

# Performance Audit of the Purchasing and Contracting Department's Small Local Business Enterprise Program

*The Program's Design and Insufficient Oversight Limit Efforts to Increase Diversity and Small Business Development in City Contracting*

## Why OCA Did This Study

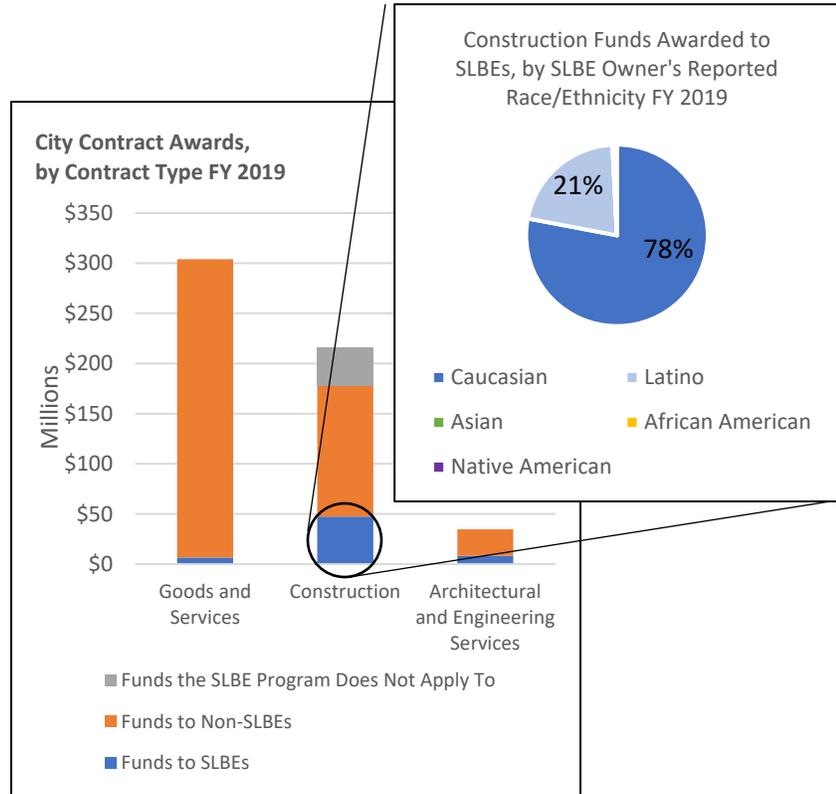
The City of San Diego adopted the Small Local Business Enterprise (SLBE) program to enhance competition for City contracts, establish and build new business capacity, and remove barriers to and eliminate disparities in the use of minority- and women-owned businesses in City contracting. The City designed these objectives because it has historically had a lack of diversity among contractors and desires to provide contracting opportunities to a broader cross-section of the community. Because of limitations in the California Constitution, the SLBE program gives preference in contracting based on the size and location of a business, rather than the race, ethnicity, or gender of the business's owner. The overall objective of this audit was to review the efficiency and effectiveness of the SLBE program.

## What OCA Found

**Finding 1:** The SLBE program's performance has been stagnant over time and the benefits of the program primarily go to a handful of the certified small, local businesses. The SLBE program has not shown to be an effective mechanism to eliminate disparities in the award of City contracts, as a significant majority of SLBE contracts go to Caucasian-owned SLBEs and male-owned SLBEs. In addition, the percentage of funds awarded to women-owned and minority-owned SLBEs has largely decreased or remained stagnant over time. Policy and legal constraints on the program's design, lack of oversight, and underutilization of available tools to accomplish program objectives have limited the program's economic benefits.

**Finding 2:** The current implementation of the program potentially limits the dollars awarded to SLBEs. First, the City awards more dollars in goods and services contracts than any other type of contract, but does not have any annual goals for SLBE participation in goods and services contracts. Second, the program caps the percentage of each construction contract that is required to go to SLBEs well below the apparent availability of many types of SLBE firms in the region.

**Finding 3:** The SLBE program's annual reports to the City Council do not provide sufficient information on the SLBE program for the City Council to judge the efficacy of the program. Key information is missing from the annual reports, much of the data presented in the report does not have clear and consistent methodologies, and errors in the report indicate a lack of quality control.



Source: OCA created with data from SLBE program management

## What OCA Recommends

We made a total of 12 recommendations to address the issues outlined in the report. Our recommendations to the City include:

- Increase transparency in the distribution of funds among SLBEs.
- With the results of the disparity study, consider narrowly tailored race- and gender-conscious contracting preferences to alleviate disparities, if disparities in contracting exist.
- Reposition oversight of the program outside the management of the program.
- Develop a plan for increasing outreach and participation in the SLBE program.
- Track and report staffing and contracting costs applicable to the SLBE program.
- Create annual performance goals for the percent of goods and services contracts awarded to SLBEs.
- Annually evaluate caps on SLBE subcontracting requirements for construction projects.
- Track and present program-specific data over time in its annual report that highlight trends in program performance.

The Purchasing and Contracting Department agreed with all 12 recommendations.

For more information, contact Andy Hanau, City Auditor at (619) 533-3165 or [cityauditor@sandiego.gov](mailto:cityauditor@sandiego.gov)