formally advertise and obtain three quotes, while also working toward meeting the State's 3 percent goal.

State law also requires awarding departments to include a process that provides an advantage for DVBE firms when evaluating their proposals. According to guidance from General Services, 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 points-based system, 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 if it is selected.

General Services’ DVBE office collects information from awarding departments regarding their use of the DVBE option and DVBE incentive and includes some of this information in its annual report. However, the quality of the information General Services reports is uncertain because data on the use of the DVBE option are combined with similar contracting programs—specifically, the options for micro businesses and small businesses. As a result, we cannot isolate the impact of the DVBE option on awarding departments’ ability to meet the 3 percent goal. Finally, although the DVBE office collects information on the use of the DVBE incentive, it does not require that awarding departments submit this information if they lack the capability to do so. The DVBE office did not include data on the use of the DVBE incentive when preparing its annual report for fiscal year 2011–12.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to perform an audit of the DVBE program. The audit analysis the audit committee approved contained 10 separate objectives. Table 1 lists the objectives and the methods we used to address them.

Table 1
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, and other background materials.
2. Determine the roles and responsibilities of the California Department of General Services (General Services) and the California Department of Veterans Affairs (CalVet) and any other entities in administering, monitoring, and ensuring the success of the Disabled Veteran Business Enterprise (DVBE) program.	<ul style="list-style-type: none"> • Interviewed key officials at General Services and CalVet. • Reviewed relevant laws, regulations, and interagency agreements between General Services and CalVet. • The Military and Veterans Code establishes the California State Treasurer (state treasurer) as the administering agency when awarding departments enter into contracts for professional bond services, such as issuing notes or other evidence of indebtedness issued on behalf of the State. Given our audit’s objectives, we did not focus on professional bond services or the state treasurer.
3. Review and evaluate General Services’ and CalVet’s policies, procedures, and practices for administering and overseeing the program, assisting departments and agencies in reaching the DVBE program goals and intent of the program, and reporting on program performance.	<ul style="list-style-type: none"> • Interviewed key officials at General Services and CalVet. • Analyzed General Services’ and CalVet’s DVBE program outreach efforts, and steps the departments are taking to monitor the effectiveness of their outreach efforts.

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AUDIT OBJECTIVE	METHOD
4. Evaluate the methods General Services and CalVet use to determine whether agencies and departments meet program goals and what action, if any, either department can take to enforce attaining those goals. At a minimum, perform the following:	
a. Review the reporting requirements for agencies and determine whether agencies are required to report about contracts awarded to DVBEs and whether the amounts reported reflect the contracted amount as well as the amount actually expended for the contracts.	<ul style="list-style-type: none"> • Analyzed General Services' DVBE program reporting instructions and related training to awarding departments. • Obtained and reviewed examples of completed awarding departments' fiscal year 2012–13 annual DVBE activity reports. We also reviewed supporting documentation for the amounts reported to understand how awarding departments reported their DVBE participation data.
b. Evaluate General Services' and CalVet's processes for ensuring that the information agencies provide is reported consistently and is accurate. Assess General Services' process for accurately reporting annually on overall program participation.	<ul style="list-style-type: none"> • Interviewed a key official in General Services' Office of Audit Services (audit services). • Reviewed General Services' procedures for ensuring that departments' reported DVBE participation activity is accurate and reviewed the factors General Services considers when evaluating the accuracy of the reported information. • Analyzed audit services' DVBE program audit procedures and reviewed examples of these reviews. • CalVet does not have a role in ensuring that the data agencies report are consistent and accurate.
c. Determine whether General Services or CalVet tracks and trends DVBE participation and goal attainment by participant, by agency, by dollar amount, and by type of work, and whether either entity analyzes the information to determine whether changes are needed to the program or program practices or policies.	Interviewed key officials at General Services and CalVet regarding their processes for trending DVBE program performance.
5. Review General Services' annual reports for each of the past five years to determine the number of certified DVBEs. Compare that number to the total number of DVBEs that participated in state contracts under the program during each of those years. Determine whether DVBEs participate in multiple contracts or work with various departments. Identify and determine the reasons for any significant variances or trends.	<ul style="list-style-type: none"> • In order to determine the total number of certified DVBEs and whether these DVBEs participated in multiple contracts or worked with various departments, we planned to use General Services' eProcurement data. However, we were unable to obtain this data because General Services was unable to obtain the production data from its data administrator—BidSync, Inc. (BidSync). • Nevertheless, we relied on the State Contract and Procurement Registration System (SCPRS) to identify the number of DVBEs that contracted with the State during fiscal year 2012–13. • Using the SCPRS data, we identified the 30 DVBEs—identified in Table 2 beginning on page 21—with the highest total award amounts during fiscal year 2012–13. • We interviewed key officials at General Services, the California departments of Corrections and Rehabilitation (Corrections), State Hospitals (State Hospitals), Transportation (Caltrans), and Water Resources (Water Resources) to determine the reasons why certain DVBE firms won significant contract amounts.
6. Review and evaluate General Services' certification processes and practices to ensure that they comply with laws and regulations. Determine whether certification processes include procedures to validate the eligibility of DVBEs and periodically reassess their eligibility to participate in the program and whether DVBE owners participate in more than one DVBE business.	<ul style="list-style-type: none"> • Interviewed a key official at General Services who has oversight for the DVBE certification process. • Reviewed General Services' DVBE program certification procedures. • Selected and reviewed 60 DVBE certification decisions during fiscal year 2012–13—30 approvals, 20 denials, and 10 recertifications—to determine whether General Services rendered the correct decision based on the evidence. We agreed with the decisions in all 60 certification decisions.

AUDIT OBJECTIVE	METHOD
7. To the extent possible, determine for the most recent year available the percentage of certified DVBEs that are wholly owned by a disabled veteran.	<ul style="list-style-type: none"> • See Audit Objective 5 regarding limitations on obtaining statewide DVBE-related procurement data. • For the top 30 DVBEs identified in Audit Objective 5, analyzed General Services' DVBE application data to identify the disabled veteran's percentage of ownership in the business and identify the number of certified DVBE firms that were wholly owned by a disabled veteran.
8. Using the data from objective 5, to the extent possible, identify other relevant demographics of each DVBE, including their United States Department of Veterans Affairs (VA) disability rating. Using that list, identify which DVBEs participated in contracts under the program, and for those DVBEs that receive the largest awards each year, determine the following:	<ul style="list-style-type: none"> • See Audit Objective 5 regarding limitations on obtaining statewide DVBE-related procurement data. • For the top 30 DVBEs identified in Audit Objective 5, analyzed General Services' DVBE certification data for their federal VA disability ratings.
a. The value of those awards and the departments with which the DVBEs contracted.	Analyzed the total value of the awards to the top 30 DVBE firms and the departments with which these DVBEs contracted.
b. The average percentage of ownership by the principal disabled veteran for the top 20 DVBEs on the list.	Analyzed General Services' DVBE certification data to identify the average percentage of ownership in the top 30 DVBE firms.
c. The number of these top 20 DVBEs that received contract extensions and the number that participated in more than one program.	We determined the number of departments the top 30 DVBEs contracted with. We also determined the number of contracts these DVBEs received through leveraged procurement agreements.
9. At five departments or agencies, validate the information provided to General Services regarding DVBEs, contracts awarded to DVBEs, and actual amounts expended for the most recent year available. Further, perform the following:	<ul style="list-style-type: none"> • We selected five departments reporting significant performance in terms of amounts awarded to DVBE firms during fiscal years 2007–08 through 2011–12: Caltrans, Corrections, General Services, State Hospitals, and Water Resources. • For each of these five departments, analyzed their fiscal year 2012–13 DVBE activity reports and relevant supporting documentation. • For four of these five departments, reviewed the DVBE certification status for 20 DVBE firms listed on the department's supporting documentation.
a. Identify instances when certified DVBEs provided a bid to an agency's Request for Proposal (RFP). Review a selection of RFP evaluation documents to compare the bid for the cost of goods or services provided by the DVBE to the bids for the cost of those goods and services submitted by non-DVBE entities.	<ul style="list-style-type: none"> • Interviewed key officials at each of the five departments we visited and determined that none of these departments systematically tracks all instances when a DVBE submitted a bid on a state contract. • Because none of the five departments we visited maintained a comprehensive list of when DVBEs bid on state contracts, we elected to limit the testing to three departments: Caltrans, General Services, and Water Resources. • Selected and reviewed 15 DVBE-related contracts—five contracts from each of these three departments—and compared the DVBE's bid amount to the lowest non-DVBE business's bid amount. We present the results in Table 3 on page 25.
b. Review a sample of fully performed contracts for goods and services awarded to DVBEs. Identify the amount awarded and compare with the actual amount paid on the contract. Identify any discrepancies and the reasons for those differences.	<ul style="list-style-type: none"> • For each of the five departments we visited, obtained accounting reports regarding contracts that were completed during fiscal year 2012–13. • Selected and reviewed 25 DVBE-related contracts—five contracts from each of the five departments—that were fully completed during fiscal year 2012–13 and compared the amounts departments awarded in the contracts to the amounts paid to the DVBEs. • Interviewed department officials regarding instances when the award amounts were different from the amounts paid to the DVBEs.
10. Review and assess any other issues that are significant to the DVBE program.	Our legal counsel reviewed and analyzed the contract between General Services and BidSync to determine whether General Services is legally entitled to the State's DVBE-related procurement data in a format or to a platform of the State's choice and to further determine whether BidSync is required to provide the State with data export functionality, which would allow General Services to analyze the State's data.

Sources: The California State Auditor's analysis of Joint Legislative Audit Committee audit request number 2013-115, and information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we relied on General Services' electronic data related to state contracts and purchases (state contracts). Although the best source of state contracts data exists in General Services' eProcurement system, the production data was not made available to us, as discussed in Table 1. Alternatively, we obtained General Services' publicly available State Contract and Procurement Registration System's (SCPRS) state contracts data, which is a portion of the eProcurement system data, from General Services' Web site to present some of the requested information.

The U.S. Government Accountability Office, whose standards we follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. We performed data-set verification procedures and electronic testing of key data elements and did not identify any issues. We did not perform accuracy and completeness testing of these data because the information is self-reported by the awarding departments, and the source documents required for this testing are located at various departments throughout the State, making such testing cost-prohibitive. Additionally, the SCPRS data does not identify DVBE subcontracting information, and awarding departments are not required to report state contracts valued at \$5,000 or less. Finally, we excluded 14 state contracts from our analysis because there was no dollar amount associated with them. Consequently, for fiscal year 2012–13, we found the SCPRS data was of undetermined reliability for the purposes of identifying DVBE firms, the total number and amount of state contracts awarded to these firms, the state departments contracting with these firms, and the total number of leveraged procurement agreements for the 30 DVBE firms with the largest total award amounts.

Audit Results

The State Can Better Measure the Performance of the Disabled Veteran Business Enterprise Program if the Focus Is on the Amounts Actually Paid

The legislative intent of the Disabled Veteran Business Enterprise (DVBE) program is to have the State target certain businesses that are owned by disabled veterans and then support these firms by procuring their goods or services. State law requires that state agencies and departments that award contracts for goods and services (awarding departments) have an annual goal of spending at least 3 percent of their total contract expenditures on DVBE firms (3 percent goal). In short, the DVBE program is a statewide contracting program intended to benefit DVBE firms financially, and such firms benefit financially only when they are paid for their goods or services. However, based on the performance reporting requirements specified in the Public Contract Code, the State measures the success of the DVBE program on the value of the contracts that departments have awarded—not necessarily paid to—DVBE firms. This performance measurement may distort an assessment of how well the program is meeting the legislative intent of financially benefiting DVBE firms. For example, the value of an awarding department's contract with a DVBE can be more than the amount ultimately paid by the time the work is completed, and the difference between amounts awarded and amounts paid can be significant.

Several reasons explain why awarding departments may pay less than the value stated on the contract. For example, awarding departments may specify that their payments to a DVBE are “not to exceed” some maximum amount—thereby establishing an upper ceiling on potential cost—which establishes an understanding with the DVBE that the actual payments may be less than the contract value. In other cases, the award term called for in the contract may expire before the awarding department identifies a need for all the goods or services originally called for in the contract's scope of work. It is difficult to know the magnitude of the difference between amounts awarded and amounts ultimately paid to DVBEs statewide because awarding departments enter into thousands of contracts with DVBEs each year, and when these contracts are completed and when final payment is issued varies. Nevertheless, we identified anecdotal examples that confirm there can be significant differences between amounts awarded and amounts paid to DVBEs. For example, we identified a contract at the California Department of Water Resources (Water Resources) where the DVBE firm was not paid the full award amount. Specifically, Water Resources had awarded a DVBE firm \$2.5 million; however, it ultimately paid the DVBE firm just under \$2.3 million—a difference of nearly \$234,000.

The differences between the amounts awarded and amounts paid underscore that DVBE participation reporting based on amounts awarded is not a good measure of how well the program is meeting the legislative intent.

According to Water Resources' construction branch chief, the award was a contract extending beyond one year (multiyear contract) for consulting work on an as-needed basis related to a water-pumping plant, and the contract expired before all services were required.

Similarly, the California Department of Transportation (Caltrans) contracted with a DVBE consultant to provide on-call independent quality-assurance services for some of Caltrans' construction projects. The total award amount was not to exceed \$13.2 million, and Caltrans ultimately paid the DVBE roughly \$12.4 million—approximately \$821,000 less than the award amount. Although the differences between the amounts awarded and amounts paid may be otherwise permissible under state contracting laws, depending on each contract's terms, these variations underscore that DVBE participation reporting based on amounts awarded is not a good measure of how well the program is meeting the legislative intent of providing financial benefit to DVBE firms.

The California Department of General Services (General Services)—the department responsible for administering the DVBE program and for compiling and reporting statewide performance statistics—has not sponsored legislation to clarify and better align the DVBE program's goals with its performance reporting requirements. According to its executive management, General Services has not proposed legislation to amend the DVBE statutes because the department has seen no evidence that current reporting requirements, based on the amount awarded to DVBE firms, are materially inaccurate, or that there would be a significant benefit from reporting amounts paid to DVBE firms. Moreover, General Services indicated that any perceived ambiguity in the Military and Veterans Code is clarified for purposes of reporting in the later-enacted Public Contract Code, thus negating the need for additional clarification. However, although the award amount reported may be accurate, it may not be representative of the amount actually paid to the DVBE.

We note that General Services has long been reluctant to require awarding departments to report their performance under the DVBE program based on amounts paid. In response to an earlier audit we published in July 2002, General Services indicated that it had hired a consultant to, among other things, discuss with awarding departments the potential for reporting actual expenditure data under the DVBE program. According to General Services, its consultant had discussions with 28 of the State's largest departments and concluded in a report to General Services that performance reporting should continue to be based on amounts awarded. In September 2013 we asked General Services for a copy

of the consultant's report, but General Services was unable to locate it, indicating that old records would have been disposed of in the general course of business.

Further, according to General Services' annual report, DVBE firms often participate as subcontractors. According to the General Services report to the Legislature for fiscal year 2011–12, a significant portion of the State's DVBE participation comes in the form of subcontracting, accounting for roughly 41 percent during that reporting period. This can present challenges for awarding departments to capture payment information for this subgroup. While the awarding department would know how much it has paid to its prime contractor, its accounting system would not have information on the amounts that the prime contractor has paid to the DVBE subcontractor.

However, there is a solution to this problem. The Military and Veterans Code currently requires prime contractors to make a certification to the awarding department—upon project completion—regarding the amounts it has paid to each DVBE subcontractor and this payment certification must list the DVBE firm's name and address. Awarding departments could use these certifications as a way to report on amounts paid to DVBE subcontractors. Nevertheless, there are certain limitations to using the current certification forms. Without a requirement for the DVBE subcontractor's involvement on the certification—such as by co-signing the certification along with the prime contractor or by providing its own certification of the amounts it has received—the credibility of the certification itself is in doubt. Prime contractors might have an incentive to otherwise certify that they have fully paid their DVBE subcontractors when they have not. By requiring DVBE subcontractors to play a role in the certification process and by making the State's final payment to a prime contractor contingent on obtaining certification from the DVBE subcontractor, the Legislature could increase the likelihood of obtaining accurate information on payments to DVBE subcontractors while also providing DVBEs with more leverage in their interactions with prime contractors. In the case of contracts that span multiple years, such a certification could take place annually and again at the end of the contract to identify any remaining amounts paid to DVBEs.

By requiring DVBE subcontractors to play a role in the certification process, the Legislature could increase the likelihood of obtaining accurate information on payments to DVBE subcontractors while also providing DVBEs with more leverage in their interactions with prime contractors.

Relatively Few Businesses Account for a Major Part of the State's Direct Contracting Activity Under the DVBE Program

For the DVBE program to financially benefit a broad base of disabled veteran-owned businesses, awarding departments and the Legislature may need to take steps to increase the number of

According to General Services' centralized database of information on state contracts and purchases, for fiscal year 2012–13, only 256 DVBE firms, or nearly 19 percent of the State's certified DVBE firms during that period, contracted with awarding departments as a prime contractor.

DVBEs that contract with the State. According to General Services' State Contract and Procurement Registration System (SCPRS), a centralized database of information on state contracts and purchases (state contracts), for fiscal year 2012–13, only 256 DVBE firms, or nearly 19 percent of the State's certified DVBE firms during that period, contracted with awarding departments as a prime contractor. The information in SCPRS is limited—for example, awarding departments are not required to report activity on state contracts valued at \$5,000 or less, and according to General Services the database lacks information on contracting activity for DVBE subcontractors. However, the limited number of DVBEs that contract directly with the State as prime contractors suggests that more should be done to increase the number of DVBE firms that do business directly with awarding departments.

The top 30 DVBE firms from fiscal year 2012–13, listed in Table 2, made up 83 percent of the total amount the State awarded to DVBE businesses directly—and these top 30 DVBE firms also accounted for 76 percent of the total number of DVBE contracts awarded. Although SCPRS may not include all lower-value DVBE contracts, the data in SCPRS nevertheless provide a strong indicator that only a relatively small subset of DVBE firms enjoy the major part of the State's business. Table 2 also shows that there are no clear common traits among the top 30 DVBE firms other than that they are successful at securing business with awarding departments. When reviewing the application materials for these top 30 DVBE firms, we determined that the disabled veteran's ownership interest averaged roughly 80 percent, with 16 of the top 30 firms being wholly owned by one or more disabled veterans. Furthermore, we noted that of the top 30 DVBE firms, 21 have been certified for less than 10 years, and five of those firms first became certified in 2012.

The SCPRS data also indicate that these top 30 DVBE firms were successful in either winning a few state contracts or winning a large number of state contracts. Eight DVBE firms were awarded five or fewer state contracts, while the remaining 22 DVBE firms were typically awarded numerous state contracts by many different awarding departments. For example, Alta Vista Solutions, Inc.—the top DVBE firm—was awarded two contracts from Caltrans, totaling \$20 million. Conversely, TAGG Industries, Inc., which is the seventh DVBE listed on Table 2, was awarded 922 state contracts by six different awarding departments, totaling nearly \$3.5 million. Finally, the table shows that two DVBE firms had contracts with more than 40 different awarding departments. One of these firms provides computer hardware and software, while the other provides packaging products and printing services.

Table 2
The Top 30 Disabled Veteran Business Enterprise Firms Participating in State Contracting as Prime Contractors
Fiscal Year 2012–13

DISABLED VETERAN BUSINESS ENTERPRISE (DVBE) FIRM NAME	DISABLED VETERAN PERCENTAGE OF OWNERSHIP	DISABLED VETERAN DISABILITY RATING 10 PERCENT OR GREATER*	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRMS	TOP FIVE STATE DEPARTMENTS AWARDING THE CONTRACTS TO DVBE FIRMS	TYPE OF GOODS OR SERVICES PROVIDED†	DVBE FIRM'S INITIAL CERTIFICATION DATE
1 Alta Vista Solutions, Inc.	51%	Yes	\$20,000,000.00	2	1	California Department of Transportation (Caltrans)	Project management and construction engineering, among others	8/5/2005
2 Allied Network Solutions, Inc.	51	Yes	19,105,053.36	294	46	California Department of Corrections and Rehabilitation (Corrections), California Department of Justice (Justice), California Department of Motor Vehicles (Motor Vehicles), Caltrans, Employment Development Department (Employment Development)	Computer hardware and software procurement, among others	4/28/2005
3 Livermore Scientific, Inc.	100	Yes	14,515,650.09	27	3	California Correctional Health Care Services, California Department of Veterans Affairs (CalVet), Corrections	Medical and dental equipment, among others	12/7/2004
4 Stay Safe Supply	52	Yes	13,130,401.63	353	42	California Department of General Services (General Services), Corrections, Employment Development, Justice, Motor Vehicles	Packaging products and printing services, among others	7/25/2008
5 Granite Data Solutions	51	Yes	6,122,882.04	287	39	California Department of Health Care Services (Health Care Services), California Department of Parks and Recreation (Parks and Recreation), California Department of Technology (CalTech), California State Board of Equalization (Equalization), Motor Vehicles	Computer hardware and software, among others	1/24/2002
6 California Veteran Supply, Inc.	51	Yes	6,098,024.25	238	17	California Department of Food and Agriculture (Food and Agriculture), California Department of Water Resources (Water Resources), Caltrans, Corrections, General Services	Office and janitorial supplies, among others	8/15/2002
7 TAGG Industries, Inc.	100	Yes	3,476,837.19	922	6	California Correctional Health Care Services, California Department of State Hospitals (State Hospitals), CalVet, Corrections, General Services	Medical supplies and medical staff clothing, among others	4/9/1997
8 All Business Machines, Inc.	51	Yes	2,327,128.07	109	14	California Department of Public Health (Public Health), Corrections, Food and Agriculture, General Services, Water Resources	Tools and machine supplies, among others	2/26/2002

continued on next page...

DISABLED VETERAN BUSINESS ENTERPRISE (DVBE) FIRM NAME	DISABLED VETERAN PERCENTAGE OF OWNERSHIP	DISABLED VETERAN DISABILITY RATING 10 PERCENT OR GREATER*	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRMS	TOP FIVE STATE DEPARTMENTS AWARDING THE CONTRACTS TO DVBE FIRMS	TYPE OF GOODS OR SERVICES PROVIDED†	DVBE FIRM'S INITIAL CERTIFICATION DATE
9 RAM Enterprises	100%	Yes	\$2,204,201.75	75	7	Caltrans, Corrections, Franchise Tax Board, General Services, Public Health	Paper supplies and moving equipment, among others	11/4/2005
10 Traffic Development Services	85	Yes	1,945,599.00	12	1	Caltrans	Highway construction and signal structures, among others	3/1/2010
11 C&G Technology Services, Inc.	82	Yes	1,784,784.00	2	1	Health Care Services	IT consulting and project management, among others	12/9/2004
12 Gordon Industrial Supply	51	Yes	1,749,127.92	146	9	Caltrans, CalVet, Corrections, California Department of Developmental Services (Developmental Services), General Services	Tools and equipment supplies, among others	9/25/2002
13 US Control Group, Inc.	100	Yes	1,579,814.27	162	7	CalTech, CalVet, Corrections, General Services, State Hospitals	Commercial and industrial equipment, among others	12/14/2007
14 Franklin Young International, Inc.	100	Yes	1,371,307.97	42	5	California Department of Pesticide Regulation (Pesticide Regulation), Food and Agriculture, General Services, Office of Statewide Health Planning and Development (OSHPD), Public Health	Lab supplies and clinical medical equipment, among others	8/28/2009
15 Golden State Provisions, Inc.	100	Yes	1,234,903.38	90	4	California Correctional Health Care Services, Corrections, Developmental Services, State Hospitals	Canned foods and textiles, among others	2/27/2002
16 Global Blue DVBE	51	Yes	1,198,373.47	16	10	Motor Vehicles, OSHPD, Public Health, State Hospitals, State Water Resources Control Board	IT data and implementation services, among others	4/2/2011
17 Anchor Supply, Inc.	60	Yes	1,166,365.21	92	11	Corrections, Developmental Services, General Services, Motor Vehicles, Water Resources	Industrial and maintenance supplies, among others	5/19/1998
18 System Solutions DVBE, Inc.	51	Yes	1,074,786.68	1	1	CalTech	IT software and consulting, among others	11/14/2012
19 Sumrall Solutions, LLC	100	Yes	1,064,753.39	16	4	California State Controller's Office, California Department of Industrial Relations, Employment Development, Motor Vehicles	Paper and office supplies, among others	5/16/2003
20 Advance Computer Service, Inc.	100	Yes	1,061,727.50	35	13	California Correctional Health Care Services, Equalization, General Services, Health Care Services, Public Health	Network services and computer equipment, among others	9/12/2005
21 Patriot DVBE	100	Yes	992,015.69	38	9	California Correctional Health Care Services, California Office of Emergency Services, CalTech, Employment Development, Franchise Tax Board	Servers and computer software, among others	2/29/2012

DISABLED VETERAN BUSINESS ENTERPRISE (DVBE) FIRM NAME	DISABLED VETERAN PERCENTAGE OF OWNERSHIP	DISABLED VETERAN DISABILITY RATING 10 PERCENT OR GREATER*	TOTAL STATE CONTRACT AWARD AMOUNT	TOTAL NUMBER OF STATE CONTRACTS	NUMBER OF STATE DEPARTMENTS AWARDING CONTRACTS TO THE DVBE FIRMS	TOP FIVE STATE DEPARTMENTS AWARDING THE CONTRACTS TO DVBE FIRMS	TYPE OF GOODS OR SERVICES PROVIDED†	DVBE FIRMS' INITIAL CERTIFICATION DATE
22 Stanfield Systems, Inc.	51%	Yes	\$870,275.00	3	2	California Student Aid Commission, Pesticide Regulation	Software development and web development, among others	7/23/2001
23 Exalibur Elevator, Inc.	100	Yes	820,315.00	2	2	Corrections, State Hospitals	Elevator installation and maintenance, among others	10/23/2007
24 Gould Government Product Solutions	100	Yes	800,322.61	29	4	CalVet, Corrections, Developmental Services, General Services	Janitorial supplies and bathroom wall treatments, among others	2/1/2012
25 DV1 Technologies	100	Yes	796,918.24	17	9	California Department of Child Support Services, California Department of Conservation, California Department of Education, California Department of Finance, Motor Vehicles	Computer-related and corporate management consulting services, among others	4/10/2007
26 Electric Lighting Company	100	Yes	721,580.25	30	1	Water Resources	Construction material and power supplies, among others	4/20/2009
27 Great West Constructors, Inc.	51	Yes	694,760.00	1	1	Caltrans	Building and road construction, among others	11/9/2012
28 Anthem Builders, Inc.	100	Yes	682,615.00	2	2	Caltrans, Parks and Recreation	Construction maintenance and repair, among others	8/8/2012
29 Monterey Medical	100	Yes	676,897.62	4	2	California Conservation Corps, State Hospitals	Medical supply and services distributor, among others	2/2/2010
30 DiscoverIT Solutions, Inc.	100	Yes	649,855.36	18	8	California Conservation Corps, Equalization, Franchise Tax Board, Motor Vehicles, OSHPD	IT project management and data services, among others	4/16/2007
Averages	80%	38%	\$3,663,909.20	102	9			

Sources: California State Auditor's analysis of data obtained from General Services' State Contract and Procurement Registration System, as of September 17, 2013, and General Services' DVBE certification files. See the "Assessment of Data Reliability" on page 16 in the Introduction to the report regarding the electronic data used in the table.

* According to the Military and Veterans Code, Section 999(b)(6), in order for a firm to become a certified DVBE, its owner must be a veteran with at least a 10 percent service-connected disability.

† Based on descriptions of General Services' publicly accessible eProcurement Web site.

Based on information extracted from SCPRS, for fiscal year 2012–13, eight of the DVBE firms we identified received 483 state contracts awarded through LPAs, totaling nearly \$27 million.

To understand why relatively few certified DVBEs contracted with the State, we interviewed contracting representatives for the five departments we visited—Caltrans, the California Department of Corrections and Rehabilitations (Corrections), the California Department of State Hospitals (State Hospitals), General Services, and Water Resources—to determine why their departments contracted with these 30 DVBE firms. The departments provided a variety of explanations. For example, managers at Corrections and Water Resources told us that some of the 30 top-performing DVBE firms we identified are included on the General Services' list of approved leveraged procurement agreements (LPA). Under LPAs, General Services maintains a list of pre-approved vendors that offer goods and services that have already been competitively assessed. When using vendors from an LPA listing, the *State Contracting Manual* generally requires that awarding departments consider offers from certified small business and DVBE firms when available. Based on information extracted from SCPRS, for fiscal year 2012–13, eight of the DVBE firms we identified received 483 state contracts awarded through LPAs, totaling nearly \$27 million. Aside from certain DVBE firms being included on LPA listings, the chief of Caltrans' Division of Procurements and Contracts indicated that some of its contracts were awarded based on the DVBE vendor's qualifications, while other awarding departments generally indicated that the DVBEs in Table 2 have a reliable history of providing the goods or services when and where they are needed.

We also attempted to determine whether DVBE firms were used less often because they were not cost-competitive with the non-DVBE firms. However, it was difficult to assess the validity of that theory because awarding departments do not systematically track all instances when a DVBE has submitted a bid on a state contract. Without being able to identify this universe of contracts for which DVBEs submitted bids, we could not reliably determine whether cost-effectiveness was a factor. Although the awarding departments we visited could generally tell us which contracts involved DVBE firms, representatives at each department could not identify those instances when the DVBE's bid was not selected. During the audit we pulled contract files to find instances where a DVBE firm had submitted a bid on a contract, regardless of whether it won or lost the bid. Table 3 shows the result of our work.

Table 3
Cost-Competitiveness of Disabled Veteran Business Enterprise Firms for 15 Contract Solicitations

PROCUREMENT	DISABLED VETERAN BUSINESS ENTERPRISE (DVBE) WAS THE LOWEST BIDDER	DVBE WAS <u>NOT</u> THE LOWEST BIDDER	DID DVBE WIN THE PROCUREMENT?
	NEXT LOWEST BID WAS ___% HIGHER THAN LOWEST DVBE	DVBE WAS ___% HIGHER THAN LOWEST BID	
1	18.3%		Yes
2	15.8		Yes
3	6.8		Yes
4		0.1%	No*
5		2.4	Yes [†]
6		4.2	No [‡]
7		7.5%	No
8		8.2	No
9		8.2	No
10		15.1	No
11		16.3	No
12		17.7	No
13		21.2	No
14		27.4	No
15		86.3	No

Source: California State Auditor’s analysis of solicitation bid sheets at the California departments of General Services, Transportation, and Water Resources.

* For procurement number 4, the department elected to use the small-business option, for which the DVBE incentive does not apply.

† For procurement number 5, the department did not need to apply the DVBE incentive because the DVBE was also a small business and it became the lowest bidder after the department applied the small-business preference, which is applied before the DVBE incentive.

‡ For procurement number 6, the non-DVBE bidder had a 5 percent DVBE subcontractor. Therefore, the non-DVBE bidder received the same 5 percent bid reduction as the prime DVBE bidder, thus negating the DVBE incentive to the prime DVBE bidder.

☐ = DVBE was clearly cost-competitive and won the procurement.

■ (light blue) = DVBE incentive might have helped under certain circumstances (price difference within 5 percent).

■ (dark blue) = DVBE incentive alone would not have helped (price difference greater than 5 percent).

Although Table 3 cannot be used to make definitive conclusions on the cost-effectiveness of DVBEs in general, it does show that for the 15 contracts where we identified at least one DVBE bidder, sometimes the DVBE firm was clearly cost-competitive while in other cases it was not. Perhaps the most interesting aspect of the table is that it provides some insight as to how applying the DVBE incentive may at times actually hurt the State’s chances of obtaining higher DVBE participation rates. For example, procurement number 6 on Table 3 shows that the DVBE submitted

a bid that was more than 4 percent higher than the lowest bidder. At first glance, it might appear that this DVBE could have won the contract if the awarding department applied the DVBE incentive and reduced the DVBE's bid amount by 5 percent for evaluation purposes. As discussed in the Introduction, the DVBE incentive requires an awarding department, when awarding a contract to the lowest bidder, to give up to a 5 percent preference to DVBE firms, thus making the DVBE more cost-competitive. However, in this case, the awarding department noted that the non-DVBE firm that was the lowest bidder was also using a DVBE as a subcontractor and therefore applied the DVBE incentive to its bid as well. As a result, the department awarded the contract to the non-DVBE prime contractor and can only take credit for the smaller portion of the contract going to the DVBE subcontractor (roughly 5 percent of the total winning bid) when reporting performance against the 3 percent goal, instead of counting the entire value of the contract that might have otherwise gone to the losing DVBE firm that was bidding to be the prime contractor.

Two of the departments we reviewed, Caltrans and Corrections, acknowledged that they could have used the DVBE incentive more often.

Further, two of the departments we reviewed, Caltrans and Corrections, acknowledged that they could have used the DVBE incentive more often. State law and regulations require all competitive solicitations that include DVBE program participation to include a DVBE incentive unless the department has met its 3 percent DVBE participation goal for two out of the three previous years and its highest ranking officer or designee has exempted the solicitation from the DVBE incentive requirement. We saw no evidence of such an exemption for these two departments. As a result, because they did not consistently use the DVBE incentive when evaluating bids, both departments may have missed opportunities to contract with more DVBE firms. Caltrans' procurement office chief indicated that her department was using an outdated calculation sheet to compare the value of different bids that did not consider the application of the DVBE incentive and, to address the issue, Caltrans developed procedures during our audit to include the DVBE incentive in its future evaluations. Corrections' associate director of procurements stated that Corrections did not apply the DVBE incentive to any of its non-information technology (IT) goods purchases because it only became aware of this requirement in July 2013 when discussing it with General Services' auditors. She further stated that the department is currently developing guidelines and procedures for using the DVBE incentive for its non-IT goods, and she anticipates completing these by the end of fiscal year 2013-14.

The Five Departments We Visited Lacked Adequate Support for Their Reported DVBE Contracting Activity

To prepare its upcoming report to the Legislature regarding the State's fiscal year 2012–13 performance toward achieving the DVBE program's 3 percent goal, General Services required awarding departments to submit their DVBE activity reports by August 1, 2013. We visited five awarding departments reporting significant performance in terms of dollar amounts awarded to DVBE firms—Caltrans, Corrections, General Services, State Hospitals, and Water Resources—and, as indicated in Table 4 on the following page, we found that all five departments lacked adequate supporting documentation for the overall DVBE participation data they reported.⁵ For example, Corrections reported approximately \$52.7 million in contracts that it asserted were awarded to DVBEs during fiscal year 2012–13. However, when we asked it to provide supporting documentation for the amounts reported, Corrections' associate director of business services (associate director) acknowledged that the department did not maintain supporting records as of the date the report was prepared, even though General Services' instructions require awarding departments to do so. Corrections tried to reconstruct the support but was able to provide us only with information that accounted for approximately \$18.4 million—or 35 percent of the amount it reported.

Additionally, Caltrans' documentation indicated that it overreported its August 2013 DVBE participation activity. In October 2013 Caltrans decided to resubmit its DVBE activity report to General Services and reduced the amount reported on its DVBE activity amount to \$45.4 million—\$28.5 million less than it originally reported. Further, neither General Services—the department responsible for administering the DVBE program and compiling statewide performance statistics—nor Water Resources could support a significant amount reported on their DVBE activity reports, roughly \$2.1 million and \$1.8 million, respectively. Table 4 on the following page illustrates our review of the estimated errors in the supporting documentation at the five departments we visited.

Corrections could not provide us with complete support for its fiscal year 2012–13 reported DVBE participation rates because it did not have a policy to maintain supporting documentation. According to Corrections' staff, its information and contracting data system is a real-time system and does not allow staff to

We found that all five departments we visited lacked adequate supporting documentation for the overall DVBE participation data they reported.

⁵ For the purposes of our report, we considered adequate supporting documentation to mean an awarding department's ability to provide a list of contracts and purchase orders that agreed with the dollar amounts reported on its DVBE activity report submitted to General Services on or before August 2013.

retroactively produce supporting documentation for its contracting activity reports, including DVBE reports. However, Corrections' associate director acknowledged that the department should have maintained support for its DVBE activity report, and that not maintaining it was a management oversight. To address this issue, Corrections revised its desk procedures to require staff to maintain supporting documentation.

Table 4
Assessment of Certain Awarding Departments' Ability to Support Their Performance Reporting to the California Department of General Services Under the Disabled Veteran Business Enterprise Program
Fiscal Year 2012–13
(Dollars in Thousands)

	CALIFORNIA DEPARTMENT OF TRANSPORTATION (CALTRANS)*	CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION (CORRECTIONS)†	CALIFORNIA DEPARTMENT OF GENERAL SERVICES (GENERAL SERVICES)	CALIFORNIA DEPARTMENT OF WATER RESOURCES (WATER RESOURCES)‡	CALIFORNIA DEPARTMENT OF STATE HOSPITALS
Department's total reported Disabled Veteran Business Enterprise (DVBE) participation—submitted on or before August 2013	\$73,848	\$52,667	\$16,774	\$14,801	\$3,512
Could the awarding department fully substantiate its DVBE data?	✗	✗	✗	✗	◆
Unsupported amounts on the department's initial DVBE contracting activity report	\$28,489	\$34,306	\$2,124	\$1,802	\$48
Did the awarding department reconsider its DVBE data and prepare a revised report (through November 2013)?	Yes	No	No	Yes	No
Total reduction or amounts questioned (as a percentage of the originally reported amount)	39%	65%	13%	12%	1%

Source: California State Auditor's analysis of certain awarding departments' DVBE activity reports as submitted to General Services on or before August 2013 and supporting documentation provided by these departments.

* Caltrans recalculated its DVBE activity report and resubmitted it to General Services in October 2013. Caltrans was able to substantiate this resubmitted amount.

† Corrections acknowledged during the audit that it did not maintain supporting documentation for its DVBE performance data. Corrections attempted to reconstruct contract and vendor listings to corroborate the reported amount; however, it was only able to provide detail amounting to roughly \$18.4 million—or 35 percent—of the \$52.7 million reported.

‡ In November 2013 Water Resources submitted an amended DVBE activity report to General Services indicating approximately \$13.2 million in DVBE participation. However, we identified roughly \$196,000 in additional errors in its revised amount. Thus, its supportable DVBE activity was roughly \$13 million.

✗ = Difference between the originally reported DVBE participation amount and the amount the department could substantiate exceeded 10 percent.

◆ = Difference between the originally reported DVBE participation amount and the amount the department could substantiate was less than 10 percent.

Caltrans similarly cited data issues for the \$28.5 million in errors in its fiscal year 2012–13 DVBE activity report. Caltrans' assistant division chief of procurements (assistant division chief) told us that one of the department's data systems double- and triple-counted its procurements depending on the vendor's certification status. In June 2013 Caltrans entered into a contract with a third-party vendor for nearly \$500,000 to help

the department develop new functionalities for its enterprise reporting system, which will include new ways to view data on its procurement and contracting activity. According to Caltrans staff, the vendor was to add functionality that would allow Caltrans to produce accurate summary reports of its procurement data, among other things. The assistant division chief explained that Caltrans submitted its initial DVBE activity report before the new functionality and summary procurement reports were developed, but the department decided to resubmit its DVBE performance data once its new financial reporting tools were in place. During our audit, Caltrans recalculated its DVBE activity report and resubmitted it to General Services in October 2013; it was able to provide us with documentation that agreed with its revised amounts. The amended report reduced Caltrans' DVBE participation award amount from \$73.9 million to \$45.4 million—\$28.5 million less than originally reported. Caltrans' amended report also reflected a drop in its DVBE participation rate from 2.8 percent to approximately 2 percent.

Also as indicated in Table 4, we identified significant errors in the supporting documentation at General Services where it overstated its DVBE activity amount by roughly \$2.1 million. Specifically, we identified that General Services' Office of State Publishing included the amounts for 55 contracts awarded to the same non-DVBE firm in its supporting documentation. We reviewed five of these contracts and determined that, in each instance, General Services noted that the prime contractor was a certified DVBE when, in fact, the prime contractor was only subcontracting with a single certified DVBE. Thus, General Services erroneously claimed full DVBE participation for the entire award amount as opposed to only the amount pertaining to the DVBE subcontractor—or roughly 5 percent DVBE participation for the contracts we reviewed. Based on our findings, General Services re-evaluated all 55 contracts and determined the actual total DVBE subcontractor participation amount for these contracts was \$51,808 and not the reported \$1.02 million—a \$970,522 overstatement. Additionally, the department's Real Estate Services Division could only support approximately \$11.4 million of the \$12.6 million in DVBE activity that it reported—a \$1.2 million overstatement. Finally, we identified that the department's Office of Fleet and Asset Management did not take credit for one of its DVBE vendors toward its DVBE participation—a \$57,700 understatement. To address these issues, General Services' chief of the Office of Business and Acquisition Services told us that General Services will submit an amended DVBE activity report; however, as of the end of November 2013, the department had not done so.

During our audit, Caltrans recalculated its DVBE activity report; the amended report reduced Caltrans' DVBE participation award amount from \$73.9 million to \$45.4 million—\$28.5 million less than originally reported.

Water Resources could not substantiate roughly \$1.8 million—a 12 percent reduction in the amounts it originally reported.

Further, in July 2013 Water Resources reported \$14.8 million in total DVBE activity for fiscal year 2012–13. However, its supporting documentation did not reconcile with the amounts reported, and Water Resources' chief of procurement and contracting confirmed that there was an error in the formula it used to calculate its DVBE participation rates. In November 2013 Water Resources submitted an amended DVBE activity report to General Services indicating approximately \$13.2 million in DVBE participation; however, we identified roughly \$196,000 in additional errors in its revised amount. Thus, as indicated in Table 4, Water Resources could not substantiate roughly \$1.8 million—a 12 percent reduction in the amounts it originally reported.

Finally, we found that Caltrans and General Services included on their initial fiscal year 2012–13 DVBE activity report amounts awarded to businesses that were not certified DVBEs. State law requires awarding departments to include only certified DVBE firms when computing amounts counted toward their respective DVBE participation goals. At each of the departments we visited that maintained supporting documentation, we reviewed 20 contracts and found a total of six non-DVBE firms that were erroneously counted as DVBEs at Caltrans and General Services. Specifically, Caltrans' office chief of Policy, Protest and Communications within its division of procurement and contracts (office chief) confirmed that due to data-entry errors, three non-DVBE firms were counted toward its DVBE participation goals by mistake. In response to these errors, the office chief stated that Caltrans staff will take a random sample of its DVBE contracts to verify their certifications. General Services similarly included three non-DVBE firms in its supporting documentation. We believe that to help ensure that awarding departments do not improperly report businesses that are not certified DVBEs, they could validate, at least on a sample basis for high-value contracts, the certification status of the DVBE firms before submitting their DVBE activity report to General Services.

General Services Could Do More to Establish Consistent Expectations Regarding How Awarding Departments Report Their DVBE Statistics

General Services allows awarding departments to decide for themselves how best to report DVBE participation on multiyear contracts, and it has similarly allowed awarding departments to decide what level of support and documentation they choose to retain to validate their reported DVBE performance data. As a result, it is not surprising that the departments we visited followed different methodologies for reporting multiyear awards, which prevents the Legislature and the public from being able to consistently compare interdepartmental performance under the

program. It is also not surprising that some of the departments we visited could not fully support their DVBE participation data during our audit, and as a result, some decided to resubmit their DVBE activity reports to General Services. Of the four awarding departments we visited that did maintain supporting documentation for their DVBE data, two decided to revise their DVBE activity reports during our review. The revisions resulted in reducing the reported DVBE participation amounts by approximately \$30 million from what was originally reported to General Services.

Although General Services believes it has limited enforcement authority under the DVBE program to compel awarding departments to follow its directives, as the administering agency it could have nevertheless tried to improve the quality of statewide DVBE participation reporting by setting consistent reporting standards instead of deferring to awarding departments. General Services believes there is no evidence to suggest that current DVBE reporting requirements result in materially inaccurate information. However, given that some awarding departments with significant contracting activity have resubmitted their DVBE statistics to General Services following our review, we disagree. An assistant chief in General Services' DVBE office (DVBE office assistant chief) asserted that awarding departments have the authority to determine how they report DVBE participation on multiyear contracts based on the capabilities of their computer programs, explaining that requiring awarding departments to follow a single approach would likely be too expensive as it could entail modifying or changing such programs. However, we believe such a response only highlights the benefits of the Legislature requiring awarding departments to report DVBE participation based on amounts actually spent instead of awarded, since awarding departments likely have payment information readily available in their accounting systems to identify how much they paid on a particular contract.

The DVBE office assistant chief also stated that although General Services is the administering agency for the DVBE program, it does not have enforcement mechanisms in the law to help it make changes to the DVBE program. Notwithstanding General Services' claim, it does have an enforcement mechanism it could use: It has the authority to limit an awarding department's ability to enter into contracts without General Services' oversight—referred to as *delegated purchasing authority*. However, according to the deputy director of General Services' Procurement Division (deputy director), although General Services technically has the ability to suspend a department's delegated purchasing authority if it does not meet DVBE participation goals, he could not recall an instance

General Services, as the administering agency, could have tried to improve the quality of statewide DVBE participation reporting by setting consistent reporting standards instead of deferring to awarding departments.

If departments can follow different reporting methodologies, the Legislature and the public cannot make meaningful department-to-department comparisons and identify departments that consistently outperform others to identify potential best practices.

when this had occurred, and doing so would require General Services to increase its resources to accommodate the additional workload during the suspension.

Regardless of its perspective that it lacks enforcement power under the DVBE program and that awarding departments are responsible for the DVBE data they report, nothing precludes General Services from issuing guidance to awarding departments regarding how to report DVBE participation on multiyear contracts. However, General Services does not have an official position on a single method awarding departments should use to report this information. According to General Services' chief legal counsel, it is within each awarding department's authority to report the value of a multiyear DVBE contract at the time of award or proportionately over the life of the contract. When we asked General Services about the guidance it provides when awarding departments ask how to report multiyear contracts, the DVBE office assistant chief told us that General Services instructs awarding departments to follow the reporting requirements found in state law and to report multiyear contracts following a consistent approach from year to year. For example, if an awarding department's past practice has been to report the entire DVBE multiyear award amount in the first year of the contract, General Services would instruct the awarding department to use the same method for reporting similar contracts in subsequent years. However, if departments can follow different reporting methodologies, the Legislature and the public cannot make meaningful department-to-department comparisons and identify departments that consistently outperform others to identify potential best practices.

We noted differences in how some departments treated multiyear contracts when preparing their DVBE activity reports. For instance, according to the California Department of Veterans Affairs' (CalVet) DVBE advocate, when she compiles the DVBE activity report for headquarters, she breaks up multiyear contracts by the amounts set aside for expenditure each year and reports only the amount for the year the DVBE activity report covers. Such an approach spreads the value of the awarded contract over multiple years. Following a different approach, management at Caltrans, Corrections, State Hospitals, and Water Resources generally told us that they all report the entire amount of multiyear contracts during the year in which the contract was awarded. Further, we noted that General Services' own divisions are not consistent in how they report their multiyear contracts; in fact, some of its managers indicated that General Services does not provide specific instructions to its divisions for how to track and report their DVBE contracting activity. For example, according to its manager, General Services' Office of Fleet and Asset Management reported DVBE participation based on actual dollar

amounts paid to the DVBE firms. In contrast, according to the acting section manager within the contracts management section of General Services' Office of Business and Acquisition Services, she generally reports DVBE participation award amounts for multiyear contracts in the year the contract was awarded.

Our review also noted that General Services should do more to establish an expectation as to the level of detail the State expects awarding departments to have on file to support their DVBE performance statistics. Given that some of the departments we visited resubmitted their DVBE activity reports because of errors or their inability to provide support for millions of dollars in reported DVBE participation, such a clarification from General Services seems appropriate. Specifically, General Services' reporting instructions simply require awarding departments to "maintain records to support total dollar amounts reported and to validate submissions" without any further clarification. According to the DVBE office assistant chief, the DVBE office believes its reporting instructions are comprehensive and sufficient, noting that there is no statewide standard for maintaining DVBE contracting and purchasing records data, and consequently each awarding department maintains a database that meets its own contracting needs. Such a problem could be solved if the Legislature required awarding departments to report DVBE participation based on payment information captured in awarding departments' accounting systems.

General Services' Inability to Properly Manage Its eProcurement Contract Places the State's Procurement Data at Risk

Administered by a contractor named BidSync, Inc. (BidSync),⁶ the eProcurement system is a Web-based program that allows state agencies to solicit proposals for upcoming state contracts and to notify suppliers of their intent to award, among other things. The eProcurement system also provides a process that allows disabled veteran-owned businesses to apply for DVBE certification. The terms of General Services' contract with BidSync clearly establish that the State has ownership of all of its data contained within the eProcurement system, and that BidSync must provide General Services with all of the State's data both upon request and at the completion of the contract, in a compatible format that is suitable for transition back to the State or to a platform of the State's choice. During the audit we requested BidSync to provide all of the State's procurement data, including data pertaining to the DVBE program, and to explain how it stored and organized that data, but BidSync

During the audit we requested BidSync, the State's eProcurement system administrator, to provide all of the State's procurement data, including data pertaining to the DVBE program, and to explain how it stored and organized that data, but BidSync was unwilling to share with us the information we needed to verify the integrity of the State's procurement data.

⁶ At the time of the original contract, BidSync's legal business name was RFP Depot, LLC.

was unwilling to share with us the information we needed to verify the integrity of the State's procurement data, citing legal concerns over providing us with access to data that may include information not related to the State's data. Thus, neither General Services nor the California State Auditor are able to verify the accuracy and completeness of this data. As of November 2013 General Services had paid more than \$4.9 million out of the contract maximum amount of nearly \$6.5 million, and according to our legal counsel, it is unclear what options General Services has to enforce the State's right to its data should BidSync fail to provide the State with all of its procurement data.

General Services' deputy director maintains that the department has several methods of recourse should BidSync fail to fully export the State's data. According to the deputy director, such options include directly appealing to BidSync for relief, refusing to provide a customer reference if requested, negotiating reduced fees, and terminating the contract. We are skeptical as to whether this last method of recourse would be effective, because terminating the contract would eliminate a statewide procurement system that many state agencies currently use and depend on. Further, it is unclear what argument General Services would use to negotiate a reduction to BidSync's fees, given that the contract and its amendments do not assign a specific cost or due date for the export functionality, and the majority of the State's payments to BidSync are general in nature and are "for all transactions, solicitations and annual subscription fee" to use the eProcurement system. Finally, with the eventual transition to a new statewide system called the Financial Information System for California (FI\$Cal) currently under development, it is unclear what incentive BidSync would have to negotiate a reduction to its annual fees. Nevertheless, having the ability to extract complete and accurate procurement data might be important given the State's development of FI\$Cal. State law requires that the new FI\$Cal system encompass the management of resources and funds in the area of procurement, among others. Without a reliable means for General Services to obtain the State's procurement data, it is unclear how, or even if, these data will ultimately be transferred into FI\$Cal.

Without a reliable means for General Services to obtain the State's procurement data, it is unclear how, or even if, this data will ultimately be transferred into FI\$Cal.

In fact, according to its deputy director, General Services does not intend to transfer data from eProcurement to the State's FI\$Cal system when the system becomes operational, because of concerns regarding the cost of data migration and risk of errors in the data-transfer process. He further stated that this decision was fully communicated to the FI\$Cal project team, which is pursuing multiple approaches to set up user and supplier profiles, but none of them include extracting and using eProcurement data. Although the deputy director did not elaborate on what these other approaches might entail and how they will reduce

errors in the data-transfer process, our experience working with BidSync demonstrates that the State currently lacks the ability to fully extract and ensure that the data in the eProcurement system is accurate and complete. During the audit, we requested a complete copy of the State's procurement data from BidSync and asked BidSync to explain to us how it organized and maintained the State's data. Having an understanding of how the data are organized and stored is critical to being able to correctly interpret and evaluate the accuracy and completeness of the data we use in our audit. However, even after General Services urged BidSync to cooperate, BidSync was unwilling to provide a complete copy of the State's data or provide the additional information about the data, citing legal concerns. For this reason, the information we present in much of the audit report regarding which DVBE firms contract the most with the State comes from the SCPRS, which, as we discussed in the Scope and Methodology, is of undetermined reliability.

Nevertheless, it appears that General Services and BidSync have recently taken some initial steps to ensure that the State will ultimately get its data. As of January 2014 General Services demonstrated that it can obtain some data from eProcurement, but it does not expect to obtain all of the State's data until the end of February 2014. Further, General Services has yet to develop a plan to test the accuracy and completeness of the exported data it obtains from BidSync. Because General Services has the right under its contract with BidSync to obtain a complete and accurate copy of its data upon request and at the end of the contract, General Services should continue to take all necessary steps to ensure that it can obtain a reliable copy of the State's procurement data so that the data can be fully used and analyzed to the State's benefit, including testing that the eProcurement data it obtains is accurate and complete.

CalVet Needs to Take a More Active Role in the DVBE Program

CalVet is primarily responsible for promoting the DVBE program by encouraging disabled veteran-owned businesses to become certified and for coordinating with awarding departments to help them meet the DVBE program's 3 percent goal. Our review found that CalVet has not fully met these responsibilities and can do more to support the DVBE program. Although CalVet conducts outreach to the veteran community to promote the DVBE program and records some data on the outcomes of these visits—such as the number of interactions with people where DVBE certification was discussed and further explained—the collected data do not allow CalVet to know whether the individuals its staff spoke with subsequently sought and obtained a DVBE certification for their businesses. Lacking such information, CalVet

Even after General Services urged BidSync to cooperate, BidSync was unwilling to provide a complete copy of the State's data or provide the additional information about the data, citing legal concerns.

could not demonstrate that it knows which of its promotional efforts have led to an increase in DVBE certifications, which limits CalVet's ability to determine whether it is maximizing the return on its outreach activities. State law requires CalVet to establish a system to track the effectiveness of its efforts to promote the DVBE program.

According to CalVet's calendar of outreach events for fiscal year 2012–13, it planned to attend more than 30 events where it expected to encounter potential DVBE businesses or other small businesses. At these events, CalVet distributes literature on the DVBE program and discusses the benefits of applying for certification. CalVet's DVBE manager confirmed that CalVet has very limited capabilities to measure the results of its outreach efforts and that CalVet uses changes in the State's overall population of certified DVBEs as the main method of tracking its success. Although CalVet's report of its accomplishments for fiscal year 2012–13 stated that the pool of certified DVBEs increased by 87, to a total of 1,343 certified DVBEs, such a high-level analysis does little to shed light on how CalVet's specific outreach efforts have contributed to this increase.

To its credit, CalVet began taking steps to limit the number of DVBE firms that allow their certifications to expire and to better understand why some former DVBE firms decided against maintaining their certification. Specifically, CalVet began tracking DVBE certifications that are due to expire and contacting those businesses to see whether they need assistance or additional information to renew their certification, and to encourage them to reapply. In addition, in July 2013 CalVet began surveying former DVBE firms that had allowed their certifications to expire in order to determine why. The survey includes questions designed to identify barriers preventing DVBEs from successfully participating in the program, such as why they did not renew their DVBE certification and how they were marketing their business to reach awarding departments. According to CalVet, survey responses indicated that some firms were unaware that they had lost their DVBE certification. CalVet's deputy secretary of the Veterans' Services division (deputy secretary) indicated that CalVet will have a formalized process for evaluating and interpreting these survey responses before the end of fiscal year 2013–14 and that such results will be incorporated into its DVBE outreach plan.

The deputy secretary confirmed that CalVet has not taken an active role in coordinating with awarding departments to promote DVBE contracting opportunities.

The deputy secretary also confirmed that CalVet has not taken an active role in coordinating with awarding departments to promote DVBE contracting opportunities. For example, we reviewed CalVet's fiscal year 2013–14 outreach plan and noted that it does not specifically address strategies or efforts to help awarding departments meet the DVBE program's 3 percent goal. Based on the

requirements found in the Military and Veterans Code—specifically those requiring that CalVet’s statewide DVBE advocate coordinate with awarding departments to help them meet the 3 percent goal—we expected CalVet to be able to demonstrate that it had identified underperforming departments and be able to provide us with specific examples of the advice and assistance it offered to such agencies, but that was not the case. According to the deputy secretary, before he took his position in February 2013, CalVet was passive in exercising its responsibilities under the DVBE program and relied too heavily on General Services for coordinating with awarding departments and the DVBE community to ensure that the 3 percent goal was being met. Going forward, the deputy secretary indicated that CalVet will look to take a more active part in the DVBE program, such as taking a more prominent role in leading DVBE advocate meetings, but he lacked further specifics on what actual steps CalVet will take. One way CalVet might better serve the veteran community is to provide greater transparency for what DVBE advocates discuss in their periodic meetings by posting meeting minutes and best practices on its Web site. Without formal meeting minutes, it is difficult for the public to determine whether these advocate meetings are productive and do, in fact, help awarding departments meet DVBE participation goals.

Recommendations

The Legislature

To provide a more meaningful measure of how well disabled veteran-owned businesses benefit financially from the DVBE program, the Legislature should amend the DVBE reporting requirements in the Public Contract Code to require that all awarding departments take the following steps to report DVBE participation and ensure that data can be corroborated:

- For DVBE firms that contract directly with the State (prime contractors), require awarding departments to report on an annual basis DVBE participation based on amounts they paid the DVBE firms.
- For DVBE firms that work as a subcontractor (that do not directly contract with the awarding department), require the awarding departments to track and report on an annual basis DVBE participation based on amounts the subcontracting DVBE firms received, as certified by the subcontractors.

- Require awarding departments to maintain accounting records and certifications from DVBE subcontractors, as applicable, that support the DVBE participation data reported.

If it chooses not to amend the DVBE reporting requirements in the Public Contract Code—to require awarding departments to report DVBE participation annually based on amounts paid, not amounts awarded—the Legislature should amend the Public Contract Code to do the following:

- Require awarding departments to maintain detailed support for their DVBE activity and to establish review procedures to ensure the accuracy and completeness of the award amounts reported.
- Include specific instructions to awarding departments on how they should report multiyear contracts, either at the time of award or by an equal distribution of the award over the life of the contract.

For the DVBE program to benefit a broad base of disabled veteran-owned businesses financially, the Legislature should enact legislation aimed at increasing the number of DVBEs that contract with the State, including increasing the amount of the DVBE incentive that awarding departments can apply when considering bids on state contracts. Such an incentive could include additional preference points to certain bids when the bidder is a DVBE firm that the department has not previously used, and when the DVBE firm is the prime contractor.

General Services

To ensure that the State enforces its contractual right to obtain a complete copy of its procurement data, General Services should take all necessary steps to ensure that it can extract a reliable copy of all of the State's procurement data from BidSync so that the data can be used and analyzed to the State's benefit. These steps should include testing that the data it obtains from BidSync is accurate and complete, and it should be completed before the end of the contract term with BidSync, in September 2014.

Corrections and Caltrans

To ensure that they have maximized the effectiveness of the DVBE incentive, Corrections and Caltrans should implement measures to help ensure that they apply the DVBE incentive to all

applicable contracts and procurements and that these measures include documented policies and procedures and/or training to procurement staff on properly applying the DVBE incentive.

General Services and Caltrans

To help ensure that General Services and Caltrans do not incorrectly report businesses that are not certified DVBEs, they should verify, at least on a sample basis for high-value contracts, the certification status of the DVBE firms before submitting their DVBE activity reports to General Services.

CalVet

To ensure that CalVet is meeting its statutory obligations for the DVBE program, it should do the following:

- Develop stronger measures to evaluate its outreach efforts, including formalizing a process for interpreting and evaluating its DVBE survey results and incorporating those results into its DVBE outreach plan.
- Work more closely with awarding departments to help them meet the DVBE participation goals and promote DVBE contracting opportunities, including taking a more active role in leading DVBE advocate meetings and posting formal minutes from these meetings on its public Web site.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code 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 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
State Auditor

Date: February 18, 2014

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January 27, 2014

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

Re: California State Auditor's Report – 2013-115

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 BSA for its comprehensive review. The results provide us with the opportunity to better serve our clients and protect the public.

Sincerely,

(Original signed by: Marbel Batjer)

Marbel Batjer, Secretary
Government Operations Agency

Enc.

* California State Auditor's comments begin on page 47.



MEMORANDUM

Date: January 27, 2014

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

From: Fred Klass, Director
Department of General Services

Subject: **RESPONSE TO CALIFORNIA STATE AUDITOR'S REPORT NO. 2013-115**

Thank you for the opportunity to respond to the California State Auditor's (state auditor) Report No. 2013-115, which addresses recommendations to the Department of General Services (DGS) resulting from its audit of the Disabled Veteran Business Enterprise (DVBE) program. The following response addresses the state auditor's two recommendations regarding DGS' operations.

OVERVIEW OF THE REPORT

DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2013-115. DGS will take appropriate actions to address the state auditor's recommendations.

Overall, DGS is pleased that the state auditor's in-depth testing of the department's certification processes and practices disclosed full compliance with applicable laws and regulations¹. Specifically, the state auditor selected and reviewed 60 certification decisions during fiscal year 2012-13 to determine whether DGS rendered the correct decision based on the evidence. The state auditor agreed with all 60 certification decisions.

Although DGS has other operating responsibilities, the certification process represents one of DGS' primary responsibilities within the DVBE program. The results of the audit reflect favorably on the professionalism and expertise of the management and staff of DGS' Office of Small Business and DVBE Services (OSDS), which is the certifying agency that administers the state's Small Business and DVBE Certification Programs.

The primary issue raised by the state auditor relates to state departments reporting their levels of DVBE participation based on the amount of contracts awarded to DVBE firms, instead of the

¹ See Introduction section of report, Scope and Methodology, Table 1, Audit Objective # 6.

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amount actually paid to those firms. Since the recommendation on this issue is addressed to the Legislature, DGS will not respond to the state auditor's conclusion that the Public Contract Code should be amended to require departments to report DVBE participation based on actual payments to DVBE firms. However, as noted in the state auditor's report, this issue was also raised in an earlier audit by the state auditor that was published in July 2002. In brief, at that time, a DGS consultant hired to review the DVBE reporting process concluded that the cost to the state to modify existing accounting systems to track actual payments to DVBEs would be a very costly process. The consultant came to this conclusion based on the results of his study that, in part, found that most departmental accounting systems are not designed to capture payment information to subcontractors. Further, the consultant indicated that the volume of transactions that would need to be captured based on a payment based process would be greater than the current award based process².

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The state auditor also raises concerns that, although of a limited nature, data in the State Contract and Procurement Registration System (SCPRS) provide a strong indicator that only a relatively small subset of DVBE firms enjoy the major part of the state's business. Again, since the recommendation on this issue is addressed to the Legislature, DGS will not respond to the state auditor's conclusion that to address this issue the DVBE incentive could be expanded to include additional incentives in certain circumstances. However, DGS would emphasize that the information used for the state auditor's analysis was of a very limited nature. In brief, as recognized in the body of the report, the state auditor's analysis did not include transactions which are not accumulated in SCPRS, such as transactions with DVBEs valued at less than \$5,000 and those where a DVBE functioned as a subcontractor. Based on DGS' knowledge and experience, DVBEs are often used within those categories of procurements. In fact, as recognized in the report, according to DGS' annual report on state contracting activity in fiscal year 2011-12, DVBE subcontractors accounted for nearly 41 percent (\$151.5 million) of the state's total reported DVBE participation of \$373.9 million.

②

DGS would also point out that it takes numerous steps to ensure that DVBEs have an equitable opportunity to participate in state contracts. These steps include aiding the firms in contracting with the state through the maintenance of a streamlined certification process and an online searchable database of DVBEs that prime suppliers may use to search for potential subcontractors; conducting of hundreds of outreach activities; and the use of networking workshops and contract provisions that allow agencies to forgo purchasing from the mandatory vendor and directly purchase from a DVBE.

In addition, the state auditor concludes that DGS should provide additional guidance to assist state departments in accurately and consistently reporting their DVBE contracting activities. For the next participation reporting cycle, DGS will advise departments of the state auditor's finding related to the lack of maintenance of adequate supporting documents. Further, as part of its annual contracting activity reports training curriculum, OSDS will emphasize the need for departments to maintain supporting records and documents, including the maintenance of a list of contracts and purchase orders that support reported dollar amounts.

It should be noted that DGS was one of the departments identified by the state auditor that originally submitted inaccurate fiscal year 2012-13 DVBE contracting activity report data to OSDS. Subsequently, in December 2013, DGS prepared and submitted a revised activity report. DGS' DVBE participation rate changed from 8.28 percent to 7.15 percent, which still exceeds the DVBE program's goal of 3 percent by a significant margin.

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² DGS was not able to locate the consultant's report. The information contained in this response is taken from the state auditor's July 2002 report and/or DGS' status reports submitted in response to that report.

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Recently, DGS also consolidated its purchasing and contracting functions in a new office within its Administration Division, the Office of Business and Acquisition Services (OBAS). Consequently, DGS' divisions/offices are no longer directly responsible for preparing their own contracting activity reports, beginning with fiscal year 2013-2014. Instead, the responsibility rests with OBAS' professional procurement staff. This action will significantly reduce the risk of inaccurate reporting of DVBE usage data.

Finally, the state auditor expresses concerns that at the time of its review, DGS lacked the ability to obtain an accurate copy of the state's procurement data. However, the auditor also accurately noted that DGS was taking steps to ensure that it obtained the data. DGS' Procurement Division expects applicable procurement data to be fully exported from the contractor's system (BidSync) by the end of February 2014, seven months prior to the expiration of the contract with that firm.

Based on the results of its fieldwork, the state auditor developed the following two recommendations to further improve the DVBE program. In general, the state auditor's recommendations have merit and will be promptly addressed.

RECOMMENDATIONS

RECOMMENDATION # 1: *To ensure that the State enforces its contractual right to obtain a complete copy of its procurement data, General Services should take all necessary steps to ensure that it can extract a reliable copy of all its procurement data from BidSync so that the data can be used and analyzed to the State's benefit. These steps should include testing that the data it obtains from BidSync is accurate and complete, and it should be completed before the end of the contract term with BidSync, in September 2014.*

DGS RESPONSE # 1:

As noted above, DGS' Procurement Division (PD) expects applicable procurement data to be fully exported from the contractor's system (BidSync) by the end of February 2014, seven months prior to the expiration of the contract with that firm. Subsequently, in consultation with DGS' Office of Audit Services, PD will take steps to ensure the timely testing of the accuracy and completeness of the data.

RECOMMENDATION # 2: *To help ensure that General Services and (redacted department name) do not incorrectly report businesses that are not certified DVBEs, they should verify, at least on a sample basis for high-value contracts, the certification status of the DVBE firms before submitting their DVBE activity reports to General Services.*

DGS RESPONSE # 2:

As previously noted, DGS has consolidated its purchasing and contracting functions in a new office within its Administration Division, the Office of Business and Acquisition Services (OBAS).

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As recommended by the state auditor, OBAS will implement policies and procedures that provide for the verification, at least on a sample basis, of the certification status of DVBE firms that have high-value contracts. The certification database printout in support of the verified DVBE certification will be maintained in the procurement file.

CONCLUSION

DGS is firmly committed to effectively and efficiently performing its responsibilities under the DVBE program. As part of its continuing efforts to improve that process, DGS will take appropriate actions to address the issues presented in the report.

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

(Original signed by: Fred Klass)

Fred Klass
Director

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Comments

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

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

General Services claims that the State would need to modify existing accounting systems to track actual payments to Disabled Veteran Business Enterprise (DVBE) firms and that doing so would be a very costly process. We strongly disagree and noted during the audit that the five departments we visited were each able to provide us with accounting reports showing how much they had paid their prime contractors on particular contracts. Having such a capability is a sound financial management practice and accounting systems such as the California State Accounting and Reporting System and state accounting policies found in the *State Administrative Manual* further discuss how such payment information should be tracked and managed.

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General Services also argues that state accounting systems are not designed to capture payment information to DVBE subcontractors. Our audit report fully recognizes this issue and offers a simple solution on page 19 where we discuss how the program's existing rules—requiring prime contractors to certify how much they have paid to DVBE subcontractors—could be strengthened to better capture this information for reporting purposes. In particular, the Legislature could require that DVBE subcontractors play a role in this certification process. We fully stand behind our recommendation to the Legislature to report DVBE participation data based on the amounts actually paid.

General Services' response is somewhat confusing. It seems to imply that we should have based our analysis on another source. However, on page 20, we fully disclose the limitations of General Services' State Contract and Procurement Registration System (SCPRS) and we stand by our audit finding. As further noted on the same page of our audit report, 30 DVBE firms accounted for 83 percent of the total amount the State awarded to DVBE businesses directly. In our opinion, this statistic supports our recommendation to the Legislature on page 38 that more should be done to increase the number of DVBE firms that do business

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directly with the State. Finally, based on its response, General Services seems to be opposed to encouraging more DVBE firms to participate in the program.

- ③ General Services notes that, in December 2013, it prepared and submitted a revised DVBE activity report. However, as we indicate on page 29, as of the end of November 2013, it had not submitted the amended report and we did not have an opportunity to review and evaluate the supporting documentation.
- ④ Although we appreciate General Services' persistence in convincing BidSync, Inc. (BidSync) to honor one of the terms of its contract before its expiration date, as we state on page 35, our experiences with BidSync demonstrates that General Services lacks the ability to fully extract and ensure the data in the eProcurement system is accurate and complete.
- ⑤ Based on our interactions with BidSync, we do not understand, nor was General Services able to explain, how it intends to ensure timely testing of the accuracy and completeness of the data in the eProcurement system.

STATE OF CALIFORNIA

Edmund G. Brown Jr., Governor

DEPARTMENT OF VETERANS AFFAIRS

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January 27, 2014

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

Dear Ms. Howle,

Thank you for the opportunity to respond to your audit entitled “*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*”.

The mission of the California Department of Veterans Affairs (CalVet) is to serve California’s Veterans and their Families. CalVet takes great pride in this mission which includes the responsibility of promoting the Disabled Veterans Business Enterprise (DVBE) program. CalVet, through an interagency agreement with the Department of General Services, has acted as a faithful steward of the DVBE outreach program and has remained dedicated to ensuring it meets its contractual agreement with the Department of General Service. These obligations include the development of a DVBE outreach plan, shepherding prospective DVBE firms through the certification process, and providing informational assistance to state agencies and departments which highlights business opportunities and program requirements. CalVet consistently strives to increase the visibility and participation in the DVBE program while recognizing it must continue to examine its existing practices to ensure their effectiveness.

Furthermore, CalVet acknowledges the audit report results and is fully committed to meeting its statutory obligations as defined in California Military and Veterans Code. CalVet accepts the audit recommendations and is dedicated to achieving their implementation.

Recommendation 1 – “Develop stronger measures to evaluate its outreach efforts, including formalizing a process for interpreting and evaluating its DVBE survey results and incorporating those results into its DVBE outreach plan.”

CalVet acknowledges the California State Auditor recommendation that CalVet establish improved measures to quantify its outreach programs success. CalVet is committed to ensuring the implementation of this recommendation by formalizing a process that enables a more accurate assessment of its outreach efforts.

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In January 2014, CalVet initiated a contacts log that captures the contact information of those veteran business owners that staff connects with at DVBE outreach events. CalVet will follow-up with these potential DVBE program participants within 90 days of contact to ascertain whether the contact led to certification, as well as identify any questions or challenges they may be experiencing in the certification process. Additionally, CalVet outreach staff will use information contained in the BidSync system to cross reference their contact list to identify any new DVBE that may have become certified since their last communication. CalVet will evaluate its success on a quarterly basis and include the findings in the outreach report provided to DGS. The combination of these efforts will enable CalVet to measure the effectiveness of its outreach, as well as identify those events that are most beneficial to attend. CalVet will then incorporate these findings into its outreach plan and adjust the calendar of events attended for the following year accordingly.

The audit also requests that CalVet formalize a process to evaluate its survey results and incorporate them into its DVBE outreach plan. As noted in the audit, CalVet began sending surveys in July 2013 to those DVBE firms that have let their certification expire. Additionally, CalVet will begin surveying newly certified DVBE firms within 180 days of certification.

- Re-certification Survey – The survey targeting DVBE firms that allowed their certification to expire will be distributed on a monthly basis and focus on identifying the reasons why the DVBE let their certification lapse and what support is needed to ensure their successful participation in the program moving forward.
- Newly-certified DVBE Survey – The survey targeting newly-certified DVBE firms was developed to identify how the DVBE learned of the program, gather feedback on their experience with the certification process, share their success or challenges in obtaining state contracts, and provide an opportunity to request further assistance from CalVet in support of their efforts.

Through our survey efforts, CalVet has the opportunity to provide targeted information, resources, and support directly to those DVBE firms in need while capturing data that identifies the larger programmatic barriers. CalVet will then be able to mitigate these issues by developing a more focused outreach strategy.

Recommendation 2 – “Work more closely with awarding departments to help them meet the DVBE participation goals and promote DVBE contracting opportunities, including taking a more active role in leading DVBE advocate meetings and posting formal minutes from these meetings on its public Web site.”

The audit states that CalVet should take a leadership role in coordinating efforts with state awarding departments with the goal of promoting increased DVBE activity. CalVet accepts this responsibility and has begun facilitating Advocate Steering Committee Meetings, in addition to coordinating Advocate Workshops. CalVet is committed to ensuring these forums are productive and provide value to the department advocates. CalVet has recently collaborated with DGS in the development of a new

Elaine M. Howle
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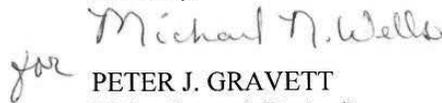
membership application for the Advocate Steering Committee and successfully recruited a new Chair for the committee along with four (4) new members. On January 8th, 2014, the Advocate Steering Committee held a meeting during which it worked to develop a strategy to institute an Advocate Mentoring Program.

CalVet will continue to be heavily engaged in operating and improving the Advocate Workshops and is dedicated to ensuring the process is transparent and accessible to all state department advocates. CalVet will post all meeting minutes on its website and conduct periodic surveys of workshop participants to consistently improve the experience, as well as ensure the advocates have the information and tools necessary to successfully fulfill their role.

CalVet is committed to supporting state agencies and departments in their attempts to achieve the 3% DVBE goal in state contracting. However, there are several challenges CalVet must address to achieve success in this area. CalVet currently has no access to accurate information that provides a clear assessment of a department's progress toward reaching its goal. Instead, CalVet must wait until DGS publishes its "Statewide Consolidated Annual Report" to effectively identify low performers. Although CalVet understands that DGS undergoes a 9-12 month process in developing the report, it would be extremely beneficial to CalVet's efforts if the low performers could be identified as soon as the information is available. CalVet has made some progress in this area. In November and December of 2013, CalVet was invited to participate in meetings facilitated by DGS with the low performing departments prior to the DGS annual report being published. However, several of the departments identified as low performers had only failed to meet their Small Business goal while successfully accomplishing their 3% DVBE participation. CalVet is confident that, with continued collaboration with DGS, it can effectively mitigate this issue and initiate a joint strategic plan to address low performing agencies.

CalVet appreciates the efforts of the California State Auditor. Their professionalism and responsiveness approach to all CalVet's questions and concerns showed a true commitment to their pursuit of improving the DVBE program for all of California's disabled veterans.

Sincerely,


PETER J. GRAVETT
Major General (Retired)
Secretary

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STATE OF CALIFORNIA — DEPARTMENT OF CORRECTIONS AND REHABILITATION

EDMUND G. BROWN JR., GOVERNOR

OFFICE OF THE SECRETARY

P.O. Box 942883
Sacramento, CA 94283-0001



January 27, 2014

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) is submitting this letter in response to the California State Auditor's (CSA) audit of the Disabled Veteran Business Enterprise Program (DVBE) in which the California Department of Corrections and Rehabilitation (CDCR) was selected as a sample agency to validate the information provided to the California Department of General Services (DGS) regarding DVBE contracts.

The Legislature created the DVBE Program to benefit DVBE firms financially from conducting business with the State. To encourage participation by state agencies, the competitive bidding process for DVBE firms was simplified for these firms by providing them with an advantage in the evaluation of bids. Although CDCR has exceeded the participation goal of awarding three percent of total contract value to certified DVBEs as mandated, CSA's review identified that CDCR could have applied the DVBE incentive more often in its bidding evaluations and recommends the Department maximize the DVBE incentive. To address this issue, the Department is currently developing guidelines and procedures for use of the DVBE incentive. In addition, the report states CDCR should maintain supporting documentation for the DVBE activity reported to DGS. We agree that improvements can be made in this process and have already amended procedures to maintain the documentation to record DVBE expenditures and participation data.

We would like to thank CSA for their work on this report and will address the recommendations in a corrective action plan at 60-day, six-month, and one-year intervals. If you have further questions, please contact me at (916) 323-6001.

Sincerely,

(Original signed by: Diana Toche)

DIANA TOCHE
Undersecretary (A)
Administration & Offender Services

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Edmund G. Brown Jr.
Governor

915 Capitol Mall, Suite 350B
Sacramento, CA 95814
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Brian P. Kelly
Secretary

January 27, 2014

Elaine M. Howle, California State Auditor
California State Auditor's Office
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Attached please find a response from the California Department of Transportation (Department) to your redacted draft audit report *Disabled Veteran Business Enterprise Program: Meaningful Performance Standards and Better Guidance... Would Strengthen the Program* (#2013-115). Thank you for allowing the Department and the California State Transportation Agency (Agency) the opportunity to respond to the report.

As noted in its response, the Department concurs with the findings noted in the report and either has already implemented or is very close to implementing corrective action that addresses each of the recommendations. We appreciate your identification of opportunities for improvement and your recommendations for best practices that the Department can follow.

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

Sincerely,

(Original signed by: Brian P. Kelly)

BRIAN P. KELLY
Acting Secretary

Attachment

cc: Malcolm Dougherty, Director, California Department of Transportation

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE DIRECTOR
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January 23, 2014

Brian P. Kelly
Secretary
California State Transportation Agency
915 Capitol Mall, Suite 350B
Sacramento, CA 95814

Dear Secretary Kelly:

Thank you for the opportunity to review and comment on a redacted copy of the California State Auditor's (CSA) draft audit report entitled "Disabled Veteran Business Enterprise Program: Meaningful Performance Standards and Better Guidance... Would Strengthen the Program."

At the request of the Joint Legislative Audit Committee, the CSA conducted an audit of the California Disabled Veteran Business Enterprise (DVBE) program. The Military and Veterans Code established the DVBE program requiring state governmental entities that award contracts for goods or services to meet or exceed a statewide participation goal for DVBE firms of not less than 3 percent of the overall dollar amounts expended each year. The California Department of Transportation (Caltrans) established its own goal of 5 percent and was one of five state agencies audited.

The CSA found that the State measures success of the DVBE program on the value of the contracts that state agencies have awarded, not necessarily the amount ultimately paid to DVBE firms. The performance requirements established in the State's Public Contract Code require state agencies to report their levels of DVBE participation based on the amount of the contracts awarded to DVBE firms. The CSA points out that the use of the different terms **expended** and **awarded** raise significant questions as to whether the State is measuring the program's performance in a manner consistent with its legislative intent.

Specifically, the CSA concluded the following:

- The State can better measure the performance of the DVBE Program if the focus is on the amounts actually paid.
- Relatively few businesses account for a major part of the State's direct contracting activity under the DVBE program.
- The five departments visited lacked adequate support for their reported DVBE contracting activity.

Mr. Brian P. Kelly
January 23, 2014
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CSA's recommendations and Caltrans' responses are listed below:

Recommendation No. 1:

To ensure that [it has] maximized the effectiveness of the DVBE incentive... Caltrans should implement measures to help ensure that [it applies] the DVBE incentive to all applicable contracts and procurements and that these measures include documented policies and procedures and/or training to procurement staff on properly applying the DVBE incentive.

Caltrans Response:

Caltrans has already developed policies and procedures to apply the DVBE incentive in contracts and procurements and revised its acquisition manual in November 2013, (Attachments 1 and 2). In addition, Caltrans developed desk procedures and will include a DVBE incentive application review in training modules for procurement staff (Attachment 3).

Recommendation No. 2:

To help ensure that... Caltrans [does] not incorrectly report businesses that are not certified DVBEs, [it] should verify, at least on a sample basis for high-value contracts, the certification status of the DVBE firms before submitting [its] DVBE activity reports to General Services.

Caltrans Response:

Beginning January 30, 2014, Caltrans will be verifying DVBE certification status on a sample of high-value contracts on a quarterly basis, as noted on the procedures located in Attachment 4.

Caltrans appreciates the opportunity to provide a response to the draft audit report. If you have any questions or require further information, please contact Cristiana Rojas, Deputy Director, Administration at (916) 654-3910 or William E. Lewis, Assistant Director, Audits and Investigations, at (916) 323-7122.

Sincerely,

(Original signed by: Malcolm Dougherty)

MALCOLM DOUGHERTY
Director

Enclosures

ATTACHMENT No. 1

POLICY BULLETIN

DATE: September 24, 2009 **ISSUE NO.** 09-03

TO: All DPAC Staff

SUBJECT: Disabled Veteran Business Enterprise Participation Program and Incentive Program

ISSUE: In February 2008, in an effort to meet the statewide Disabled Veteran Business Enterprise (DVBE) participation requirement, Caltrans increased the contract requirement from 3% to 5% and implemented the DVBE Incentive Program. On July 28, 2009, legislation was passed eliminating the Good Faith Effort. To ensure maximum opportunities for continued bidder participation, the DVBE goal requirement reverted back to 3% except for A&E contracts.

POLICY: Unless exempted by Civil Rights or statutes, DPAC institutes the following DVBE participation goals:

- A&E Contracts: Remain at 5%
- Other (non-A&E) Contracts with DVBE goals: 3%

PROCEDURE: Solicitations released after October 1, 2009, excluding A&E services, shall require a DVBE goal of 3%, unless an approved waiver is attached or the solicitation is categorically exempt.

DVBE Incentive language is included in non-A&E solicitations.

These tables are located at:
K:\DGS Standards\Solicitations\DVBE 2009 Goal\DVBE Goal Effective 10012009.doc*

3% Goal:

Verified DVBE Participation	Incentive Amount
5% and over	5%
4.5% - 4.99%	4%
4.0% - 4.49%	3%
3.5% - 3.99%	2%
3.01% - 3.49%	1%

No Goals:

Verified DVBE Participation	Incentive Amount
5% and over	5%
4% - 4.99%	4%
3% - 3.99%	3%
2% - 2.99%	2%
0.1% - 1.99%	1%

Additional information regarding DVBE provisions can be found at:
<http://www.documents.dgs.ca.gov/pd/delegations/pac092109.htm>

Approved *W. J. Santora*
Chief, Division of Procurement and Contracts

Date 9/25/2009

**Reference: Policy Bulletin PB 09-03 with DPAC Incentive Charts
September 24, 2009**

K:\DGS Standards\Solicitations\DVBE 2009 Goal, "DVBE Goal Effective 10012009.doc"

3% Goal

1. Change 5% to 3% in all locations.
2. Replace Incentive Chart with:

Verified DVBE Participation	Incentive Amount
5% and over	5%
4.5% - 4.99%	4%
4.0% - 4.49%	3%
3.5% - 3.99%	2%
3.01% - 3.49%	1%

No Goals

Replace Incentive Chart with:

Verified DVBE Participation	Incentive Amount
5% and over	5%
4% - 4.99%	4%
3% - 3.99%	3%
2% - 2.99%	2%
0.1% - 1.99%	1%

ATTACHMENT No. 2

California Department of Transportation
Division of Procurement and Contracts

Acquisitions Manual

For
Non-Information Technology and Information Technology
Goods and Services



October 2013

regulations of this law, including the definition of a SB for the delivery of services, are contained in Title 2, California Code of Regulations (2 CCR) 1896 et seq.

- C. To claim the SB preference, the firm must have its principal place of business located in California and be certified by the California Department of General Services (DGS), Office of Small Business and DVBE Services (OSDS). The preference amount may not exceed fifty thousand dollars (\$50,000) for any bid and the combined cost of preferences granted may not exceed \$100,000.00 total.
- D. Pursuant to GC Section 14838 and 2 CCR 1896, if a bidder is not a certified SB, but wishes to be eligible for the five percent (5%) non-small business (NSB) preference, the bidder must subcontract at least 25 percent (25%) of its net bid price to one or more certified SBs. Bidder shall list the names of all certified SB firms being claimed for credit on the GSPD-05-105 form. For each certified SB subcontractor listed, the Bidder shall submit a copy of the quotes from each SB as an attachment, titled "Quotes from SB Subcontractors." This preference shall not be awarded to a noncompliant bidder and shall not be used to achieve any applicable minimum requirements.
- E. Certified SB bidder(s) shall have precedence over NSB bidders in the application of SB preference(s).
- F. SB preferences may not be applied to any bid deemed non-responsive with the solicitation instructions or from a non-responsible bidder.
- G. Questions regarding the certification approval process or SB program should be directed to OSDS at (800) 559-5529 or (916) 375-4940. For the 24-Hour Recording & Mail Request call (916) 322-5060, or E-mail: osdshelp@dgs.ca.gov.
- H. If SB preference is claimed, it shall be 5% of the net bid price of the lowest responsible NSB bidder meeting specifications. Also see Topic 2 of the SCM, Vol. 2 for CUF requirements. Note: The net bid price is the value of the bid excluding sales and use tax, finance charges, postage and handling charges. Shipping charges are also excluded from the net cost unless the shipping charge is included in the evaluation such as FOB Origin, Freight Collect or FOB Destination. The net bid price includes any evaluation corrections and applicable discounts. Subtract this amount from all qualifying bids if no other preferences or the DVBE incentive are applicable, re-rank bids to determine which bidder has the low responsive bid. Award is made to the #1 ranked bid. Note: Applying the SB preference formula is for evaluation purposes only and does not change the actual bids offered by any suppliers.

Document the procurement file in sufficient detail to support the award. Documenting the file includes recording the SB preference calculations.

- I. Refer to SCM Vol. 2, Topic 6.

5.6 DVBE – INCENTIVE (Added 12/7/12)

- A. The DVBE incentive applies to all competitive solicitations whenever the solicitation includes the DVBE Program Requirement, regardless of format (RFQ, IFB or phone quotes), delivery method or dollar threshold. If a solicitation includes the DVBE Program Requirement, buyers will use the DGS provided CA DVBE Program Requirements packet whenever conducting competitive solicitations under a department's approved purchasing authority. If you cannot meet this requirement, refer to and follow the process in SCM Vol. 2 Section 3.5.4 DVBE, Incentive Exemption Provision.
- B. The incentive is used only for evaluation purposes to arrive at the successful bidder and does not alter the amounts of the actual bid. Any responsive and responsible bidder with the

confirmed DVBE participation and/or meets the requirements as specified in the solicitation is eligible to receive the incentive. Bidders who are not responsive and responsible regardless of the amount of DVBE participation are not eligible to receive the incentive.

- C. Written solicitations shall include the Bidder Declaration (GSPD 05-105) to allow bidders to identify if they are a DVBE and identify DVBE subcontractors, their proposed contract function and the corresponding percentage of participation. Refer to SCM Vol. 2, Section 3.5.7 for Declaration Narrative Information. Caltrans will apply an incentive to bids proposing the utilization of DGS Certified DVBE firms identified on the Bidder Declaration, GSPD-05-105. Information provided on the Bidder Declaration, GSPD-05-105 shall be verified by Caltrans prior to the award of the contract. The incentive amount is equal to a percentage of the lowest responsive and responsible bid based on the amount of DVBE participation in the bid being evaluated per the Tables below.

Verified DVBE Participation	DVBE Incentive Amount
5% or more	5%
4% - 4.99%	4%
3% - 3.99%	3%
2% - 2.99%	2%
0.1% - 1.99%	1%

- D. When applying the DVBE Incentive, a NSB shall not displace an award to a DGS Certified Small Business. Refer to SCM Vol. 2, Section 3.5.5 for DVBE incentive percentage details.
- E. The Bidder Declaration (GSPD-05-105 or GSPD-05-106, as applicable) will be included in the following procurement approaches: Non-competitive, Competitive, SB/DVBE Option, LPA orders, or Purchases exempt by statute and/or policy, when the possibility of using subcontractors exists. Refer to SCM, Vol. 2, Section 3.5.9 for Exceptions.
- F. To calculate incentives and reference low price award examples, refer to SCM Vol. 2, Sections 3.5.11-3.5.13.
- G. Document the Results: Buyers must document the application of the DVBE incentive for the department's reporting purposes. Refer to SCM Vol. 2, Section 3.5.10 to obtain the Procurement Summary (GSPD-300) form.
- 5.7 SB/DVBE – Commercially Useful Function (CUF) (Added 12/5/12)**
- A. In accordance with GC section 14837 and M&VC section 999, all SB and DVBE contractors, subcontractors and suppliers that bid on or participate in a state contract, regardless of whether it is a verbal or written solicitation and/or paid for using the CAL-Card as a payment method, must perform a commercially useful function (CUF). In addition, the requirement to determine CUF is not affected by the applicability of the 5 percent SB and/or the DVBE participation preference program. There is no exception to this requirement. Consequently, certified SB, MB and DVBE businesses must perform a CUF. Buyers must determine that a CUF will be performed prior to contract award. Refer to SCM Vol. 2, Sections 3.2.6 through 3.2.12 for SB/DVBE information of Program Violations, and the details outlining CUF including but not limited to Broker/Agent Status for DVBE, Definition of Broker/Agency and Equipment Broker, Impacted DVBEs, Purchase Document Submission, Declaration Information.
- B. If you receive a completed STD. 843 and recognize that a DVBE is a broker or agent (in Section 2 of the form), or if rental equipment is to be provided, one or more of the DV owners or DV managers of the DVBE does not own at least 51% of the equipment to be rented (in

ATTACHMENT No. 3

Department of Transportation
Division of Procurement and Contracts (DPAC)



Non-IT Acquisitions Buyer's Desk Procedures

November 2013

Department of Transportation – Division of Procurement and Contracts
Non-IT Acquisitions – Buyer’s Desk Procedures
 11/2013

TOPIC F – SMALL BUSINESS (SB) AND DISABLED VETERAN BUSINESS ENTERPRISE (DVBE) OPTION

 Did you check step 1, step 2, and step 3? If yes, you may continue. If no, go back to step 1, step 2, and step 3 before continuing.

F.1 As the Buyer, you can solicit price quotes from certified SB or DVBE suppliers to provide products valued from **\$5,000 to \$249,999.99**. The \$249,999.99 maximum includes amendments (GC Section 14838.5). This dollar threshold is **before** tax and/or freight is added to the purchase order subtotal. The award may be made from responsive price quotations received from a minimum of two responsible SB/DVBE businesses. Note: Solicitation from a large business is not allowed in this option.

 To search for a certified SB/DVBE supplier, go to the DGS-PD eProcurement website at <http://www.bidsync.com/DPXBisCASB>.

F.2 If the SB/DVBE certification information needs to be added or updated in Advantage, notify your DPAC Purchasing Analyst to make the appropriate changes.

F.3 After you have obtained bids/quotes from two responsible certified small businesses, you may proceed and complete the following:

- Create a Requisition (RQS) in Advantage. ⇨ See Topic M (Creating your non-IT Purchase Request) for more details.
- Include the following when submitting your RQS:
 - RQS or Purchase Request (ADM-1415) completed
 - Bid Quote Worksheet (BQW) ADM-3012 completed
 - Minimum of two quotes (valid not expired) from responsible SB/DVBE businesses
Note: Items and quantities must be the same on each quote.
 - SB/DVBE certifications
 - Vendor’s Seller’s Permit. ⇨ See Topic J (Seller’s Permit) for more details.
 - Signed/completed Acquisition Exemption Request (AER) ADM-3058 form (if applicable)
- Verify the RQS to ensure all information is accurate and complete.
- Validate and submit the RQS. This brings the RQS to the PENDING phase.
⇨ See Topic N (Submitting Your Non-IT Purchase Request) for more details.
- Notify your unit manager and resource person (budgets) to approve the RQS in Advantage. After the RQS has been approved by both, the RQS will go into the FINAL phase.
- When the RQS is in FINAL, send your request to the non-IT Purchasing Submittal In-Box via email at Purchasing.Submittal@dot.ca.gov. In the subject line, list the complete RQS number. In the body of the email, attach the signed RQS and other appropriate documents. ⇨ See Topic N (Submitting Your Non-IT Purchase Request) for more details. Your DPAC Analyst will process (obtain final approvals/signatures, execute, and distribute) the PO as appropriate.
- Once goods are received, process the invoice within 15 days, so Accounting can complete the process to the State Controller’s Office (SCO) for payment to the vendor. ⇨ See Topic P (Payment to Vendor) for more details.
- For taggable property information, ⇨ see Topic O (Property Control) for more details.

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TOPIC G – INFORMAL COMPETITIVELY BID PURCHASES (\$5,000–\$49,999.99)

 Did you check step 1, step 2, and step 3? If yes, you may continue. If no, please go back to step 1, step 2, and step 3 before continuing.

G.1 If your purchase is between \$5,000 and \$49,999.99, and not using the SB/DVBE option or a LPA, you may use the informal competitively bid approach, which requires a **minimum of three quotes**.

Use this process when requesting quotes, bids or proposals from suppliers informally. Informal solicitations can be conducted by phone, email or fax. This method requires a preparation of a “script” or narrative from the requestor so that each bidder is equally informed and quotes are evaluated fairly.

G.2 When using a combination of small and large businesses, the Small Business Preference and the DVBE Incentive provision must be used.

A. How to calculate the Small Business Preference:

- 1) Calculate 5% from the lowest (large business) bid.
- 2) Subtract that amount from the small business bid. If the 5% deduction from the certified small business bidder's bid is equal to or less than the lowest responsive and responsible large business bid, the purchase shall be awarded to the small business. This does NOT alter the small business bidder's bid for the award.

Note: Government Code 14838 provides for a (5) five percent preference to be given to bidders who qualify as SBs. For complete referenced government code information, see link at <http://www.leginfo.ca.gov/cgi-bin/displaycode?section=gov&group=14001-15000&file=14835-14843>.

B. The DVBE incentive will apply to your solicitation as described in Appendix 3 (Request for Quotation, Non-IT Goods). Any Supplier claiming a DVBE status must complete the STD. 843, Disabled Veteran Business Enterprise Declaration. See Appendix 4A.

C. When awarding a bid based on the Small Business 5% Bidding Preference or the DVBE Incentive (5%), show your calculation on the Bid Quote Worksheet (BQW) ADM-3012 form. Attach the completed ADM-3012 form, a copy of the vendor's certified SB/DVBE certification, and completed STD. 843 DVBE Declarations (if applicable) to your RQS.

G.3 After you have obtained all bids/quotes, you may proceed to complete the following:

- Create a Requisition (RQS) in Advantage. See Topic M (Creating your non-IT Purchase Request) for more details.
 - Include the following when submitting your RQS:
 - RQS or Purchase Request (ADM-1415)
 - Bid Quote Worksheet (BQW) ADM-3012
 - Minimum of three quotes, valid not expiredNote: Items and quantities must be the same on each quote.
 - Vendor's Seller's Permit. See Topic J (Seller's Permit Number) for more details.
 - Signed/completed Acquisition Exemption Request (AER) ADM-3058 form (if applicable)
- Verify the RQS to ensure all information is accurate and complete.
 - Validate and submit the RQS. This brings the RQS to the pending stage.
See Topic N (Submitting Your Non-IT Purchase Request) for more details.
 - Notify your unit manager and resource person (budgets) to approve the RQS in Advantage. After the RQS has been approved by both, the RQS will go into the FINAL phase.
 - When the RQS is in FINAL, send your request to the non-IT Purchasing Submittal In-Box via email at Purchasing.Submittal@dot.ca.gov. In the subject line, list the complete RQS number. In the body of the email, attach the signed RQS and other appropriate documents. See Topic N (Submitting Your Non-IT Purchase Request) for more details. Your DPAC Analyst will process (obtain final approvals/signatures, execute, and distribute) the PO as appropriate.

ATTACHMENT No. 4**DVBE Firm Certification Verification in CATS**
Procedures for Quarterly Quality Check**Purpose**

The purpose of this process is to verify the accuracy of information captured in DPAC's Contract Administration Tracking System (CATS) and reported for DVBE contract participation. DPAC Policy Branch will perform a quarterly internal audit review of the accuracy of DVBE firm certification status as reflected in the CATS system. This quality assurance check will provide greater accuracy in the final reporting of Caltrans' DVBE participation as reported quarterly (internal use) and annually via the Std 810 Contract Activity Report submitted to DGS.

Process

The audit of DVBE certification accuracy involves the review and evaluation of a sampling of high-value executed DVBE contracts during each quarter of the fiscal year. The Policy Branch reporting team will generate the DVBE Contracting Participation Report for the quarterly period being evaluated. Step by step instructions for generating the report from CATS can be found in the Report Instructions and Guidelines manual located at: O:\policy\Reports.

The Policy Analyst shall sort the executed contracts by value, and select five (5) of the highest value contracts for assessment. Using the DGS SB/DVBE Certification search function, look up each of the vendor names to determine if the firm has/had a valid DVBE certification during the time of contract award:

[http://www.bidsync.com/DPXBisCASB?ac=publicsearch&randomseed=6291&businessname=Telecomm and+Software+and+Services&orderby=5](http://www.bidsync.com/DPXBisCASB?ac=publicsearch&randomseed=6291&businessname=Telecomm+and+Software+and+Services&orderby=5).

If the vendor is/was not a certified DVBE firm at the time of contract award, generate email notification to the Contract Analyst, copying the supervisor, notifying them of the correction needed in CATS. **NOTE:** Once a contract is executed in CATS, the Policy Branch must request HQ IT release the entry for edit.

cc: Members of the Legislature
Office of the Lieutenant Governor
Little Hoover Commission
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press