

Date: July 16, 2021

File No.: 1182

To: **Karla Nemeth**, Director
Department of Water Resources
1416 Ninth Street
Sacramento, CA 95814

From: **Department of General Services**
Office of Audit Services

Subject: AUDIT REPORT: CONTRACTING PROGRAM

This report presents the results of our audit of the Department of Water Resources' (DWR) contracting program. On June 11, 2019, the Director of the Department of General Services (DGS) issued Exemption Letter No. DWR 2 which granted DWR's request to process contracts without DGS review and approval. In brief, subject to a number of limitations, the exemption allows various types of contracts under \$150,000 to be processed without DGS review and approval during the four-year period of July 1, 2019 through June 30, 2023. As a condition of the exemption, two audits are required to be performed of DWR's contracting program during the four-year exemption period. Based on DWR's request, DGS' Office of Audit Services agreed to conduct the first audit required under the terms of the exemption.

The objective of our audit was to determine compliance with the terms and conditions of Exemption Letter No. DWR 2. In general, the exemption requires that DWR maintain an adequate and effective system of internal control over contracting and that the system be sufficient to ensure compliance with the state's contracting laws, policies, and procedures. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

To determine compliance, we reviewed policies and procedures, tested a sample of contracts awarded during the 2019-20 and 2020-21 fiscal years, interviewed parties involved and performed other tests as deemed necessary.

Based on the results of our fieldwork conducted over the period February 4, 2021 through June 30, 2021, we concluded that DWR is administering its contracting program in compliance with the terms and conditions of its exemption.

While overall we determined that DWR is conducting its contracting program in compliance with the provisions of PCC Section 10351, and that its contracting policies and procedures are sufficient to provide reasonable assurance of compliance with the state's contracting laws, policies, and procedures, we did find that complete and accurate contracting information is not always being entered into FI\$Cal - SCPRS (Financial Information System for California - State Contract and Procurement Registration System). Since the instances of noncompliance were thoroughly discussed with responsible management and staff on numerous occasions during our audit fieldwork; did not pose a significant risk to DWR's overall contracting program; and we were assured that appropriate actions had been or were being taken to address our concerns, these issues are not further detailed in this report.

We are pleased with the commitment shown to improve compliance with the State's contracting requirements. As noted above, when advised of areas for improvement during our audit fieldwork, DWR's management consistently took prompt actions to address our concerns. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. DWR's management has the ongoing responsibility for ensuring that its contracting program policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

We sincerely appreciated the cooperation and assistance provided by DWR's personnel.

If you need further information on or assistance with this report, please call/email me at (916) 376-5064/Dennis.Miras@dgs.ca.gov, or Lucy Wong at (916) 376-5049/Lucy.Wong@dgs.ca.gov.

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