INSPECTOR GENERAL

California Department of Transportation

Disadvantaged Business Enterprise Program

Program Audit

Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Matt Espenshade, Chief Deputy

24A.PROG01R
August 2026
(Revised Report)

INSPECTOR GENERAL

STATE OF CALIFORNIA DEPARTMENT OF TRANSPORTATION

For questions or assistance concerning the contents of this report, please contact (916) 323-7111 or email ioai.reports@dot.ca.gov. Alternative format reports available upon request.

August 31, 2026

Dina El-Tawansy
Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Revised Final Report — Disadvantaged Business Enterprise Program, Program Audit

Dear Ms. El-Tawansy:

The Independent Office of Audits and Investigations (IOAI) completed its audit of the California Department of Transportation's (Caltrans) Disadvantaged Business Enterprise (DBE) program. We audited Caltrans' awarded construction contracts to determine whether the prime contractors had met their commitment to DBE participation that Caltrans approved in their award packages and whether the prime contractors are paying subcontractors fully and promptly.

Enclosed is our revised final report. This report replaces the final report we previously published on April 30, 2026. This revised final report includes your response to the draft report. Our evaluation of the response is incorporated in this report. The revised final report is a matter of public record and will be posted on IOAI's website.

A Corrective Action Plan (CAP) addressing the recommendations is due November 2, 2026. Please send the CAP to ioai.reports@dot.ca.gov. Thereafter, IOAI will collaborate with Caltrans twice a year to assess the corrective actions taken on audit recommendations.

If you have any questions regarding this report, please contact our office at (916) 323-7111.

Sincerely,

Bryan Beyer, CIG
Inspector General

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Selected Terms

Terms/Acronyms	Explanation
B2Gnow	Caltrans' online system that documents and monitors payments to prime contractors and subcontractors.
Caltrans	California Department of Transportation
CFR	Code of Federal Regulations
DBE	Disadvantaged Business Enterprise
DLA	Caltrans' Division of Local Assistance
DOTP	Caltrans' Division of Transportation Planning
FHWA	Federal Highway Administration
FTA	Federal Transportation Administration
IOAI	Independent Office of Audits and Investigations
OCR	Caltrans' Office of Civil Rights
UCP	Unified Certification Program
Uniform Report	Uniform Report of DBE Commitments/ Awards and Payments
US DOT	United States Department of Transportation

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Summary

The California Department of Transportation (Caltrans) established a Disadvantaged Business Enterprise (DBE) program in accordance with the United States Department of Transportation (US DOT), 49 Code of Federal Regulations Part 26 (49 CFR Part 26). The program's objectives include ensuring nondiscrimination in awarding contracts and promoting the use of DBEs in all types of federally assisted contracts and procurement activities.

The purpose of our audit was to determine whether prime contractors paid DBE and non-DBE subcontractors fully and promptly, in compliance with federal and state prompt payment requirements; to determine whether prime contractors on Caltrans’ awarded contracts met the commitment to DBE utilization that Caltrans approved in their award packages; and to determine whether Caltrans approved prime contractors’ terminations or reductions of DBE commitments in accordance with federal regulation and contract requirements.

We found that Caltrans could enhance its process to monitor whether prime contractors pay subcontractors in accordance with state and federal prompt payment requirements. Caltrans implemented a DBE online system, commonly known as B2Gnow, that documents and monitors payments to prime contractors and subcontractors. However, we found that Caltrans’ system did not support proactive monitoring of payments to DBE and non-DBE subcontractors.

We also noted weaknesses in Caltrans’ DBE termination oversight and in Caltrans’ processes for reporting DBE contract participation data. We found that Caltrans did not always document its approval when prime contractors terminated their use of DBE subcontractors to whom they had committed in their contracts. We also found that the DBE data Caltrans reported to the Federal Highway Administration (FHWA) in its Uniform Report of Commitments/Awards and Payments (Uniform Report) contained errors.

The US DOT issued an Interim Final Rule (IFR) on October 3, 2025. The IFR introduced significant changes to the DBE program, including the removal of race- and sex-based presumptions of social and economic disadvantage; using updated criteria to certify all DBEs; and requiring recipients, such as Caltrans, not to count any DBE participation toward DBE goals until the reevaluation process has taken place. Although we completed our audit work before the IFR was issued, we considered the IFR’s changes in our report, including in our recommendations for Caltrans to improve its compliance with the DBE program’s rules.

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Introduction

Background

The US DOT, through its operating administrations, such as the Federal Aviation Administration, the FHWA, and the Federal Transit Administration (FTA), provides funding for transportation programs that the US Congress authorizes to invest in transportation infrastructure, safety, and innovation across the country. State and local transportation agencies, such as Caltrans, public transit agencies, and airport sponsors, receive US DOT funds to finance construction projects. Primary recipients of funding from the US DOT must develop and implement a DBE program that conforms to US DOT standards. Recipients must also award and administer US DOT-funded contracts to small businesses in a fair manner. This audit focuses on non-emergency[1] construction projects that the FHWA financed and Caltrans implemented.

DBE Program

The US Congress created the US DOT's DBE program in 1983 to assist small business formation and growth. Congress recently reauthorized the DBE programs in the Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law. The objectives of the DBE program are codified in 49 CFR Part 26 and include ensuring nondiscrimination in the award of contracts and promoting the use of DBEs in all types of federally assisted contracts and procurement activities. These objectives aim to foster equity and opportunity for disadvantaged businesses in federally funded transportation contracts. Moreover, 49 CFR Part 26 also codifies requirements that state Departments of Transportation must establish and implement to fully comply with the DBE program requirements, which include submitting the Uniform Report on DBE participation and having prompt payment mechanisms in place to ensure that prime contractors pay subcontractors promptly and fully.

To participate in the DBE program, firms must be certified as an eligible disadvantaged business enterprise. Each state is required to have a unified certification program (UCP) to ensure that all recipients[2] in that state honor certification decisions. As specified in 49 CFR Part 26, a state's UCP provides one-stop shopping to applicants for certification that eliminates the need for firms to obtain certification from multiple certifying agencies within a state. The UCP is also responsible for certifying firms

[1]Per Public Contract Code (PCC), non-emergency construction contracts must be advertised for public bidding, obtain at least three competitive bids or proposals, and be awarded to the lowest responsible bidder. Emergency contracts are exempt from standard procurement practices (PCC sections 10101, 10140, 10340, 10344).

[2]US DOT defines *recipient* as any entity, public or private, to which US DOT financial assistance is extended, whether directly or through another recipient, through the programs of the Federal Aviation Administration, Federal Highway Administration, or Federal Transit Administration, or that has applied for such assistance (49 CFR Part 26.5).

and maintaining a directory of certified DBEs, pursuant to eligibility standards specified in 49 CFR Part 26. Caltrans is one of ten members in the California UCP that perform certification functions.

Caltrans Director's Policy DP-13-R2, revised in April 2008, documents Caltrans' policy for ensuring that DBEs and other disadvantaged persons have the maximum opportunity to compete for and perform on Caltrans contracts. The policy also defines the responsibilities of the Caltrans Director and those of the deputy directors, division chiefs, and district directors. Caltrans' deputy director of the Office of Civil Rights (OCR) is responsible for developing, implementing, and monitoring all aspects of the DBE program. To comply with federal law, Caltrans established and implemented its DBE Program Plan, last updated in 2016, that reflects FHWA's reporting, monitoring, contract language, and program requirements.

Interim Final Rule Issued on October 3, 2025

The IFR that the US DOT issued on October 3, 2025, significantly changed the DBE program. One of the IFR's key changes was the removal of race- and sex-based presumptions of social and economic disadvantage. As stated in the IFR, "To satisfy the social and economic disadvantage requirement and ensure all determinations of disadvantage are not based in whole or in part on race or sex, an owner must provide the certifier a personal narrative that establishes the existence of disadvantage by a preponderance of the evidence based on individualized proof regarding specific instances of economic hardship, systemic barriers, and denied opportunities that impeded the owner's progress of success in education, employment, or business, including obtaining financing on terms available to similarly situated persons who did not face barriers in obtaining terms."

In addition, the IFR required each UCP to reevaluate any currently certified DBE, to recertify any DBE that meets the new certification standards, and to decertify any DBE that does not meet the new certification standards. Further, the IFR stated that until a UCP completes the reevaluation process, a recipient covered by the UCP may not count any DBE participation toward DBE goals.

In response to the IFR, Caltrans issued a memorandum dated October 7, 2025. In this memorandum, Caltrans communicates the actions it has taken to comply with the IFR. The actions include the elimination of race- and gender-based presumptions of social and economic disadvantage, the requirement to reevaluate all currently certified DBEs, and the temporary suspension of DBE contract goals and of counting DBE participation toward the overall program goal.

DBE Program Goal-Setting and Reporting Requirements

Federal regulations require Caltrans to set an overall DBE goal to approximate the amount of participation to expect from DBEs. Caltrans calculates the DBE goal as a percentage of federal-aid highway funds it will expend in FHWA-assisted contracts in the upcoming three fiscal years and bases this percentage on the relative availability of DBE firms as compared to all firms in the relevant geographic and market area. As a recipient of FHWA funding, Caltrans is required to set an overall DBE goal every three years and submit it to the FHWA.

Contracting Data Items Included in the Uniform Reports

Awards and Commitments Made During the Period – This section should include all types of prime contracts awarded and all types of subcontracts awarded or committed. All dollar amounts are to reflect only the Federal share of such contracts.

Actual Payments on Contracts Completed During the Reporting Period – This section should provide information only on contracts that are closed during the reporting period. All dollar amounts are to reflect the entire Federal share of such contracts. Items to be reported include the total number and dollar value of prime contracts completed during the reporting period, total dollar amount of dollars awarded or committed to DBE firms, and the actual payments to DBE firms.

Source: Instructions for completing the Uniform Report of DBE Awards/Commitments and Payments on US DOT webpage DBE Uniform Report | US Department of Transportation.

To determine the overall DBE goal, Caltrans contracts with a consultant to conduct an availability and disparity study. This study assesses whether DBEs face challenges when participating in Caltrans' contracting process. In accordance with the 2021 availability and disparity study, Caltrans set an overall DBE goal of 22.2 percent for federal fiscal years 2022 to 2024. More recently, Caltrans established an overall DBE goal of 21.35 percent for federal fiscal years 2025 to 2027. However, as stated above, under the new IFR, a UCP is required to re-evaluate any currently certified DBE, using the new certification standards. Therefore, effective October 3, 2025, Caltrans has suspended all DBE goal requirements until reevaluations are complete.

Pursuant to 49 CFR Part 26.11, Caltrans is required to report semi-annually to the FHWA the total dollar value of awards, commitments, and payments made to DBEs during the reporting period, as described in the text box, to determine whether it achieved its DBE goal. Caltrans transmits this information through the Uniform Report. This report is due to the FHWA by June 1 for data covering the period October 1 through March 31, and by December 1 for data covering the period April 1 through September 30. If Caltrans fails to meet its DBE goal, it must report to the FHWA the reasons and describe the actions it will take to address the shortfall. Caltrans reported meeting the DBE goal in federal fiscal year (FFY) 2023; however, it reported not meeting the DBE goal in FFYs 2022 and 2024.

To prepare the semi-annual Uniform Reports, OCR compiles contracting data (which include data described in the text box on page 5) provided by six Caltrans awarding divisions and program oversight divisions (divisions), listed below. Each of the six[3] divisions are responsible for ensuring the accuracy and completeness of its own data:

1. Office Engineer
2. Division of Local Assistance
3. Division of Transportation Planning
4. Division of Procurement and Contracts
5. Design-Build Program
6. Contract Management General Contracting Program

The six divisions report the following information to OCR on a semi-annual basis, as it relates to US DOT-assisted contracts financed by the FHWA:

- Prime and subcontractor awards.
- DBE commitments, submitted by the successful contractor at the time of award.
- Payments to prime contractors.
- Payments to DBE subcontractors and suppliers, based on monthly reporting by the prime contractor.
- Total payments gathered at the time of the final utilization report submitted by the prime contractor/consultant at the close of the project, as outlined in the contract requirements.

DBE System (B2Gnow)

On May 6, 2021, the FHWA issued a Technical Assistance Memo providing Caltrans with recommendations to improve its DBE program. Among other things, the FHWA recommended that Caltrans pursue an automated prompt payment tracking system to improve its prompt payment monitoring process by shifting to a more proactive approach. As a result of the FHWA's recommendation, Caltrans launched the DBE System in October 2022. Caltrans refers to the system most commonly as *B2Gnow* but also calls it "the DBE System" or the "prompt payment monitoring system" in Caltrans guidance. We will refer to it in this report as B2Gnow.

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[3] OCR counts Design-Build and Contract Management General Contracting Program as one entity. We counted them as two entities because they are separate programs under Caltrans' Division of Design.

B2Gnow is accessible to all firms doing business with Caltrans. It includes certification features, including a certified DBE search function, DBE certification application processing, and the ability to request work category codes. The system also includes compliance features that allow for communication with contractors via email, online utilization report submission, and automated DBE goal tracking, as well as DBE subcontractor payment verification.

Caltrans uses B2Gnow to document progress payments it makes to prime contractors—Caltrans enters the payment date and amount into the system. Beginning with Caltrans' Standard Specifications[4] dated 2022, Caltrans requires prime contractors to enter payment information into B2Gnow for contracts executed after October 24, 2022. Caltrans stated that it did not include in B2Gnow contracts that were subject to earlier versions of the Standard Specifications because there was no contractual obligation for contractors to report payment information in those versions. Therefore, for contracts executed under Caltrans' Standard Specifications dated 2022, prime contractors are required, after receiving a progress payment from Caltrans, to report in B2Gnow the payments they made to their subcontractors.

We excluded contracts that were subject to Standard Specification dated before 2022 from the sample of construction contracts that we selected for review.

Federal and State Prompt Payment Requirements

As a primary recipient of FHWA funding, Caltrans is required to establish, as part of its DBE program, a contract clause that requires prime contractors to pay subcontractors for satisfactory performance of their contracts no later than 30 days from the receipt of each payment Caltrans makes to the prime contractor, regardless of the subcontractor's DBE status.

To ensure compliance with federal regulations governing the DBE program, Caltrans must include in its DBE program the mechanisms it will use for proactive monitoring and oversight of a prime contractor's compliance with prompt payment requirements. Federal regulations further state that reliance on complaints or notifications from subcontractors about a contractor's failure to comply with prompt payment requirements is not a sufficient oversight mechanism. Finally, federal regulations require Caltrans to provide appropriate means to enforce prompt payment requirements, and these means must be described in Caltrans' DBE program.

[4]The use of Caltrans Standard Specifications is required to ensure that all transportation project contracts are clear, concise, correct, complete, and in compliance with the FHWA.

The state prompt payment law imposes a shorter payment timeline for payments to subcontractors on public works contracts. California Public Contract Code, section 10262.5(a), requires a prime contractor to pay subcontractors the respective amounts allowed the contractor on account of the work performed by a subcontractor and to make those payments not later than seven days after receipt of each progress payment. This section also requires the prime contractor to pay the subcontractor a penalty of two percent of the amount due per month for every month that the prime contractor does not make that payment.

To comply with federal regulations and with the state prompt payment law, Caltrans reserves the right to withhold progress payments from the prime contractor if the prime contractor fails to adhere to the prompt payment requirements. Caltrans specifies in its Standard Specifications, which are part of the contract documents, that prime contractors must pay subcontractors within seven days.

Audit Results

Finding 1. Caltrans Could Do More to Ensure Prime Contractors Promptly Pay Their Subcontractors

To comply with state and federal requirements for competitive procurement practices, Caltrans awards construction contracts to the lowest responsible bidder through a sealed bid process that includes publicly advertising projects and receiving bids from contractors who want to perform the work. During the bidding process, prime contractors who submit bids are required to identify any subcontractors they plan to use to complete the project. According to the Standard Specifications, referenced in each contract, Caltrans pays prime contractors for all resources and activities required to complete the contracted work. The progress payments Caltrans issues to prime contractors are based on the amount of work completed for the construction project. Progress payments occur monthly for work completed up to the twentieth day of each month, as specified in the Caltrans Construction Manual. Caltrans does not pay subcontractors directly.

However, California law requires prime contractors to pay their subcontractors for the subcontractors' completed work within seven days of the prime contractor's receiving a progress payment from Caltrans. Caltrans includes this requirement, which applies to all state- and federally funded construction projects, in its Standard Specifications. In addition, federal regulations require Caltrans to act in an enforcement capacity to ensure prompt payment from prime contractors to subcontractors. Specifically, 49 CFR Part 26.29 requires Caltrans to:

- Include in its DBE program the mechanisms it will use to proactively monitor and oversee prime contractors' compliance with subcontractor prompt payment requirements. Reliance on complaints or notifications from subcontractors about a contractor's failure to comply with prompt payment requirements is not a sufficient oversight mechanism.
- Establish a contract clause to require prime contractors to pay subcontractors no later than 30 days from receipt of each payment it makes to the prime contractor.
- Ensure its DBE program provides appropriate means to enforce prompt payment. These means must be described in the DBE program and should include appropriate penalties for failure to comply.

Moreover, 49 CFR Part 26.29 allows Caltrans to establish, as part of its DBE program, additional mechanisms consistent with state and local law to ensure that DBEs and other contractors are fully and promptly paid.

Caltrans uses B2Gnow to record the construction contract progress payments it made to prime contractors, and Caltrans requires prime contractors to report payments made to their first-tier subcontractors[5] in B2Gnow. As we detailed in the Background section, B2Gnow is Caltrans' main tool for monitoring prime contractors' payments to subcontractors. In the event of a payment dispute, subcontractors may submit a stop notice request to Caltrans. When a subcontractor submits a stop notice request, Caltrans' Division of Accounting withholds 125 percent of the disputed amount from the prime contractor's next progress payment until the dispute is resolved. Subcontractors may also report payment disputes to Caltrans in B2Gnow by entering a comment detailing the issue. Caltrans staff review the comments and work with the prime contractor and subcontractor to facilitate a resolution.

Our review of data in B2Gnow shows that prime contractors failed to pay subcontractors within the State's seven-day prompt payment requirement in more than one-third of the cases we reviewed. We reviewed 52 subcontractor payments from 20 contracts, which we selected from a total of 671 payments tied to 241 construction contracts. Our sample included only non-emergency construction contracts entered into B2Gnow as of May 30, 2024. We found that prime contractors did not pay subcontractors within the required seven-day period under state law in 19 of the 52 payments we reviewed (approximately 37 percent), as noted in Table 1 below. These delays demonstrate violations of both state law and Caltrans contract requirements by the prime contractors.

Table 1. Our Review Showed That More Than a Third of Prime Contractors Failed to Comply With Prompt Payment Requirements

Compliance of Payments	Number of Payments
Payments made within 7-day prompt payment requirement	33
Payments made 1-10 days late	3
Payments made 11-20 days late	11
Payments made 21-30 days late	4
Payments made 30+ days late	1
Total	**52**

Source: IOAI analysis, based on data from B2Gnow and supporting payment documentation such as copies of checks, electronic fund transfers, or remittance reports.

In addition to testing subcontractor payments, we conducted an anonymous survey in which we asked subcontractors questions related to the effectiveness of B2Gnow and their experiences with prime contractors' compliance with the State's prompt payment requirement.

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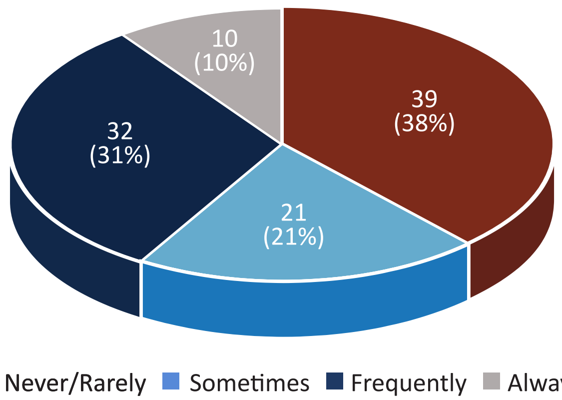
[5]A *first-tier* subcontract is a subcontract awarded directly by the contractor for the purpose of acquiring supplies or services (including construction) for performance of a prime contract.

The survey responses were consistent with the results of our subcontractor payment testing. Thirty-nine of the 102 subcontractors (38 percent) responding to the survey reported that prime contractors never or rarely paid them within seven days after receipt of a progress payment. In addition, 21 of the 102 subcontractors (21 percent) stated that prime contractors only sometimes pay them within seven days. For more details, see Figure 1 below.

Figure 1. Subcontractors' Survey Responses Show That Most Prime Contractors Did Not Always Comply with the State Prompt Payment Law



Key: Survey responses by subcontractors to our question: *Within the last two years, how often did the prime contractor pay you on time (within seven days of the prime contractor receiving payment from Caltrans)?*

Source: Results of IOAI survey of B2Gnow registered subcontractors conducted in August 2024.

Caltrans acknowledged that its current process is insufficient to ensure that prime contractors comply with state prompt payment laws. Caltrans staff explained that B2Gnow alone is insufficient to ensure that prime contractors pay subcontractors on time, as required by state law. According to Caltrans, the primary purpose of B2Gnow is to support compliance with the 30-day prompt payment federal requirement for the DBE program, and B2Gnow was not designed to track and monitor payments under the seven-day state law.

However, Caltrans does not require prime contractors to report payments in B2Gnow in a way that allows Caltrans to adequately and proactively monitor prime contractors' compliance with the state and federal prompt payment requirements. In Caltrans' current monitoring process, as described in its B2Gnow audit period cycle guide, Caltrans allows prime contractors to report payments to subcontractors up to the twentieth day of the month following the dates they pay subcontractors. Therefore, Caltrans cannot identify whether prime contractors paid subcontractors late until well after the date on which the subcontractor was paid. Additionally, it may take up to 60 days for Caltrans to enforce penalties for federal prompt payment violations.

As part of its enforcement authority, when Caltrans identifies a prime contractor's noncompliance, it can withhold 2 percent of the amount owed to the subcontractor from the prime contractor's next progress payment. Caltrans is able to apply the 2 percent withholding to each month the payment is late. Caltrans can withhold the amount until the prime contractor provides proof that it paid the subcontractor the full amount owed, including the 2 percent penalty. Once Caltrans confirms full payment, it releases the withheld funds to the prime contractor.

As a result of its process to monitor compliance well after prime contractors' payments to subcontractors, Caltrans cannot timely monitor and proactively enforce the federal prompt payment requirements, and it likewise cannot ensure prime contractors pay their subcontractors within the State's even stricter seven-day prompt payment requirement.

Caltrans acknowledged that B2Gnow may not be set up to proactively monitor prompt payment compliance, and it recognized the need to develop and implement additional procedures to ensure that prime contractors comply with the seven-day prompt payment requirement. Caltrans stated that it is currently developing prompt payment procedures to align with the payment monitoring system, B2Gnow. In addition, Caltrans stated that it is updating its Standard Specifications to strengthen its ability to enforce prompt payment violations.

When prime contractors fail to pay on time, subcontractors may have to pursue legal actions to recover amounts owed. These actions are often costly, time-consuming, and place subcontractors in the difficult position of taking legal action against their business partners. This situation may discourage subcontractors from reporting violations out of concern that reporting could damage their business relationships or reduce their chances of getting future work. Furthermore, when prime contractors delay payments to subcontractors, the delay can negatively affect subcontractors' cash flow and make it difficult for them to meet financial obligations. Payment delays may disproportionally and severely affect small and disadvantaged businesses, including DBEs, by creating financial instability that can limit their capacity to participate in future projects. Caltrans' inability to proactively identify and address prompt payment violations weakens enforcement of state law and makes subcontractors less confident in Caltrans' contracting practices.

Recommendations

To improve compliance with California's prompt payment requirements, enhance monitoring procedures, and provide better guidance to contractors and subcontractors participating in construction projects, Caltrans should take the following actions:

1.1 Coordinate with the FHWA to develop a corrective action plan to appropriately resolve this finding. This includes any necessary revisions to Caltrans' monitoring mechanisms and processes to ensure proactive detection of state and federal prompt payment violations.

1.2 Establish clear definitions to differentiate between subcontractors (subject to the seven-day payment requirement) and other entities (subject to the 30-day payment requirement) and develop oversight procedures accordingly.

1.3 Publish on its public website revised guidance that clearly explains the differences between California prompt payment laws and federal requirements. The guidance should specify which requirements apply to subcontractors and which apply to other entities, to help ensure that the prime contractor community is properly informed and able to comply.

Finding 2. Caltrans' Inadequate Oversight of DBE Terminations May Harm Some DBE Subcontractors

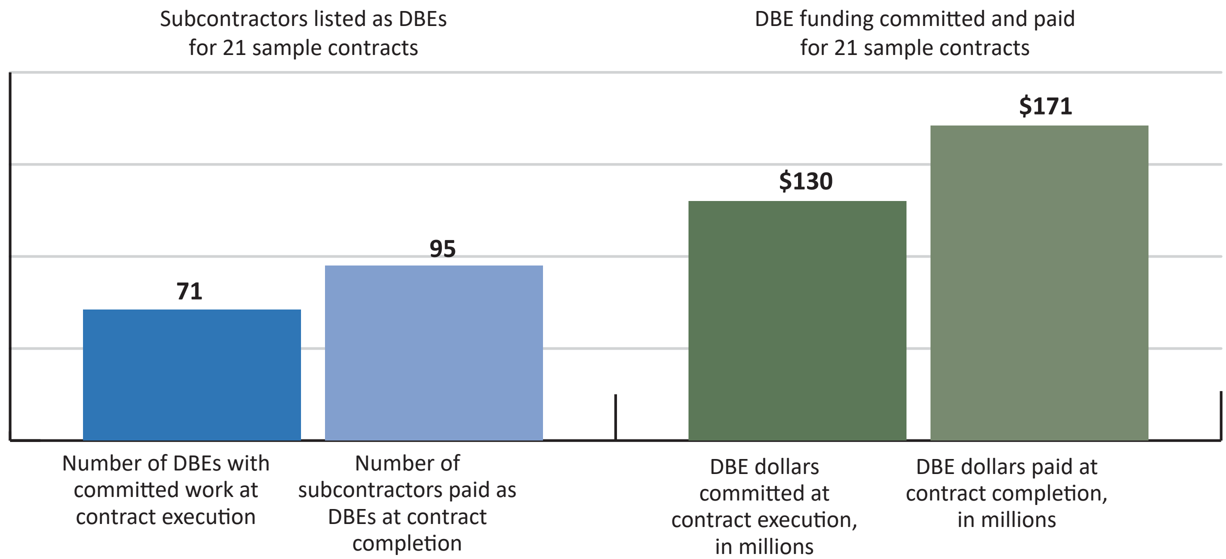
As we described in Finding 1, Caltrans awards construction contracts to the lowest responsible bidder by advertising proposed projects and evaluating bids from prospective prime contractors. Caltrans sets DBE contract goals based on the type of work specified in the contract and the availability of DBE firms in the project's geographical area. These goals designate a percentage of the project's work that must be performed by DBE subcontractors. When Caltrans advertises contracts containing DBE goals, the department requires prospective prime contractors to make a commitment to meet those goals: prime contractors must provide to Caltrans during the bidding process a list of the DBE businesses that will participate in the contract and a description of the work each DBE will perform. Once Caltrans awards the contract, the prime contractor's DBE commitment becomes a contract requirement.

After executing the contract, however, prime contractors may reduce a DBE subcontractor's work or choose not to use the DBE subcontractor at all for good cause. Examples of good cause include that the DBE is ineligible to receive DBE credit for the type of work required or the DBE fails or refuses to execute a written contract. In such cases, federal regulations require that prime contractors obtain Caltrans' written approval before terminating the DBE (a termination includes any reduction or underrun in work committed to a DBE). Caltrans must then maintain documentation of those approvals. This process of reviewing pending DBE terminations and documenting the resulting actions helps Caltrans adhere to contract change obligations and ensures that a proposed termination does not undermine the program's purpose of fostering equity and opportunity for DBE businesses in federally funded transportation projects. We found that prime contractors terminated DBEs frequently, as this occurred in 19 of the 21 federally funded projects we reviewed. This frequency underscores the importance of having a good review practice in place.

Yet our review of Caltrans' compliance with federal requirements for DBE terminations showed that in all but one instance, Caltrans did not document whether it had approved those terminations. Without this documentation, Caltrans cannot demonstrate that it considered the prime contractors' reasons for terminating the DBEs nor that its oversight meets the federal requirements in place to ensure that prime contractors use DBEs as they committed to in their contracts.

In the context of DBE participation, the potential underutilization of some DBEs can get lost in the overall totals. Our review showed that prime contractors on 21 projects initially committed to working with 71 DBE subcontractors, promising work to them that amounted to nearly $130 million. When we compared these commitments to the overall number of DBEs listed in the completed contracts and the overall amounts those businesses were paid through those contracts, we found that the prime

Figure 2: Participation Totals Give a Misleading Impression of Compliance



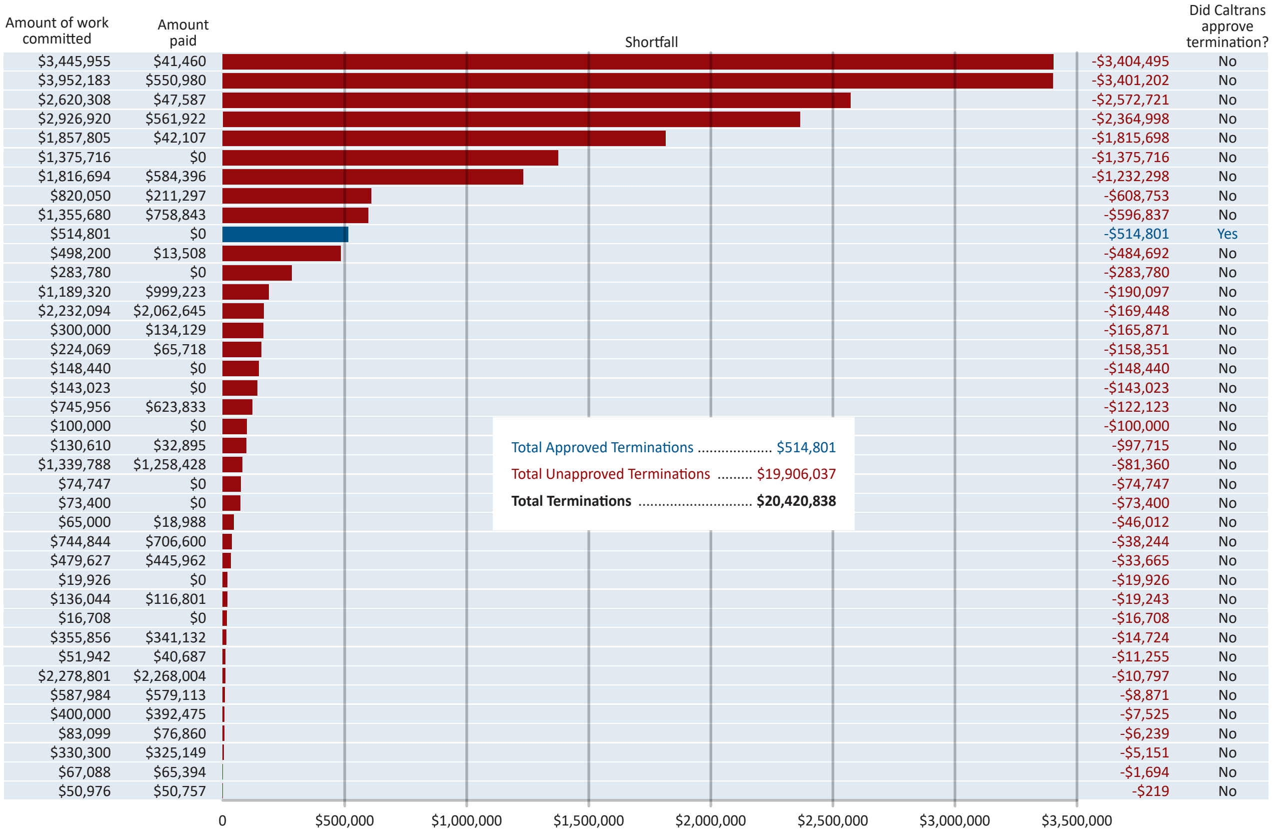
Source: IOAI analysis of information included in contract award packages and final DBE utilization forms.

contractors had utilized a total of 95 subcontractors and paid them a total of approximately $171 million. Figure 2 shows these increases.

On the surface, the $41 million over-utilization gives the impression that prime contractors went above and beyond the commitment dollars in the award. They contracted with greater numbers of subcontractors overall and collectively paid them greater sums of DBE dollars. These overages, however, do not present a full picture. In fact, these total numbers obscure what happened to over half of the original 71 DBEs. We found that these prime contractors actually terminated the work of 39 DBEs and, in some instances, replaced them with other subcontractors (who were not always DBEs). In other words, the prime contractors gave some DBEs more work than they had originally committed to and they gave less work to other DBEs. This fact, however, does not show in the total figures. When the program goal for a DBE subcontractor is equity and opportunity, an overage for one DBE does not balance out another DBE's shortfall.

Reckoning with these details is important for the DBE program, whose objectives include creating a level playing field on which DBEs can compete fairly for federally funded transportation contracts and removing barriers to DBEs' participation in such contracts. Nevertheless, Caltrans had no documentation to support the terminations made for 38 of the 39 DBEs, amounting to approximately $20 million. As stated earlier, of the projects we reviewed, prime contractors originally committed the work to 71 DBEs; however, the work for 39 collectively diminished from $33.8 million to only $13.4 million. For all but one of these DBEs, Caltrans had no documentation to suggest it had approved or even reviewed these reductions, as federal regulations required it to do. Figure 3 on the following page presents a more detailed examination of the overall totals.

Figure 3: Commitments to 38 of 39 Individual DBE Subcontractors Were Terminated Without Caltrans' Approval

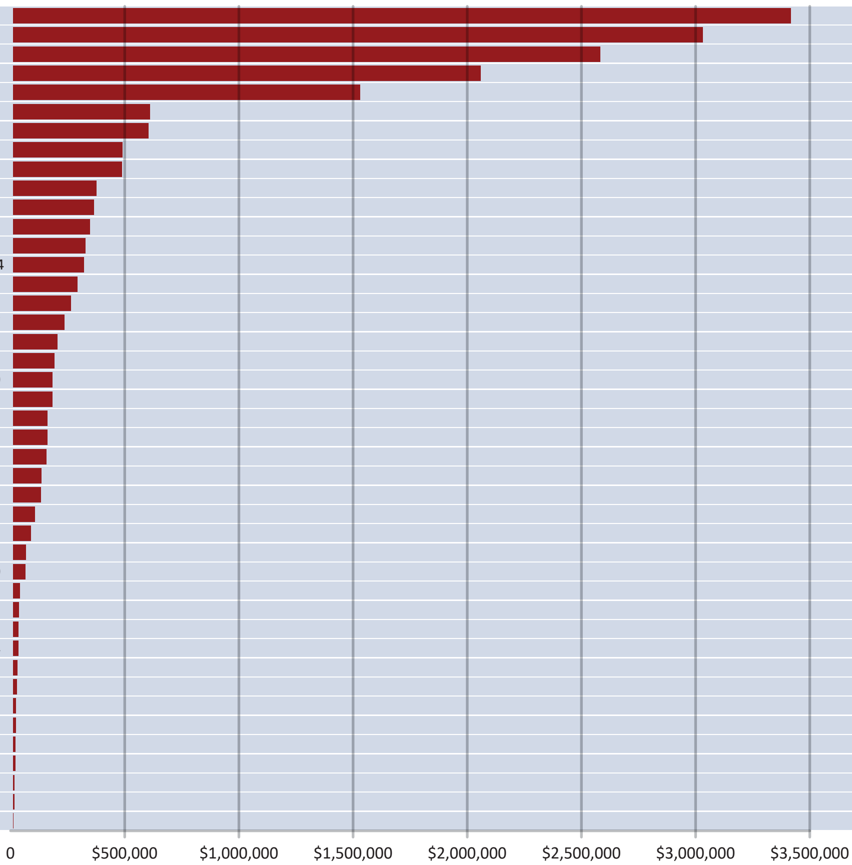


Amount of work committed	Amount paid	Shortfall	Did Caltrans approve termination?
$3,445,955	$41,460	-$3,404,495	No
$3,952,183	$550,980	-$3,401,202	No
$2,620,308	$47,587	-$2,572,721	No
$2,926,920	$561,922	-$2,364,998	No
$1,857,805	$42,107	-$1,815,698	No
$1,375,716	$0	-$1,375,716	No
$1,816,694	$584,396	-$1,232,298	No
$820,050	$211,297	-$608,753	No
$1,355,680	$758,843	-$596,837	No
$514,801	$0	-$514,801	Yes
$498,200	$13,508	-$484,692	No
$283,780	$0	-$283,780	No
$1,189,320	$999,223	-$190,097	No
$2,232,094	$2,062,645	-$169,448	No
$300,000	$134,129	-$165,871	No
$224,069	$65,718	-$158,351	No
$148,440	$0	-$148,440	No
$143,023	$0	-$143,023	No
$745,956	$623,833	-$122,123	No
$100,000	$0	-$100,000	No
$130,610	$32,895	-$97,715	No
$1,339,788	$1,258,428	-$81,360	No
$74,747	$0	-$74,747	No
$73,400	$0	-$73,400	No
$65,000	$18,988	-$46,012	No
$744,844	$706,600	-$38,244	No
$479,627	$445,962	-$33,665	No
$19,926	$0	-$19,926	No
$136,044	$116,801	-$19,243	No
$16,708	$0	-$16,708	No
$355,856	$341,132	-$14,724	No
$51,942	$40,687	-$11,255	No
$2,278,801	$2,268,004	-$10,797	No
$587,984	$579,113	-$8,871	No
$400,000	$392,475	-$7,525	No
$83,099	$76,860	-$6,239	No
$330,300	$325,149	-$5,151	No
$67,088	$65,394	-$1,694	No
$50,976	$50,757	-$219	No

Source: IOAI analysis of information included in contract award packages and final DBE utilization forms.

While providing oversight for the DBE program, Caltrans is responsible for ensuring that only businesses that meet the program's eligibility standards are permitted to participate as DBEs. Yet our review showed that after Caltrans awarded the contracts that specified the approved DBEs, prime contractors added 43 other subcontractors to the contracts as DBEs. These subcontractors were not listed as DBEs in the original contracts and were not approved by Caltrans, yet they were categorized as DBE firms in the final utilization reports submitted by the prime contractors and were collectively paid $19 million in federal funding. Moreover, when we reviewed the added subcontractors' credentials, we found that 12 of these businesses had either been decertified as a DBE (meaning they no longer met the criteria for a DBE) at the time they performed the work or had never been certified as a DBE. We also found that the work these added subcontractors performed occurred entirely without Caltrans' approval. Figure 4 provides a more detailed examination of the unapproved subcontractors.

Figure 4. Forty-Three Individual Subcontractors Were Added to Contracts Without Caltrans' Approval; Twelve Did Not Qualify as DBEs



	Amount paid	Caltrans review & approval?	DBE certification status
Subcontractor 1	$3,398,046	No	Never
DBE 2	$3,014,848	No	Certified
DBE 3	$2,565,614	No	Certified
Subcontractor 4	$2,043,832	No	Never
Subcontractor 5	$1,515,322	No	Decertified
DBE 6	$598,703	No	Certified
DBE 7	$592,251	No	Certified
Subcontractor 8	$477,394	No	Never
DBE 9	$475,968	No	Certified
DBE 10	$364,829	No	Certified
DBE 11	$352,128	No	Certified
DBE 12	$334,892	No	Certified
DBE 13	$316,851	No	Certified
Subcontractor 14	$308,565	No	Decertified
DBE 15	$280,308	No	Certified
Subcontractor 16	$252,997	No	Decertified
Subcontractor 17	$224,097	No	Decertified
DBE 18	$193,944	No	Certified
DBE 19	$180,188	No	Certified
Subcontractor 20	$172,676	No	Never
Subcontractor 21	$171,981	No	Decertified
DBE 22	$149,066	No	Certified
DBE 23	$148,990	No	Certified
DBE 24	$144,599	No	Certified
DBE 25	$124,629	No	Certified
DBE 26	$120,501	No	Certified
DBE 27	$94,571	No	Certified
DBE 28	$78,290	No	Certified
DBE 29	$56,291	No	Certified
Subcontractor 30	$54,194	No	Decertified
Subcontractor 31	$28,615	No	Decertified
DBE 32	$24,425	No	Certified
DBE 33	$23,377	No	Certified
Subcontractor 34	$22,460	No	Decertified
DBE 35	$18,158	No	Certified
DBE 36	$17,100	No	Certified
DBE 37	$11,759	No	Certified
DBE 38	$11,024	No	Certified
DBE 39	$10,569	No	Certified
DBE 40	$9,800	No	Certified
DBE 41	$5,964	No	Certified
DBE 42	$5,400	No	Certified
DBE 43	$625	No	Certified

Source: IOAI analysis of final DBE utilization forms; Caltrans-provided information from its legacy Unified Certification Program system; and records from B2Gnow.

Caltrans' OCR and Division of Construction acknowledged that the department's process for approving DBE terminations was not carried out effectively. Management from OCR and the Division of Construction stated that for construction projects that started in 2023 or earlier, Caltrans did not effectively monitor and enforce its DBE substitution process. OCR acknowledged the deficiency in the process and stated that Caltrans is in the process of developing and implementing a new DBE termination process and enhancing departmental oversight.

We are encouraged by OCR's statement that the department is changing its oversight process since without the necessary reviews and documentations that justify DBEs' full or partial terminations, Caltrans' oversight of DBE terminations is inadequate. This inadequacy increases the risk that prime contractors unjustly terminate DBEs. This inadequacy also risks Caltrans making improper payments to prime contractors for work that was originally committed to DBEs but completed by an unapproved subcontractor. Caltrans' inadequate oversight of DBE terminations also made possible the unapproved reduction in work for fifty-four percent of the DBEs we reviewed who had originally contracted to perform that work. These reductions diminished the experience and opportunities of those individual DBEs as well as diminished their incomes. Prime contractors providing additional work to other DBEs does not change the facts for the DBEs who lost part or all of the work they contracted for, nor do federal regulations permit unapproved and undocumented substitutions.

Recommendations

To strengthen oversight of DBE participation and ensure compliance with federal regulations, Caltrans should take the following actions:

2.1 Develop and document a process to ensure that the department approves DBE terminations in accordance with federal regulations and contract requirements.

2.2 Develop and implement a standardized DBE termination approval form to document approval of full or partial DBE terminations.

2.3 Establish a verification process prior to approving any replacements to ensure the firm is certified as a DBE and maintain clear records of all approved replacements.

2.4 Periodically review federally funded construction projects to verify compliance with DBE termination requirements and ensure that documentation is maintained.

2.5 Provide training to relevant staff to ensure the consistent application of DBE termination policies, federal requirements, and Caltrans' internal procedures.

Finding 3. Caltrans Could Take Steps to Improve the Accuracy of the DBE Participation Data It Reports to the FHWA

Caltrans has not implemented adequate controls to ensure the accuracy of its DBE reporting. Federal regulations require Caltrans to submit a Uniform Report of its DBE awards, commitments, and payments semi-annually, to determine whether Caltrans achieved its DBE goal. As we described in the Background section, Caltrans' OCR compiles DBE achievement data from six Caltrans divisions and prepares and submits the Uniform Reports to the FHWA.

To evaluate the accuracy of Caltrans' DBE reporting to the FHWA, we requested and reviewed data to support three semiannual Uniform Reports covering the periods of October 2022 through March 2023, April 2023 through September 2023, and October 2023 through March 2024. In our review of the reporting process and the supporting documentation of electronic files, we identified some instances of misreported data and incomplete supporting documentation. Although the Uniform Report issues we identified did not affect Caltrans' reported DBE goal achievement for the period from October 1, 2022, to September 30, 2023, we found that Caltrans has the opportunity to enhance its reporting procedures to improve the accuracy of future Uniform Reports.

The Division of Transportation Planning Improperly Merged Data for Two Reporting Periods

We found that the Division of Transportation Planning (DOTP) improperly merged Federal Transit Administration (FTA) data with the FHWA data in all reviewed reporting periods. For the two periods covering October 2022 through March 2023 and April 2023 through September 2023, DOTP reported nearly $2 million in awards or commitments to DBEs. However, DOTP included almost $350,000 in awards and commitments attributed to FTA-funded projects. For the subsequent reporting period of October 2023 through March 2024, DOTP reported nearly $600,000 in awards or commitments to DBEs; however, over $37,000 of this amount was for FTA-funded projects.

DOTP staff explained that in 2021, DOTP transitioned from overseeing only FTA planning grants to also managing FHWA grants. DOTP was unaware that DBE data collected for each federal agency needed to be reported separately, using different Uniform Reports. Furthermore, DOTP staff indicated that the process to collect and report data for the Uniform Report was developed internally and that no formal training was provided by OCR on how to accurately compile or report the required data for the FHWA Uniform Report.

OCR Did Not Report Actual Figures

Caltrans' OCR does not report the actual federal share for each contract, as required by federal regulations. Instead, OCR compiles the total amount of contracts awarded and committed to on the FHWA-funded contracts it receives from the Office Engineer, then estimates the federal share by multiplying the total by 88 percent. Caltrans' practice of adjusting the federal share in the Uniform Report by 88 percent does not align with federal reporting guidance. This approach does not reflect the actual federal participation for individual projects and is inconsistent with the requirements provided in the Uniform Report instructions. We confirmed our interpretation of this requirement with FHWA staff, who concurred with our assessment that Caltrans must report on actual federal participation on a project-by-project basis.

We noted that the Office Engineer's Uniform Report data adjustments significantly affect the reported DBE awards and commitments. Specifically, in the October 2022 through March 2023 Uniform Report, the Office Engineer's data accounted for 86 percent of the reported DBE awards and commitments. In addition, for the April 2023 through September 2023 and October 2023 through March 2024 Uniform Reports, the Office Engineer's data accounted for 62 percent and 80 percent of the reported awards and commitments, respectively.

In response to our concern regarding the 88 percent adjustment, OCR stated that Caltrans' Division of Budgets instructed it to apply this percentage to contracts that include federal funding. The Division of Budgets provided a "Sliding Scale Agreement" between the FHWA and Caltrans that permits Caltrans to reimburse projects at various percentages, such as 88.53 percent federal and 11.47 percent from other sources. However, this agreement does not authorize the application of a fixed percentage, such as 88 percent, for preparing the Uniform Report. Federal rules require Caltrans to report the actual federal participation in contracts rather than rely on estimation methods, such as the 88 percent adjustment. This practice of adjusting the Uniform Report data by 88 percent may result in inaccurate reporting, which could potentially misrepresent Caltrans' actual DBE commitments.

The Division of Local Assistance Lost Data for One Reporting Period

The Division of Local Assistance (DLA) lost the supporting documentation for its data in the October 2022 to March 2023 reporting period. Because of the lost data, Caltrans could not support all the reported amounts in the Uniform Report. Specifically, Caltrans reported approximately $391 million in commitments to 872 DBEs. However, because of the lost DLA data, Caltrans could not support approximately $21 million committed to 109 DBEs.

DLA staff explained that supporting files were inadvertently lost when a staff computer malfunctioned. At the time of our audit, DLA management confirmed that no formal quality control procedures existed to verify the completeness and accuracy of the Uniform Report data. However, DLA stated that it is currently developing and updating policies and procedures to improve the preparation of future Uniform Reports.

Caltrans should take steps to improve how it collects and verifies DBE data to ensure the data fully supports the information it submits in the Uniform Reports. When data is inaccurate or unsupported, Caltrans is unable to accurately measure the true DBE participation in federally funded contracts. This weakens Caltrans' ability to assess program effectiveness and identify areas of improvement. In addition, inaccurate reporting limits the value of the data for federal oversight. The FHWA relies on Uniform Reports to evaluate whether Caltrans is meeting federal requirements. Uniform Reports that contain errors or unsupported figures can lead to incorrect conclusions about the DBE program's success.

Recommendations

To improve the accuracy and compliance of Caltrans' Uniform Reports, Caltrans should take the following actions:

- 3.1 Establish and document formal quality control processes to review and verify DBE data submitted by all contributing divisions before completing the Uniform Report. These checks should confirm that the data is complete, accurate, and properly documented.
- 3.2 Coordinate with the FHWA to make any corrections deemed necessary to previously submitted Uniform Reports.
- 3.3 Provide training to all staff responsible for preparing or contributing to the Uniform Report.

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Appendix A. Scope and Methodology

Audit Objectives

Our objectives were to determine whether the commitment to DBE utilization that was approved in award packages is being met by prime contractors on Caltrans' awarded contracts and whether subcontractors were paid fully and promptly on Caltrans' awarded construction contracts.

Audit Period

Our audit period was December 20, 2013, through June 26, 2026, for Objective 1, and October 24, 2022, through August 23, 2024, for Objective 2.

Assessment of Data Reliability

Generally accepted government auditing standards require that we assess the sufficiency and appropriateness of computer-processed information if we will use it to materially support our findings, conclusions, and recommendations. In performing this audit, we relied on Caltrans' B2Gnow data to identify DBEs, payment amounts and dates, and the prime contractors and subcontractors involved. We also used the B2Gnow data to obtain DBEs' contact information. To assess the reliability of the B2Gnow data, we traced payment information in B2Gnow to source documentation, and we interviewed Caltrans staff knowledgeable about the data. Using these procedures, we determined that Caltrans' B2Gnow data were sufficiently reliable for our audit purposes.

As part of meeting our audit objectives, we assessed the reliability of three Uniform Reports spanning the period of October 2022 through March 2024. The supporting data consisted of multiple spreadsheets that, when combined, form the Uniform Report. We traced figures from the spreadsheets to the Uniform Reports, interviewed Caltrans staff knowledgeable about the data, evaluated key formulas, and performed electronic testing. As we discussed in more detail in Finding 3, our review identified data reliability issues, including the improper merging of FTA with FHWA data, the use of estimated figures instead of actual amounts, and the loss of data from one of the six divisions for one of the reporting periods. We determined that Caltrans' Uniform Reports were not sufficiently reliable.

We obtained a Caltrans spreadsheet of closed contracts from October 1, 2021, through September 30, 2023, for the purpose of selecting and reviewing contracts for DBE utilization. Although this data is of undetermined reliability, we based our audit findings, conclusions, and recommendations on our review of the selected contracts and other evidence, not on the spreadsheet of closed contracts.

Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

In accordance with our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives, as we detail in Table A on the following page.

Table A. Objectives and Methods in the Audit Process

<table>
<tr><th>Audit Objective</th><th>Methods</th></tr>
<tr><td>Objective 1

To determine whether the commitment of DBE utilization that was approved in the award package is being met by prime contractors on Caltrans’ awarded contracts.</td><td>Uniform Reporting Compliance
Reviewed pertinent rules, including regulations for the reporting requirements for the Uniform Report of Awards or Commitments and Payments.
Documented and analyzed OCR’s process for compiling and verifying information in the Uniform Report, drawing on interviews with Caltrans staff.
Requested and reviewed Uniform Report supporting data for the following three reporting periods:
October 1, 2022, through March 31, 2023
April 1, 2023, through September 30, 2023
October 1, 2023, through March 31, 2024
Reviewed previous audit reports to determine whether previous audit findings were relevant to the current audit objectives.
DBE Termination Process
Reviewed pertinent rules, including regulations governing the termination of DBE firms on federally funded construction contracts.
Reviewed Caltrans’ guidance on terminating DBE firms.
Interviewed OCR staff to determine their role in and the process for approving DBE terminations.
Reviewed 21 federally funded contracts to determine whether:
Originally committed DBEs were fully utilized on the contract or terminated.
If the DBE was terminated, the change was documented and approved by Caltrans.
DBEs that were added to the project after the contract was awarded were approved by Caltrans.</td></tr>
</table>

Audit Objective	Methods
Objective 2 To determine whether subcontractors were paid fully and timely on Caltrans' awarded construction contracts.	Prompt Payment Testing • Identified and reviewed laws, regulations, and guidance relevant to the audit objectives. • Identified and assessed the processes for documenting and monitoring prime contractors' prompt payment compliance. • Reviewed previous audit reports to determine whether previous audit findings were relevant to the current audit objectives. • Reviewed 52 of 671 subcontractor payments to determine whether the subcontractor was paid within the seven-day prompt payment period. Survey • Conducted an anonymous survey of entities classified as "Subcontractor/Subconsultant" in B2Gnow over a two-week period in August 2024. • Included questions in our survey to obtain respondent information in four areas. ○ Company Information ○ Late Payments ○ Payment Completeness ○ B2Gnow

Auditee's Response

CALIFORNIA STATE TRANSPORTATION AGENCY GAVIN NEWSOM, GOVERNOR

California Department of Transportation

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August 26, 2026

Mr. Bryan Beyer
Inspector General
Independent Office of Audits and Investigations
P.O. Box 942874, MS-2
Sacramento, CA 94274-0001

Dear Mr. Beyer:

The California Department of Transportation (Caltrans) thanks you for the opportunity to respond to the draft audit report of the Disadvantaged Business Enterprise (DBE) Program (Audit Number 24A.PROG01) dated Tuesday, August 11, 2026.

Caltrans appreciates the Independent Office of Audits and Investigations' (IOAI) efforts in identifying and documenting these issues and acknowledges that the audit's observations are consistent with the Federal Highway Administration's (FHWA) recent review of Caltrans' Federal DBE Program.

IOAI's recommendations are already reflected in the required actions identified by FHWA, for which Caltrans has an approved Corrective Action Plan in place in the form of a Conciliation Agreement signed on January 16, 2025. These observations closely align with the required federal corrective actions on prompt payment, DBE terminations and replacements, and DBE data reporting and quality control. 1

We add that recommendation 2.3 has already been addressed. The 2022 edition of Caltrans specifications incorporated these changes, along with the introduction of Form 2421 to standardize the termination and substitution process. The form requires three levels of review: the Resident Engineer recommends, Division of Construction Field Compliance Staff concurs, and the District Deputy Director of Construction approves each certified DBE substitution or Good Faith Effort determination.

As Caltrans implements the 84 required actions under the Conciliation Agreement, the additional IOAI-identified issues will be addressed within that same corrective framework. Several items are expected to be completed much sooner, particularly those not directly affected by the United States Department of Transportation's October 3, 2025, Interim Final Rule revising the DBE regulations. As previously 1

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Mr. Bryan Beyer, Inspector General
August 26, 2026
Page 2

mentioned, we currently have updated prompt payment and termination-related specifications and are awaiting FHWA approval prior to publication.

We will ensure that IOAI's recommendations are fully addressed in our updates, leading to full implementation by March 2028.

Caltrans thanks IOAI for the time they have taken to create this report. If you have any questions, please contact Ben Shelton, Audit Chief - Caltrans Internal Audits Office, at (916) 858-9694 or by email at ben.shelton@dot.ca.gov.

Sincerely,

Dina El-Tawansy (Aug 26, 2026 15:26:05 PDT)

DINA A. EL-TAWANSY
Director

c: Cory Binns, Chief Deputy Director
David DeLuz, Deputy Director, Office of Civil Rights
Sanjay Singh, Assistant Deputy Director, Office of Civil Rights
Ben Shelton, Audit Chief, Caltrans Internal Audits Office

Comments Concerning the Response Received from Caltrans

To provide clarity and perspective, we are commenting on Caltrans' response to our report. The number below corresponds to the numbers we have placed in the margins of the response.

1. Caltrans indicated that our recommendations are already reflected in a corrective action plan for a separate review conducted by FHWA. However, after reviewing Caltrans' implementation status of the FHWA's recommendations, we are not convinced that Caltrans' actions will fully address our recommendations. Therefore, we will monitor Caltrans' response to our recommendations when it submits its corrective action plans for this report.

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Independent Office of Audits and Investigations

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