

OBSERVATION REPORT

Deputy Inspector General
for Diversity and Small Business Development



October, 2018

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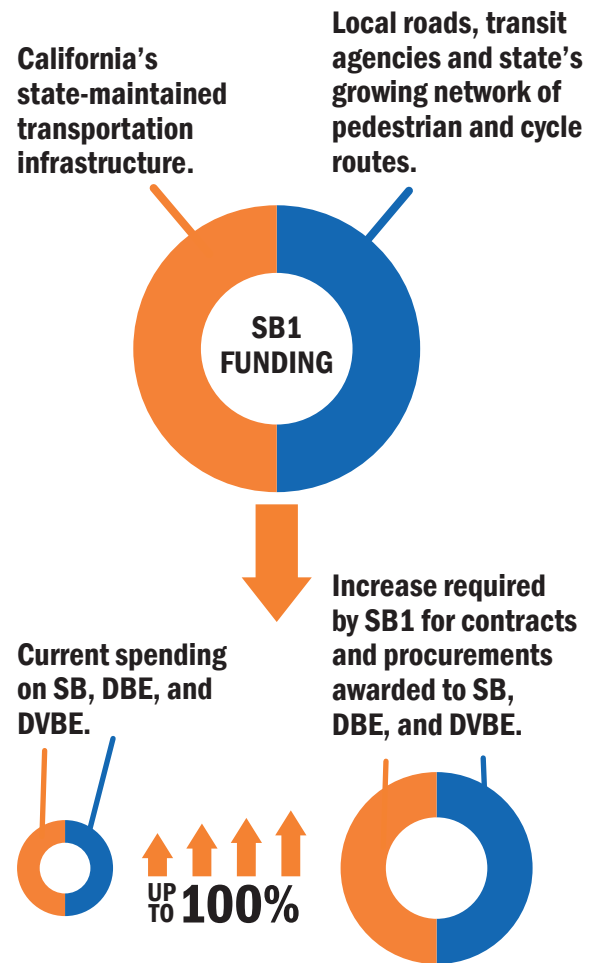
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EXECUTIVE SUMMARY

The Road Repair and Accountability Act, Chapter 5, Statutes of 2017 (SB 1), invests \$5.4 billion annually over the next decade in California's transportation system. California's state-maintained transportation infrastructure will receive roughly half of SB 1 revenue: \$26 billion. The other half will go to local roads, transit agencies, and an expansion of the state's growing network of pedestrian and cycle routes. In recognition of the significant economic impact on California's businesses and workforce resulting from SB1 revenues, the California Department of Transportation (Caltrans) is required to increase by up to 100 percent the dollar value of contracts and procurements awarded to certified small businesses, disadvantaged business enterprises, and disabled veteran business enterprises.

Following the passage of SB 1, SB 103 (Chapter 95, Statutes of 2017) was approved on July 21, 2017, and requires Caltrans to undertake a number of activities to increase opportunities for diverse and small businesses and prevent discrimination or preferences in its employing and contracting practices. These activities include the development of an outreach plan for new and limited contracting small businesses—including those owned by women, minorities, disabled veterans, LGBT, and other disadvantaged groups—and directs the Inspector General to review, audit, and report on Caltrans' outreach efforts.

To administer the statutory requirements of SB 103, Governor Edmund G. Brown, Jr. appointed a Deputy Inspector General for Diversity and Small Business Development in March 2018. The Deputy Inspector General (DIG) is responsible for providing an independent review of programs, policies, and procedures related to diversity and small business development efforts. In addition, the DIG is tasked with providing recommendations and sharing best practices that assist the department in expanding its diversity efforts and small business development opportunities.



This report summarizes general observations made by the Deputy Inspector General from April 2018 through September 2018 and recommends best practices Caltrans should consider to further increase procurement opportunities and prevent discrimination or preferences in its employing and contracting practices. This report is intended to initiate dialogue with Caltrans management about the department's diversity and development efforts and to assist the department with prioritizing solutions.

KEY OBSERVATIONS

1. Caltrans should continue its efforts to build a comprehensive outreach plan, that enables the department, district staff, and external entities to work in alignment to increase procurement opportunities.

Seek internal and external input on the current program prior to finalizing the outreach plan.

Establish a methodology to measure performance outcomes detailed in the January 2019 Outreach Plan.

Ensure all Districts and Divisions within Caltrans understand their role and responsibility to support the federal and state programs managed by Caltrans' Office of Business and Economic Opportunity (OBE0).

2. Caltrans should evaluate strategic partnerships needed to expand the portfolio of certified suppliers for the federal and state programs managed by OBE0.

Develop strategic partnerships for outreach (in general), supplier development, and locating qualified suppliers.

Establish mutual assistance partnerships versus financially dependent partnerships.

Evaluate all existing councils, committees, and teams (internal and external) that support the federal and state programs managed by OBE0 to identify opportunities for efficiencies.

3. Caltrans should create a self-sustaining supplier development program that develops suppliers from the start-up phase to a competitive state and/or purchased entity.

Engage prime suppliers in supplier development activities/events.

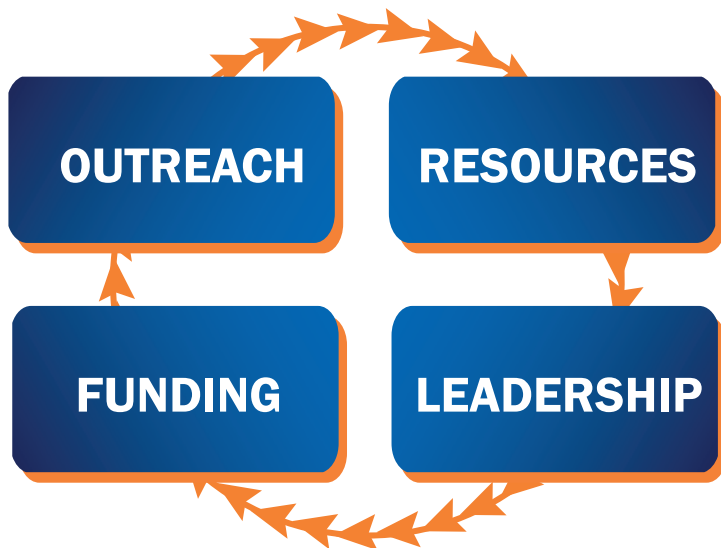
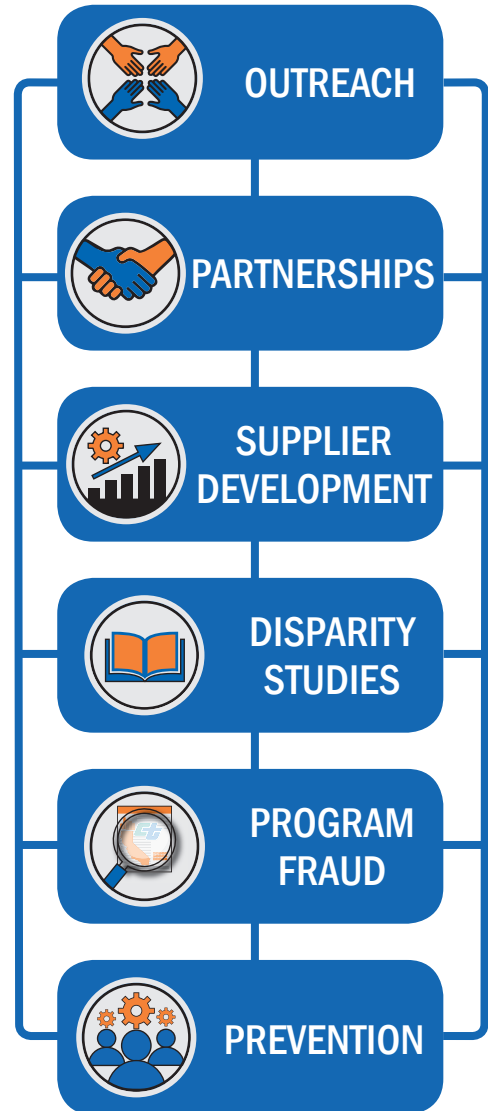
Refresh and expand current training offerings and delivery channels.

Ensure supplier development activities have buy-in and commitment within Caltrans.

INTRODUCTION

The Deputy Inspector General conducted an initial review from April 2018 through September 2018. In order to gain a better understanding of Caltrans current efforts to meet the requirements of SB 103, the DIG began a review of the bill's primary areas: outreach, partnerships, supplier development, disparity studies, program fraud, and preventing discrimination or preferences.

Historical program data shows minimal change in total department, contract, and program spend since 2012. (See pages 11,12, and13.) Given the significant increase in ongoing funds available for transportation projects under SB 1, it is essential that Caltrans and external entities take a new approach toward diversity and small business development. Although the current programs have performed well, this new influx of funding and work will require the department to redefine roles and expand current program efforts. Caltrans will need a strategic plan that leverages resources, funding, and leadership to meet the workload demand, perceived supplier shortfall, federal/state contracting program regulations, and SB 103 requirements.



This report focuses on three foundational areas: outreach, partnerships and supplier development. Other areas of importance, such as: disparity studies, program fraud, and prevention are briefly discussed and will be reviewed in detail in later reports. In addition, a review of procurement practices, human resources practices, and supplier on-boarding practices would be prudent to ensure Caltrans's programs are effective and equitable.



OUTREACH

BACKGROUND

Senate Bill 103 requires Caltrans to submit an outreach plan to the Legislature, including its diverse caucuses, by January 2019. SB 103 offers the department guidance on how to expand current outreach efforts and provides tactical planning suggestions. The Independent Office of Audits and Investigations engaged the Office of Business and Economic Development (OBEO) to provide consultation on the development of the plan.

THE DEPARTMENT SHOULD CONSIDER THE FOLLOWING TO ENHANCE THE OUTREACH PLAN:

Seek internal and external input on the current program prior to finalizing the outreach plan.

Establish a methodology to measure performance outcomes detailed in the January 2019 Outreach Plan.

Ensure all Districts and Divisions within Caltrans understand their role and responsibility to support the federal and state programs managed OBEO.

RECOMMENDATIONS

1 FOCUS GROUP MEETINGS

Caltrans should host focus group meetings with diverse business owners, chamber leaders, diverse business support organizations and internal resources to determine perceived or proven root cause issues in doing business with Caltrans. The findings should be evaluated for possible incorporation into the outreach plan.

2 SUPPLIER FORUM

The department should host a supplier forum event to align all existing suppliers with the department objectives for SB1 and SB 103. Prime suppliers should be asked to support the department in achieving its goal through subcontracting and participating in outreach event and “Meet the Primes” events.



PARTNERSHIPS

BACKGROUND

SB 103 suggests Caltrans expand current outreach partnerships to reach a larger audience. The department will need to be specific and targeted when selecting strategic partners that can add direct value to the program, given resources and funding challenges. Currently, OBEO has “pay for performance” contracts in place with training partners which seems prudent given funding challenges and program changes. Leveraging state and regional councils (partners) will be necessary to expand outreach efforts. The department should continue its efforts to evaluate strategic partners and redesign how they interact.

THE DEPARTMENT SHOULD CONSIDER THE FOLLOWING TO STRENGTHEN PARTNERSHIPS:

Develop strategic partnerships for outreach (in general), supplier development, and locating qualified suppliers.

The department should revisit the Statewide Business Council Charter and continue its efforts to redesign how Caltrans staff and council members (“partners”) interact. The council members’ time and expertise could be leveraged to assist with communications, outreach, supplier identification, and supplier development events.

Establish mutual assistance partnerships versus financially dependent partnerships, where possible.

Evaluate all existing councils, committees, and teams (internal and external) that support the federal and state programs managed by OBEO to identify opportunities for efficiencies.



SUPPLIER DEVELOPMENT

BACKGROUND

SB 103 directs Caltrans to provide technical assistance, training and networking opportunities throughout California to develop suppliers to do business with the department. The department should take steps to build a self-sustaining supplier development program that develops suppliers from the start-up phase to a competitive state and/or purchased entity.

CALTRANS SHOULD CONSIDER THE FOLLOWING ACTIONS:

Engage prime suppliers in supplier development activities/events.

Ensure supplier development activities have internal buy-in and commitment.

Refresh and expand current training offerings and delivery channels.

RECOMMENDATIONS

1

Work with all internal purchasing entities, including the Division of Procurement and Contracts, to ensure buy-in and support of supplier development activities. The direct knowledge and expertise of the divisions is required to develop and identify capable suppliers.

OTHER AREAS OF IMPORTANCE



DISPARITY STUDY

BACKGROUND

The California Department of Transportation retained BBC Research & Consulting to conduct a disparity study on the department's efforts to comply with the implementation of the Federal Disadvantaged Business Enterprise (DBE) Program. A disparity study examines whether there are any differences between the participation, or utilization, of a specific group of businesses in Caltrans contracting and the availability of those businesses for that work.

SB 103 requires Caltrans to incorporate disparity study findings in the department's outreach plan, implement disparity study findings and raise the disparity indices for the federal disadvantaged program by 100 percent. The disparity study completed in 2016 was used to determine the federal program goal for years 2019-2021. Given a variety of factors, the agency proposed a goal increase to the federal highway administration.

CONSIDERATIONS

For future disparity studies, consider using alternative forecasting, resource availability, and/or capacity determination tools.



PROGRAM FRAUD

BACKGROUND

SB 103 directs the Inspector General to review and audit businesses as appropriate to ensure entities are not circumventing the program. In the 2018-19 Audit Plan, the Independent Office of Audits and Investigations (IOAI) plans to review and assess Caltrans' DBE certification processes. This will help determine if process gaps exist and expose potential risk for the department.

In addition to these activities, IOAI has fielded anonymous concerns regarding conflict of interest, adherence to procurement procedures, and subcontractor timely payments of external entities. These concerns were forwarded to the appropriate agency for follow-up.

CONSIDERATIONS

No considerations at this time.

OTHER AREAS OF IMPORTANCE



PREVENTING DISCRIMINATION OR PREFERENCES

BACKGROUND

SB 103 requires Caltrans to take steps to ensure conformance with its policies to prevent discrimination or preferences in its employing practices and bidding/awarding public contracts.

CONSIDERATIONS

The department should expand new and innovative hiring practices.

FOR EXAMPLE:

District 7, in conjunction with guidance from the Division of Human Resources, utilizes a diverse screening and exam panel on hiring interviews and encourages other districts and HQ to participate in the candidate selection process. This practice pulls diverse expertise from across the department in selecting the most qualified applicant.

RECOMMENDATIONS

The department has hiring targets and commitments to meet and should evaluate current recruitment, hiring, and on-boarding practices to deliver process efficiencies and resolve competing priorities.

NEXT STEPS

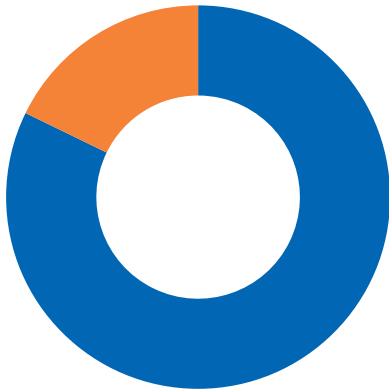
The IOAI will audit/review procurement and human resource practices.

CHART A: TOTAL STATE CONTRACT SPEND FOR SMALL BUSINESS ENTERPRISES

TOTAL STATE CONTRACT SPEND

TOTAL SMALL BUSINESS SPEND

2012/13



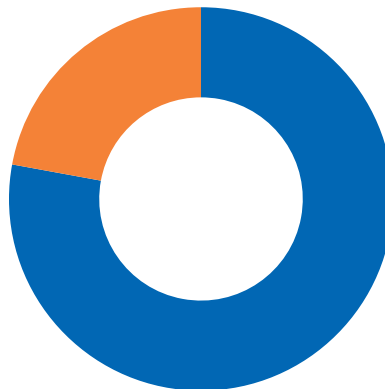
\$2,315,162,865
\$500,540,141

2015/16



\$1,129,015,763
\$519,879,000

2014/15



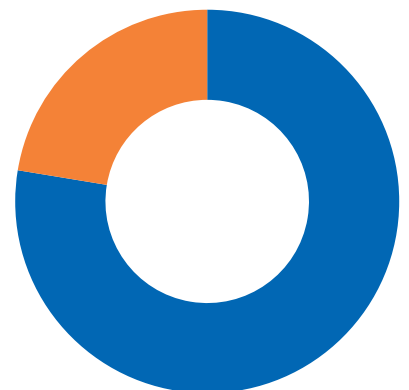
\$1,230,371,824
\$349,378,944

2013/14



\$1,074,833,768
\$303,566,873

2016/17



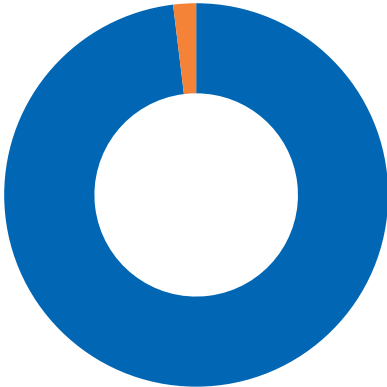
\$1,416,819,919
\$408,919,922

CHART B: TOTAL STATE CONTRACT SPEND FOR DISABLED VETERAN BUSINESS ENTERPRISES

TOTAL STATE CONTRACT SPEND

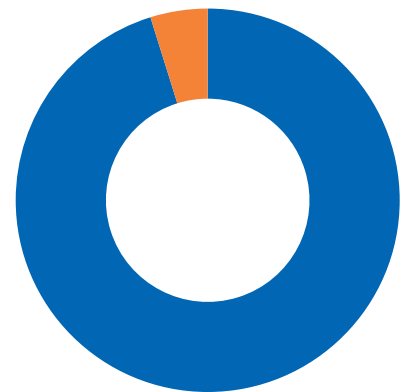
TOTAL DVBE SPEND

2012/13



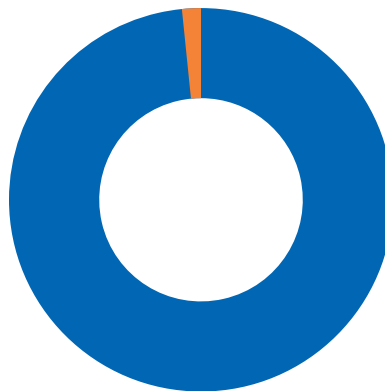
\$2,315,162,865
\$45,359,632

2015/16



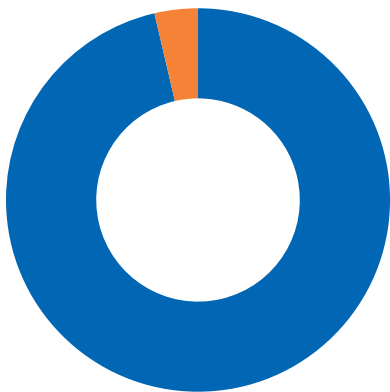
\$1,129,015,763
\$57,190,818

2014/15



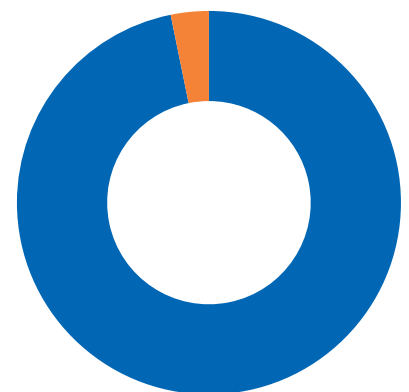
\$1,230,371,824
\$47,149,004

2013/14



\$1,074,833,768
\$40,695,746

2016/17



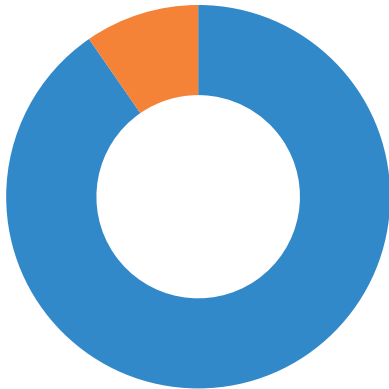
\$1,416,819,919
\$46,800,099

CHART C: TOTAL FEDERAL CONTRACT SPEND FOR DISADVANTAGED BUSINESS ENTERPRISES

TOTAL FEDERAL CONTRACT SPEND

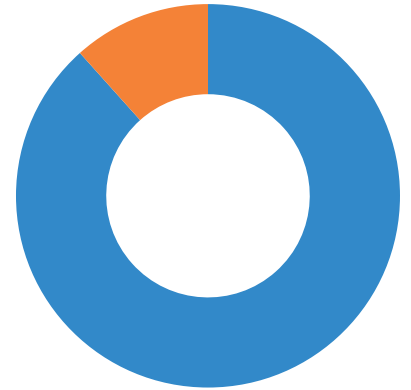
TOTAL DBE SPEND

2013



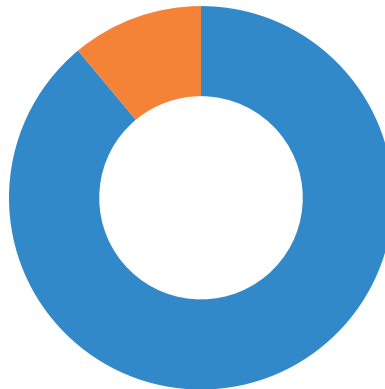
\$1,845,546,001
\$197,584,914

2016



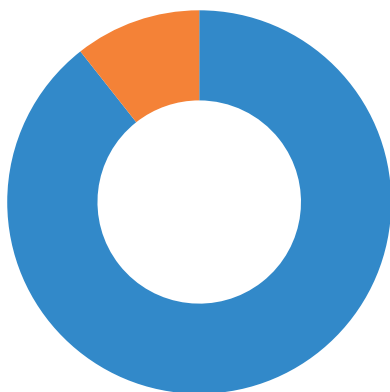
\$2,487,833,457
\$327,195,499

2015



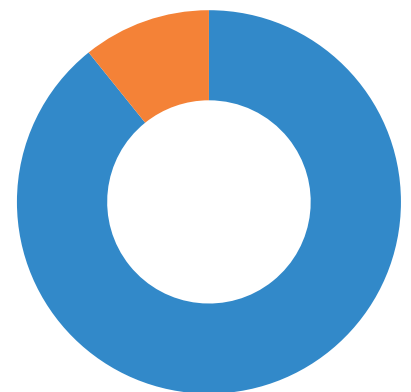
\$2,155,775,962
\$268,285,823

2014



\$1,561,153,730
\$185,567,694

2017



\$2,067,672,953
\$249,731,944



OUTREACH BEST PRACTICES



Get involved with and partner with national and local councils whose mission is to connect you with small & mid-size diverse business owners that provide goods and services related to your specific industry needs.



Get to know your supply chain and vendors so you can proactively source relevant suppliers.

Stay focused on specific measurable goals. Get a handle on your data to set “gap closing” goals.

Bring together/co-locate supplier outreach functions with procurement.

Secure buy-in and commitment from the top down. Obtain support from top executives to attend events and actively participate to drive increased performance and/or change perceptions.

Hold supplier forums/vendor summits to increase engagement, maintain transparency, and keep everyone informed of the business challenges ahead.

Integrate goals and develop a coordinated outreach strategy involving all key stakeholders.

Start with your largest suppliers to impact change and expand outreach efforts.

Encourage large suppliers to implement their own programs to support your goals.

See resource links on page 18.

Attend events regularly and consistently so the organization and members become familiar with your team and objectives. This will help establish additional outreach efforts even when you are not present.

Host routine diversity events bringing together potential new suppliers, primes and agency executives, managers, and decision makers.

Leverage politicians and city officials to promote your events within their districts.

Leverage religious institutions to promote your events and expand your outreach efforts.

Co-sponsor/co-host events with companies and agencies with a similar purpose.

Don't exclude any groups.



Network with other companies and agencies to gain insight on their outreach best practices and challenges faced.

For Example:
EY, Sempra, GE, KPMG, Toyota, Kaiser Permanente, Marriot International, IBM etc.



Participate on a council/chamber that supports diverse business owners. Do not merely sign up to be a member.

For example: Loan out a conference room for a board meeting or activity.

Be recognized as an agency that supports disadvantaged, small, and disabled veteran owned businesses.



Increase involvement from other departments. Encourage involvement from managers and decision makers to enable them to get a better picture of the program's value.

Find internal champions throughout the agency and leverage their engagement.

Promote your diversity programs.

Apply for awards

Issue press releases and social media updates covering the disadvantaged disabled veterans and small businesses your agency has worked with.

Mentor existing suppliers ready for growth and expansion.

Communicate with, educate, and mentor suppliers.



PARTNERSHIP is defined as...

a collaborative relationship between entities to work toward shared objectives through a mutually agreed division of labor.

Document current partnerships and reevaluate delivered value.

Ensure you receive value and deliver value to your partner.

Evaluate multiple partners against the agency's needs to determine high impact fits.

Measure partnership performance.

Consider the reputation, capacity, and resources of the partner organization.

Ask your partner directly what they hope to gain from the relationship.

A top consideration should be partnerships that align with the agencies goals and needs. Select relevant partners.

Be transparent and keep communications open.

Determine mutual interest.

Define scope of partnership and formally document partnership in an agreement format.



SUPPLIER DEVELOPMENT BEST PRACTICES



Build your agency's needs into your program curriculum and activities.

On an annual basis, review your agency's needs and program components. Keep materials refreshed on an annual basis.

Provide specific training on how to do business with your company or agency as well as an overview of your procurement practices.

Offer technical assistance that keeps businesses growing, thriving, and running in an effective and efficient manner.

Measure supplier movement through the process to track success.

Leverage partners in advance to promote and recruit for your events/programs.

Offer advanced training and technical assistance for your more experienced diverse suppliers. Keep the training curriculum/activities relevant to the business size and needs.

GLOSSARY OF TERMS

SUPPLIER:

A supply management term that means a person or organization that provides something needed, such as goods (product) or services. Interchangeable with the term vendor.

VENDOR:

A supply management term that means a person or company offering something for sale. Interchangeable with the term, supplier.

CONTRACTOR:

A person or company that undertakes a contract to provide materials and/or labor to perform a service or do a job. Often referred to as a supplier or vendor.

SMALL BUSINESS:

A privately owned corporation, partnership, or sole proprietorship that has fewer employees (less than 500 employees) and/or less annual revenue than a regular size business or corporation.

MICRO BUSINESS:

A business that operates on a very small scale, typically no more than 2 employees.

DISADVANTAGED BUSINESS ENTERPRISE:

For profit small business where socially and economically disadvantaged individuals own at least 51% interest and also control management and daily business operations. African Americans, Hispanics, Native Americans, Asian-Pacific and subcontinent Asian Americans, and women are presumed to be socially and economically disadvantaged. Other individuals can also qualify as socially and economically disadvantaged on a case by case basis.

DIVERSE BUSINESS ENTERPRISE:

A business owned and controlled by members of a diversity group (51% ownership), refers to minorities, LGBT and women owned businesses. Also, includes disabled veteran business owners and service disabled veteran business owners.

LESBIAN, GAY, BI-SEXUAL AND TRANSGENDER BUSINESS ENTERPRISE:

Small businesses that are majority owned, managed, operated, and controlled by LGBT individuals.

DISABLED VETERAN ENTERPRISE:

A business owned (51%) by a veteran of the U.S. military; the veteran must have a service-connected disability of at least 10% or more. Business office location and residence location are additional considerations for certification by particular programs.

CERTIFICATIONS: CALTRANS RECOGNIZES 3 CERTIFICATION TYPES:

For the Federal Program Caltrans accepts a disadvantaged business enterprise certification. To learn about the program and requirements for certification, please visit the Caltrans OBE0 website.

For the State Program Caltrans accepts a small business certification and a disabled veteran certification. To learn about the program and requirements for certification, please visit the DGS program website.

RESOURCE LINKS

National Minority Supplier Development Council (NMSDC)

www.nmsdc.org

Southern California Minority Supplier Development Council (SCMSDC)

www.scmsdc.org

Women Business Enterprise National Council

www.wbenc.org

Women Business Enterprise Council Western Region

www.wbec-west.com

National Association of Women Business Owners California

www.nawbo.org/california

National Association of Women Business Owners Los Angeles

www.nawbo.org/los-angeles

Black Business Association of Los Angeles

www.bbala.org

California Black Chamber of Commerce

www.calbcc.org

Greater Los Angeles African American Chamber of Commerce

www.glaaacc.org

Veterans in Business Network

www.vibnetwork.org

US Veteran Business Alliance

www.gousvba.org

American Indian Chamber of Commerce of California

www.aicccal.org

National LGBT Chamber of Commerce (NGLCC)

www.nglcc.org

Asian Business Association

www.abala.org

California Hispanic Chamber of Commerce

www.cahcc.com

Los Angeles Latino Business Chamber of Commerce

www.lalcc.org

Latino Business Association

www.lbausa.com

National Association of Minority Contractors

www.namcnational.org