

**REPORT BY THE STATE AUDITOR
OF CALIFORNIA**

**AN ANALYSIS OF THE STATE'S COMPLIANCE WITH
REQUIREMENTS FOR CONSULTANT CONTRACTS**

93015

APRIL 1994

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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

Summary The Department of General Services (DGS) is responsible for providing administrative oversight of state departments entering into consultant contracts to ensure they comply with applicable state laws and regulations.¹ Nevertheless, the State does not always adhere to requirements of the California Public Contract Code and the State Administrative Manual that apply to consultant contracts. In fact, we found significant areas of noncompliance.

Specifically, departments do not always comply with the following requirements:

- Obtain approval of consultant contracts before contract work is begun;
- Review prior evaluations of contractors being considered for new contracts and review resumes of persons expected to perform contract work;
- Complete evaluations of contractors within 60 days of the completion of the contract;

¹The term "departments," as used generically in this report, means every state office, department, division, bureau, board, or commission, but does not include the Legislature, the courts, or any agency in the judicial branch of government. Used more specifically, "departments" refers to the 21 departments, offices, boards, and commissions at which we reviewed consultant contracts.

- Ensure that contracts contain the appropriate provisions of the Drug-Free Workplace Act of 1990; and
- Submit an annual report of consulting contracts to the DGS.

At 12 of the 21 departments we reviewed, contracts did not have the necessary approval before contract work began. At these departments, 33 of the 106 contracts reviewed lacked prior approval. Fourteen departments failed to review post-evaluations or to require resumes of appropriate contractor personnel before contract approval for 65 of the 112 contracts reviewed. Twelve departments did not prepare post-evaluations for 26 of the 77 contracts reviewed that required post-evaluations and that were completed in time for the post-evaluation to be required by the end of our fieldwork.

Six departments for 13 of 49 contracts reviewed failed to ensure the contracts contained the appropriate provisions for the Drug-Free Workplace Act of 1990. In addition, 15 departments did not submit annual reports of their consulting contracts or submitted them late to the DGS for fiscal years 1991-92 and 1992-93.

Further, for 29 of the 87 sole-source contracts reviewed, the evidence supporting the justifications for sole-source contracting was inadequate. Therefore, we conclude that some departments are overusing sole-source contracts. In addition, some of the 21 departments' annual reports of their consultant contract did not always meet the requirement to identify whether the contracts were sole-source contracts. Finally, based on the completed contracts we reviewed, state departments are using the consultant services for which they contract and pay.

Background The State enters into many contracts annually for a wide variety of consultant services. The California Public Contract Code and the State Administrative Manual establish basic guidelines and procedures that state contracting and oversight agencies and departments must follow when entering into or approving consultant contracts. These guidelines and procedures are designed to encourage competition for public contracts. They are also designed to aid public officials in the efficient and, to the maximum extent possible, uniform administration of public contracting for consultant services.

The immediate responsibility for ensuring compliance in contracting for consultant services rests with the state departments planning to be

parties to the contracts. The contracting departments must comply with requirements for advertising the availability of contracts, soliciting bids from potential contractors, evaluating the bidding contractors, writing the contracts in conformity with state requirements, obtaining the appropriate approvals, approving payment for services, and evaluating the contractors upon completion of the contracts.

Oversight responsibility for the consultant contracting process belongs primarily to the DGS. The California Public Contract Code generally assigns to the DGS the duty of reviewing and approving contracts entered into by state departments for consultant services. Although the law assigns these duties to the DGS, policy also generally exempts consultant contracts under \$15,000 from the DGS review.

In addition to its responsibilities for ensuring compliance with legal provisions for each contract submitted for its approval, the DGS has broader oversight responsibilities. For example, its Office of Legal Services is responsible for developing the standard contracting procedures contained in the State Administrative Manual. The DGS also periodically reviews contracting units in other state departments, maintains a central depository of contractor evaluations, and makes the evaluations available to other departments upon request.

Scope and Methodology

This audit fulfills the fiscal year 1991-92 and 1992-93 reporting requirements of Chapter 1044, Statutes of 1990. The statutes require the Office of the Auditor General to evaluate the State's compliance with state laws and regulations for consultant contracts for July 1, 1991, through June 30, 1992, and July 1, 1992, through June 30, 1993. The Bureau of State Audits assumed the responsibility for this audit pursuant to Government Code Section 8546.8. The compliance review is also to determine whether the State overused sole-source contracts and to evaluate whether state departments have used the services or products of consultant contracts.

To evaluate the State's compliance with the laws and policies governing consultant contracts, we reviewed the California Public Contract Code and the State Administrative Manual and identified the critical provisions and policies pertaining to consultant contracts. We determined compliance with these laws and policies by reviewing a total of 170 consulting contracts at 21 state departments for appropriate contract language and provisions, supporting documentation, and approvals. We reviewed contracts at 15 state departments for July 1,

1991, through June 30, 1993. We reviewed contracts at an additional 3 state departments for July 1, 1991, through June 30, 1992, and three other state departments for July 1, 1992, through June 30, 1993.

To evaluate the propriety of the departments' distinctions between consultant and other services contracts, we reviewed contracts departments had classified as consultant contracts and contracts departments had classified as other services contracts, and we determined if the departments had appropriately classified the contracts.

To determine whether the State used sole-source contracts appropriately, we reviewed the California Public Contract Code and the State Administrative Manual and identified the critical provisions and policies applicable to sole-source contracts. Further, we interviewed personnel and examined guidelines from the DGS to identify additional departmental policies for approving sole-source contracts. To determine compliance with the above provisions and policies, we examined approvals of sole-source consultant contracts at the 21 state departments and compared the departments' justifications for the sole-source contracts with the provisions in the California Public Contract Code, the State Administrative Manual, and the DGS' guidelines. From this information, we determined the reasonableness of the State's use of sole-source contracts. We also summarized certain data that departments reported in their annual consulting contract reports. Specifically, we summarized data about total consultant contracts entered into during the year, those identified as sole-source contracts, and the number for which the sole-source status was not clearly identified.

To determine whether the state departments used the services or products of consultant contracts, we examined contractor evaluations that described contract products and their uses, and we interviewed the appropriate department personnel.

**Overview of
Compliance With
Requirements for
Consultant
Contracts**

The State does not always adhere to legal requirements that apply to consultant contracts. Table 1 identifies the most common areas of noncompliance and lists the 21 departments at which we reviewed consultant contracts, the number of consultant contracts reviewed at each department, and the number of instances of noncompliance observed for each area. As the table indicates, the State is not always complying with the requirements that contracts be approved before contract work is begun, that contracting departments review prior evaluations of contractors being considered for new contracts and review resumes of persons expected to perform contract work, and that evaluations of contractors be completed within 60 days of the completion of the contract. The table also shows noncompliance with the Drug-Free Workplace Act of 1990 and the requirement to submit annual reports to the DGS.

Table 1
Noncompliance With
Requirements for Consultant Contracts

Department	Number of Contracts Reviewed	Total Dollar Amount of Contracts Reviewed	Lack of Approval Before Start of Work	No Review of Post Evaluation or No Submission of Resumes Before Contract Approval	Late Post-Evaluations	Lack of Drug-Free Workplace Certificates	No Annual Reports or Reports Submitted Late
Board of Governors	10	\$ 449,221	0	0	0	1	2
Corrections	9	1,447,166	0	1	4	0	2
Education	10	2,390,345	6	5	1	0	1
Employment							
Development	10	1,088,629	2	0	1	4	1
Energy Commission ¹	4	109,997	1	4	0	1	1
Equalization	4	256,500	0	0	0	0	1
Food and Agriculture ¹	5	285,000	1	2	1	0	0
Franchise Tax	10	2,883,310	3	9	0	0	2
General Services	14	1,757,170	1	0	1	0	2
Health Services	13	15,504,857	4	7	5	0	1
Horse Racing Board ²	5	107,000	3	0	1	0	1
Integrated Waste Management ¹	9	3,666,200	0	5	0	0	1
Motor Vehicles	10	3,242,821	0	0	0	0	0
Social Services	10	49,449	5	4	0	1	2
State Controller	10	680,908	0	2	0	0	0
State Treasurer	4	420,000	0	4	0	0	0
Student Aid Commission ²	5	523,572	0	0	3	0	0
Teacher Credentialing ²	5	41,905	4	3	4	5	1
Teale Data Center	3	869,000	0	3	1	0	1
Transportation	10	1,053,575	2	8	0	0	0
Water Resources	10	569,900	1	8	4	1	1
Total	170	\$37,396,525	33	65	26	13	20

¹ Data applicable to fiscal year 1992-93 consultant contracts only

² Data applicable to fiscal year 1991-92 consultant contracts only

The following sections discuss all these and other issues in more detail.

**Definition of
Consultant
Contract**

The California Public Contract Code, Section 10356, defines consultant contracts as providing "services which are of an advisory nature, provide a recommended course of action or personal expertise, have an end product which is basically a transmittal of information either written or verbal and which is related to the governmental functions of state agency program administration and management and state agency program management or innovation, and which are obtained by awarding a procurement-type contract, a grant, or any other payment of funds for services of the above type." The State Administrative Manual, Section 1280, specifies that a consultant contract calls for a product of the mind, rather than the use of mechanical skills, and may include anything from providing answers for specific questions about the design of a system to providing seminars, workshops, and conferences. The same section of the State Administrative Manual also identifies certain types of contracts that are not consultant contracts, including contracts between state agencies and the federal government, contracts with local agencies, and contracts for architectural and engineering services.

Legislation for consultant contracts requires control procedures beyond those for other services contracts. For example, departments must prepare annually a special report on their consultant contracts, disclosing the amount of each contract, the method of bidding, the reasons for any sole-source consultant contract, and other information. In addition, unlike other contractors, who must only be notified they are at risk if they begin contract work before the contract is approved, contractors for consultant services are explicitly prohibited from rendering services before contract approval.

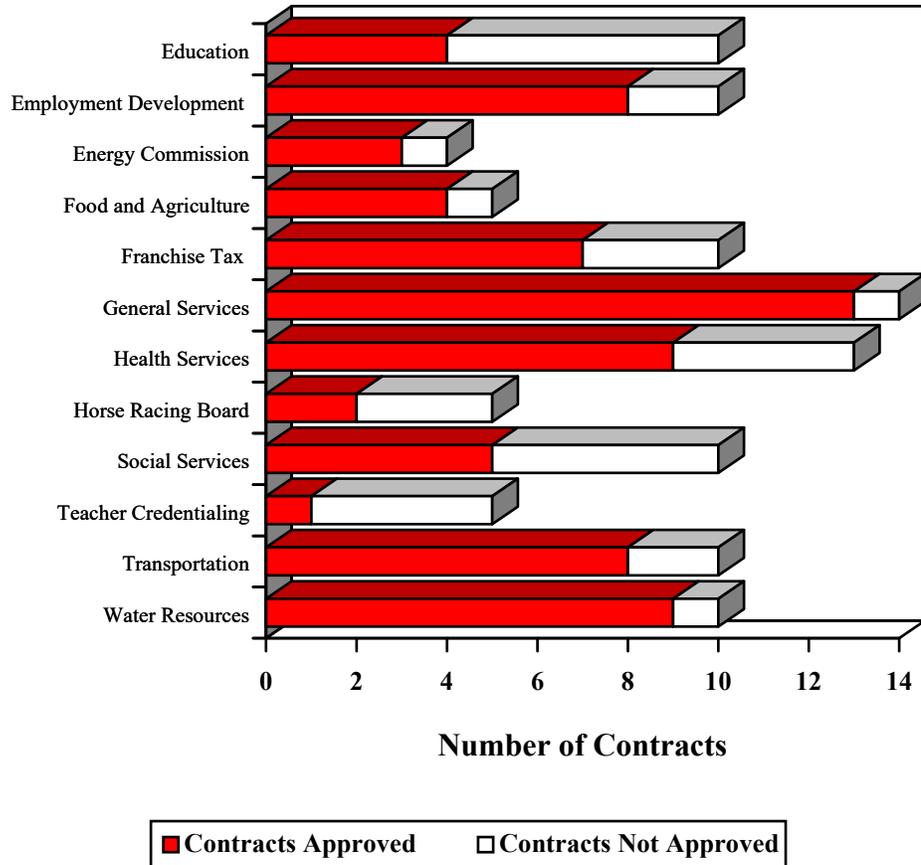
**Lack of Contract
Approval Before
Start of Work**

The State does not always comply with the requirement that contracts be approved before contract work is begun. The State Administrative Manual, Section 1215, requires the DGS' approval for all contracts worth more than \$15,000 (Prior to April 1992, all contracts exceeding \$12,500 needed the DGS' approval). In addition, section 10371(d) of the California Public Contracts Code and the State Administrative Manual require that, except in an emergency, work on a consultant contract not be started before the DGS or appropriate department personnel of the contracting department grant formal approval. In this context, Section 10371(d) defines an emergency where the use of contracted services appeared to be reasonably necessary, but as determined by the DGS, time did not allow prior formal approval of the contract. Section 10360 of the code is more emphatic, stating that all consultant contracts are of no effect unless and until approved by the

DGS. Further, a publication of the department entitled *Guidelines on the Road to Contract Approval*, issued to help agencies with the state contracting process, states that contracts received after the contract period has started will not be approved.

Nevertheless, state departments do not always obtain the proper approvals before contractors begin work on a consultant contract. As illustrated in Table 1, 9 of the 21 departments complied with the requirements for all the contracts we reviewed. However, as Figure 1 indicates, 12 of the 21 departments involving 33 of the 106 contracts reviewed were not in compliance with all the requirements. Of these 33 contracts, 18 did not have the DGS' approval and 15 did not have the appropriate department approval. For example, staff at the Commission on Teacher Credentialing did not obtain appropriate approval before work began for 4 of 5 contracts reviewed. One contract at the Department of Food and Agriculture was approved almost two and a half months after work began. Moreover, the department paid the contractor for the work five days before the contract was approved. At the Department of Health Services, 4 of 13 contracts reviewed did not have approval before work began. One of these 4 was approved more than five months after work started.

Figure 1 **Twelve Departments Did Not Have Contract Approval Before Beginning Work**



The Office of the Auditor General has reported similar findings about the State's administration of all types of contracts for several years. In reports issued in October 1991 and January 1992, the office reported that state agencies allowing contractors to begin work before receiving the DGS' approval has been a continuing problem for all contracts, including consultant contracts. The DGS' chief deputy director believed that late contract approval is an area that needs improvement for a number of state agencies. The Office of the Auditor General reported that, because of this concern, the chief deputy director indicated that the DGS' Office of Legal Services would be implementing procedures to collect statistics on the number of late

contracts received from individual departments and the DGS would take appropriate action against departments continuing to submit late contracts.

By not ensuring that contracts are approved before services begin, the department cannot be assured that the State's interests are protected. For example, an agency's failure to obtain contract approval before the contractor begins work exposes the State to potential monetary liability for work performed.

**Review of
Contractor
Evaluations and
Resumes and
Preparation of
Evaluations**

Certain contracting departments are frequently not complying with requirements to review prior evaluations of contractors being considered for new contracts and review resumes of persons expected to perform contract work. In addition, after contract work is completed, departments are often not preparing evaluations of contractors promptly. Current legal provisions and regulations for contractor evaluations reflect changes, effective in December 1990, that were made in response to perceived inadequacies with the evaluation system. The current California Public Contract Code, Section 10371(e), and the current State Administrative Manual, Section 1281, require that no consultant services contractor be awarded a contract totaling \$5,000 or more unless the state department has reviewed any contractor evaluation on file with the DGS and has required, as part of the contract, a completed resume for each contract participant who will exercise a major administrative role or major policy or consultant role. In addition, the DGS must notify departments seeking approval of a proposed contract within ten working days if the DGS has a negative evaluation in its files of a previous contract or contracts completed by this contractor.

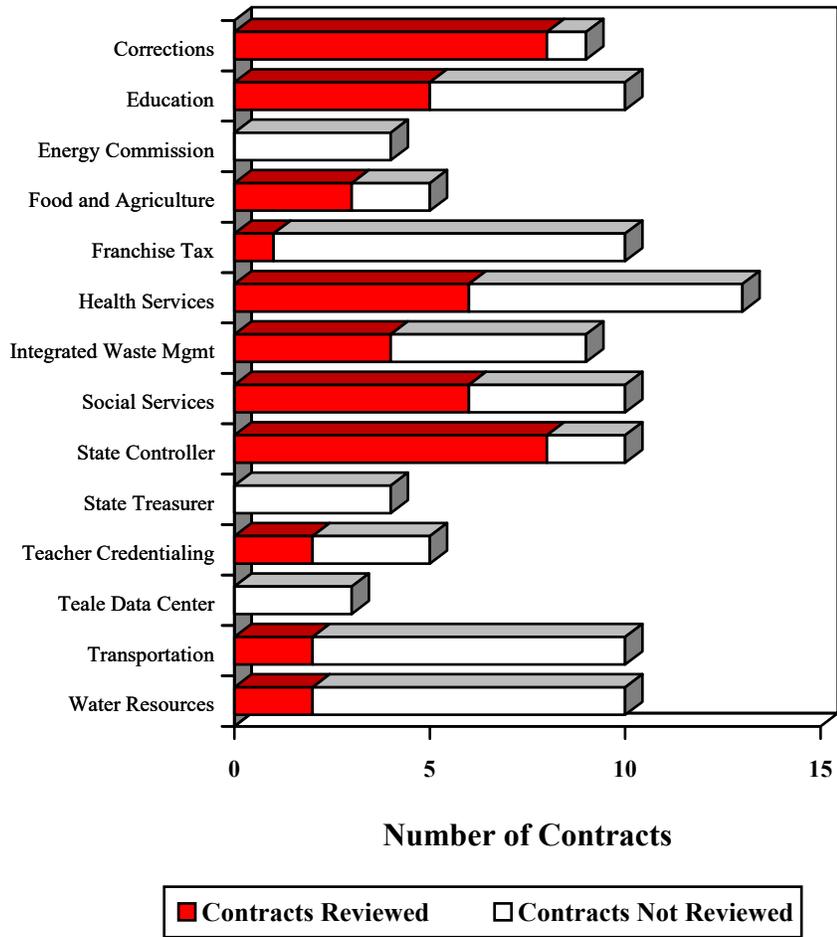
The California Public Contract Code, Section 10369, and the State Administrative Manual, Section 1283, also require each department to complete within 60 days of the end of the contract a post-evaluation of each consultant services contract totaling \$5,000 or more that it executes. Negative evaluations must be sent to the DGS, which must keep copies on file for 36 months. The DGS acts as the central depository for all state agencies making evaluations or needing information on a contractor's record with the State. The California Public Contract Code, Section 10371(h), states that the DGS must restrict or terminate the authority of a state department to enter into consultant contracts if that department has consistently avoided the proper preparation, retention, or submission of post-evaluations.

A post-evaluation assesses the contractor's performance in conducting the work or delivering the services specified in the contract, assesses whether the contract was useful and furthered the objectives of the department, and provides state departments with information enabling them to determine whether a potential contractor has satisfactorily completed previous state contracts. Therefore, evaluations help to protect the interests of the State in awarding contracts.

As Table 1 indicates, some of the 21 departments we reviewed did not consistently comply with legislative provisions for contract evaluations. Specifically, at 14 departments, for 65 of the 112 contracts reviewed, the departments failed to review post-evaluations or to require resumes of appropriate contractor personnel before contract approval. Figure 2 shows these 14 departments.

Figure 2

**Fourteen Departments Failed To Review
 Post-Evaluations or Require Resumes
 Before Contract Approval**



When negative evaluations are not reviewed, contracts may be approved even though prior work performed by that contractor was substandard. For example, the Department of Social Services contracted with a consultant although a negative evaluation had been on file at the DGS for more than a year. Also, the Commission on Teacher Credentialing contracted with a foundation although a negative evaluation was on file for more than two weeks. Further, the Board of Governors contracted with the same foundation two months after the DGS received the negative evaluation. The DGS' Office of Legal Services has indicated that procedures are currently in place to ensure that no contract is approved for a contractor having a negative

evaluation on file without the State considering the negative evaluation. Effective February 1993, departments are required to indicate on the Contract Transmittal form that they have reviewed any negative evaluations on file. The Contract Transmittal form is submitted to the DGS along with the contract needing approval.

In addition, 11 of the 21 departments failed to complete 27 contractor evaluations promptly. The 27 contracts represented 35 percent of all contracts we reviewed that were for more than \$5,000 and were completed in time for the post-evaluation to be required before the end of our fieldwork. (Work on some contracts at these departments was not complete by the end of our fieldwork, and evaluations would, therefore, not have been required at that time.)

**Lack of
Drug-Free
Workplace
Certification**

Some state departments are not requiring that contractors certify that they will provide a drug-free workplace, in accordance with the State Administrative Manual, Section 1253. The Drug-Free Workplace Certificate, Standard Form 21, is used for this certification. To provide a drug-free workplace, the Government Code, Section 8355, requires that a contractor publish a statement notifying employees that drug use is prohibited and specifying actions to be taken against employees for violations. Contractors also must establish a Drug-Free Awareness Program to inform employees about the dangers of drugs in the workplace, the organization's policy of maintaining a drug-free workplace, counseling or assistance that is available, and penalties that may be imposed upon employees for drug abuse violations. Finally, every employee who works on the contract must receive a copy of the company's drug-free policy statement and must agree, as a condition of employment, to abide by the terms of the company's statement. As Table 1 indicates, 6 of the 21 departments lacked Drug-Free Workplace Certificates for some of the contracts we reviewed.

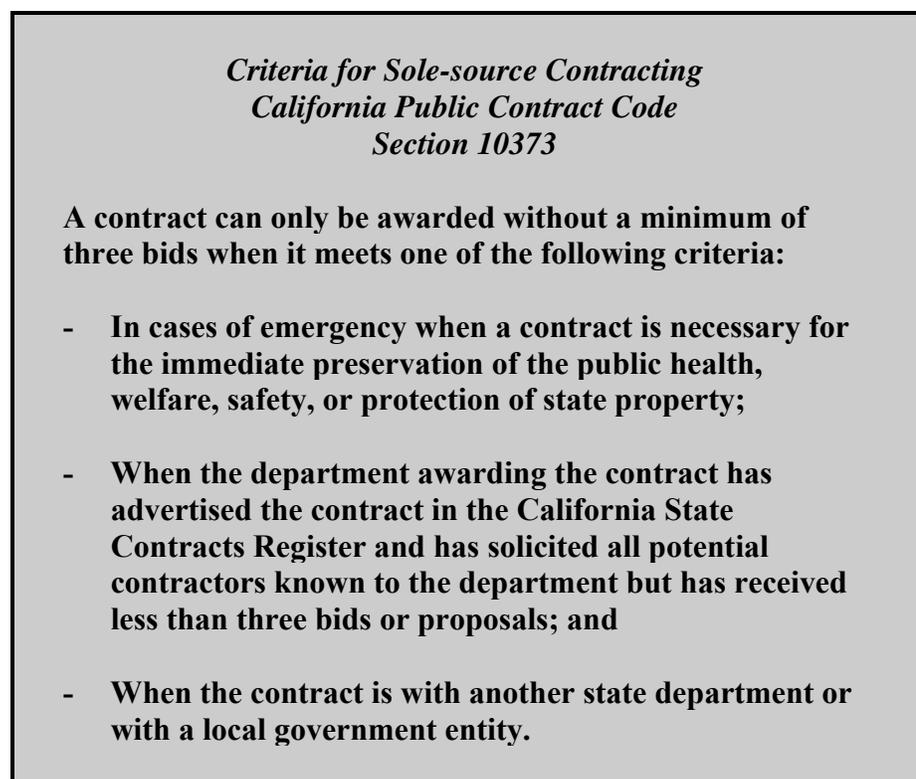
**Failure To
Submit Annual
Reports**

The California Public Contract Code, Section 10359, requires each state agency to prepare an annual report which, among other things, should list the consultant contracts into which the agency has entered during the fiscal year. Copies of the report are to be sent within 30 working days after the end of the fiscal year to the DGS and several other specified state agencies and committees. However, the State does not always comply with this requirement. For example, Table 1 indicates that 15 of the 21 departments where we reviewed consulting contracts did not submit reports of their consulting contracts or submitted the reports late.

Sole-Source Contracts

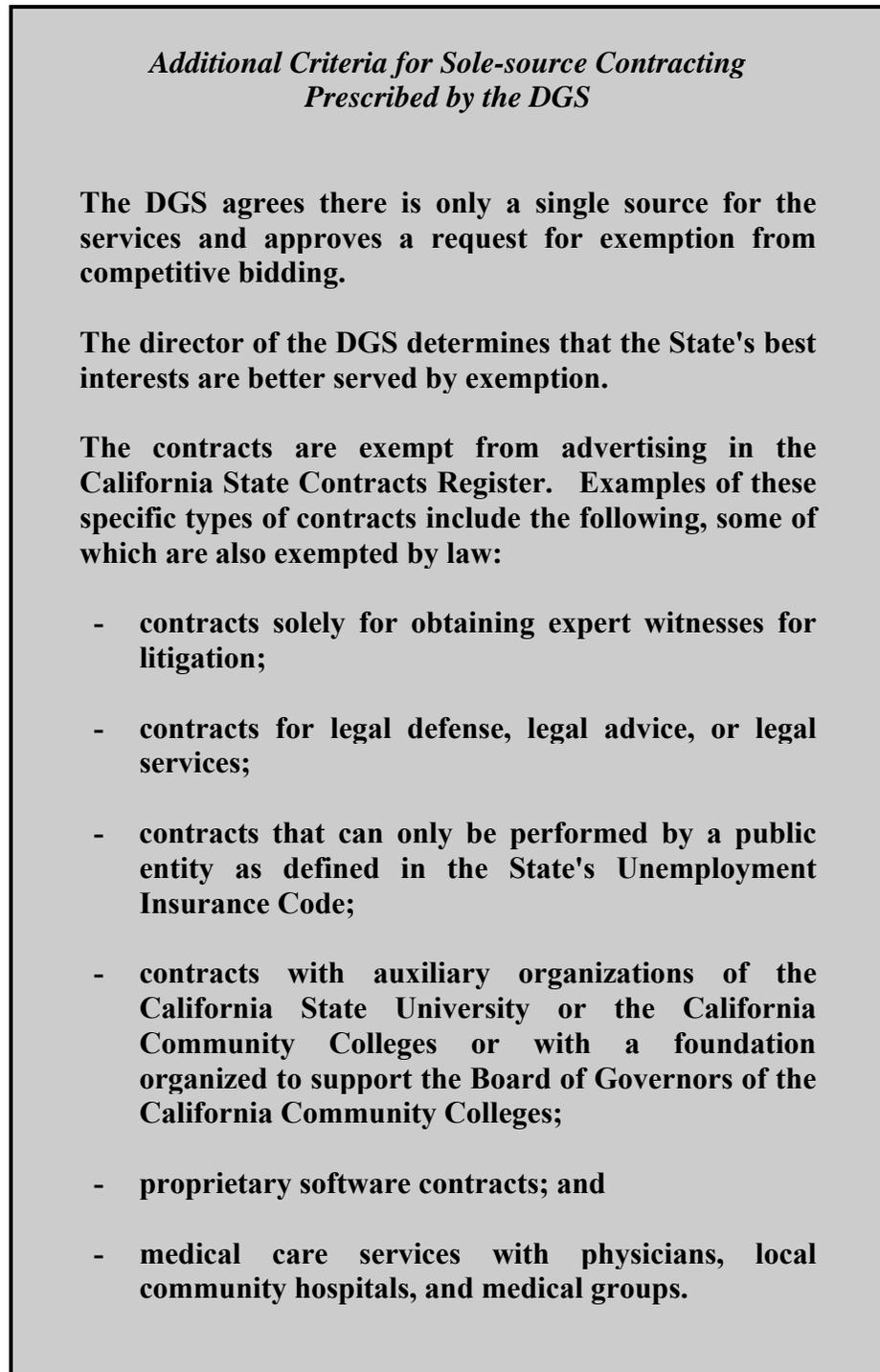
The evidence some departments provided to justify certain sole-source contracts was inadequate. In addition, some departments' annual consultant contract reports did not follow reporting requirements and identify whether each contract was a sole-source contract. The California Public Contract Code and the State Administrative Manual permit the limited use of sole-source contracts, which are exempt from bidding and, frequently, advertising requirements. Figure 3 shows the California Public Contract Code's provisions for allowing sole-source contracting.

Figure 3



The California Public Contract Code, Sections 10373 and 10380, also allows the DGS to establish additional conditions under which a contract may be awarded without competition. Figure 4 depicts these additional conditions.

Figure 4



Finally, the State Administrative Manual, Section 1236, requires that requests for contracts to be awarded without competition include a narrative of efforts to identify other similar or appropriate services and a justification for costs of the contract. Specifically, the manual indicates that the following factors will be used in determining whether costs are justified: cost information in sufficient detail to support and justify the contract; cost information for similar services, with differences noted and explained; and special factors affecting the cost under the contract.

The California Public Contract Code, Section 10359, requires departments to identify in an annual report all sole-source consultant contracts they entered into during the previous fiscal year. The reports, which the departments must submit to the DGS within 30 working days after the end of the fiscal year, list all consultant contracts, indicate whether they were sole-source contracts, and, if so, provide the reasons for the sole-source contracts.

The effect of inappropriately allowing a contract to be awarded on a sole-source basis is to unnecessarily curtail competition for contracts with the State. This curtailment could result in the State paying more for services than necessary. In addition, the services rendered may not be the most satisfactory available to the State.

As Table 2 indicates, certain departments are not fully complying with mandated reporting requirements by clearly disclosing in their annual reports whether consultant contracts are sole-source. For example, of the 896 consultant contracts that the Department of Transportation reported it entered into during fiscal years 1991-92 and 1992-93, the department did not clearly indicate whether 58 were sole-source contracts.

Table 2
Consulting Contracts Entered Into During
Fiscal Years 1991-92 and 1992-93 as Reported by Departments

Agency Name	Number of Contracts Reported as Sole-Source by Department	Number of Contracts With Sole-Source Status Not Clearly Disclosed in Department's Reports	Total Number of Consultant Contracts Reported by Department
Board of Governors	6	0	7
California Energy Commission ¹	25	1	43
California Horse Racing Board ²	7	0	7
Corrections	6	0	7
Education	51	2	889
Employment Development	10	0	18
Equalization	4	0	4
Food and Agriculture ¹	8	0	9
Franchise Tax	20	0	25
General Services	55	3	319
Health Service	16	0	25
Integrated Waste Management ¹	1	0	3
Motor Vehicles	1	0	15
Social Services	82	1	137
State Controller	2	0	5
State Treasurer	1	0	4
Stephen P. Teale Data Center	3	0	3
Student Aid Commission ²	3	0	3
Teacher Credentialing ²	No Report Submitted		
Transportation	718	58	896
Water Resources	36	0	46

Notes: The information in this table is based on the departments annual consultant contract reports. The information reflects only data reported for contracts entered into during fiscal years 1991-92 and 1992-93 and excludes amended and completed contracts that were entered into in prior years. We have made no attempt to assess the accuracy of the departments reports or the propriety of reasons provided to justify sole-source contracting.

¹ Data applies only to fiscal year 1992-93 annual report

² Data applies only to fiscal year 1991-92 annual report

used to justify sole-source contracting was the contractors' prior experience.

Three of the sole-source contracts we reviewed were justified because the contractors were either auxiliary organizations of the California State University or were other governmental or public entities. For example, the California Community Colleges entered into a contract for \$69,998 with a foundation of the California State University to conduct various activities intended to develop innovative strategies and program linkages to provide subject-based assistance to women in math, science, and technology.

In addition, certain requests included other evidence to reasonably demonstrate the propriety of sole-source status. For example, the Student Aid Commission submitted a contract for completing the implementation of a financial aid processing system and procurement of a new processor. The commission justified its request for sole-source status by indicating the alternative contractors it had located, the reasons why each of the alternatives would not satisfy the commission's needs, and the cost-effectiveness of the commission's choice.

One of the purposes of our audit was to determine whether, in awarding consulting contracts, departments are overusing sole-source contracts. While many of the justifications for sole-source status appeared reasonable based on the evidence provided, the reasonableness of some explanations was not clear. Of the 87 sole-source contracts we reviewed, we concluded that 29 (34 percent) were not properly justified as required by state law. From this we concluded that some departments are overusing sole-source contracts and should either seek competitive bids or fully justify not doing so. Typically, these sole-source contracts were justified on the basis of the contractors' unique expertise. Although we recognize expertise is limited in many disciplines, when the contracting department does not provide adequate evidence to the contrary, we question whether only one expert consultant is available and appropriate to perform tasks such as real estate appraisals or botanical consulting. Even for a technical area such as seismic stability investigations of earth structures, we question whether expertise is so severely limited as to justify eliminating multiple bids, as is permitted for sole-source contracts. These contracts were approved as sole-source contracts even though the contracting departments failed to provide any evidence they had considered other alternatives, had assessed why any other alternatives would be unsatisfactory, or had assessed the cost-effectiveness of the sole-source

contract. Further, in one sole-source request we reviewed at the Department of Education, 7 individuals were identified by the department as contractors who could provide the required services. However, rather than go through the normal bidding process, the department selected one without providing any reason for its final selection. The sole-source request was approved by the DGS.

Two agencies, the California Integrated Waste Management Board (board) and the Commission on Teacher Credentialing (commission), entered into sole-source contracts without submitting any justification to the DGS. Specifically, the board did not submit justification for four of the six sole-source contracts we reviewed. The commission failed to provide the required sole-source justification for three of the five sole-source contracts that we reviewed.. Furthermore, in one of these three contracts, the commission named a specific individual to perform certain tasks even though this individual was an employee of the commission during part of the term of the contract, which is prohibited by Section 10410 of the California Public Contract Code.

**Use of the
Services or
Products
Obtained**

The California Public Contract Code, Section 10355, expresses the Legislature's concern that many state departments are often not using reports produced by consultant contracts. The California Public Contract Code, Section 10369, and the State Administrative Manual, Sections 1283 and 1288, require each state department to prepare a contractor evaluation for all consultant contracts for \$5,000 or more. The contractor evaluation form includes a section for the department to assess the usefulness of the contract.

Based on the contractor evaluations we reviewed and discussions with department personnel, we concluded that state departments are using the results obtained from the consultant contractors. However, our data are limited to 84 of the 139 contracts over \$5,000 we reviewed because 55 contracts were still in progress as of the end of our fieldwork and, therefore, we were unable to determine if the departments will use the results.

Recommendations To improve the effectiveness of the State's contracting process for consultant services, the DGS should take the following actions:

- Review its practice of approving contracts for departments that are continually late in submitting their contracts for DGS approval. In its response to a similar recommendation in an earlier Auditor General report, the DGS indicated that it would implement a system to identify state agencies that have a pattern of unjustifiably late contract submittals. As a result, effective November 1991, the DGS' Office of Legal Services has maintained statistics on the number of late contracts received from individual departments so that it can take appropriate action against departments continuing to submit late contracts.
- Restrict the authority to enter into consultant contracts of any department that is inappropriately awarding contracts when negative evaluations are on file or is not appropriately completing, retaining, and submitting evaluations; and
- Require close adherence to the requirements of the State Administrative Manual, Section 1236, for requests to award contracts without the benefit of competition. Specifically, the sole-source request should at least include assertions from the requesting department about how it investigated alternatives to the contractor of choice and why those alternatives were not satisfactory. In addition, any contract approved as a sole-source contract should include a justification of the costs. In its response to a similar recommendation in our January 1992 report, the DGS indicated that it would focus particular attention on assuring that justifications for sole-source consultant contracts closely adhere to the State Administrative Manual. However, as previously stated, the evidence some departments provided to justify certain sole-source contracts was inadequate.
- Re-emphasize the requirements of Section 10359 of the California Public Contract Code to the Department of Transportation. Specifically, the Department of Transportation should clearly identify all sole-source contracts included in its annual reports on consulting contracts.

We conducted this review under the authority vested in the state auditor by Section 8543 of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Staff: Steve Hendrickson, Audit Principal
Stephen Cummins, CPA
Arn Gittleman
William Anderson

The responses of the Youth and Adult Correctional Agency, Department of Education, State Board of Equalization, Department of Food and Agriculture, State and Consumer Services Agency, Department of Health Services, California Integrated Waste Management Board, Business, Transportation and Housing Agency, Department of Social Services and Student Aid Commission are attached to this letter report.