



# MEMORANDUM

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**Date:** October 27, 2022 File No.: 2202

**To:** Karla Nemeth, Director  
Department of Water Resources  
715 P Street, 8<sup>th</sup> Floor  
Sacramento, CA 95814

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

**Subject:** **AUDIT REPORT: DELEGATED PURCHASING PROGRAM**

Attached is the final report on our compliance audit of the Department of Water Resources' (DWR) delegated purchasing program. The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of DWR's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

DWR's written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken or proposed and commitments made to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations. Therefore, please submit on your department's official letterhead a status report on the implementation of each recommendation to us by April 27, 2023.

The necessity of any further status reports will be determined at that time. Please transmit your status report to: DGS – Office of Audit Services, 707 3rd Street, 8th Floor, West Sacramento, CA 95605.

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

If you have any questions, please call me at (916) 376-5054, or Amalia H. Sanchez, Management Auditor, at (279) 946-8574.

*Olivia Haug*

OLIVIA HAUG  
Manager, Office of Audit Services

Attachment

cc: Stephanie Varrelman, Deputy Director, Business Operations, DWR  
Rhonda Pascual, Manager, Division of Business Services, DWR  
Vinay Behl, Manager, Division of Fiscal Services, DWR  
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Stacey Cunningham, Supervisor, IT Contracting and Purchasing Services,  
DWR  
Richard Zmuda, SB/DVBE Program Manager, DWR  
Purchasing Authority Management Section (PAMS), Procurement Division,  
DGS

**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
DEPARTMENT OF WATER  
RESOURCES**

**FOR COMPLIANCE WITH STATE  
DELEGATED PURCHASING PROGRAM  
REPORT NO. 2202**

**OFFICE OF AUDIT SERVICES**

**SEPTEMBER 2022**

**DEPARTMENT OF WATER RESOURCES  
DELEGATED PURCHASING PROGRAM AUDIT  
REPORT NO. 2202**

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: October 27, 2022

TO: Karla Nemeth, Director  
Department of Water Resources

This report presents the results of our compliance audit of the delegated purchasing program of the Department of Water Resources (DWR). As required by Public Contract Code Section 10333, the Department of General Services (DGS) conducts an audit at least once in each three-year period of each state agency to which purchasing authority has been delegated by the department. The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of DWR's purchasing authority delegation agreements with DGS, which include dollar threshold limits for various categories of procurements. As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing the conduct of competitive solicitations, use of leveraged procurement agreements, solicitation of certified small businesses (SB) and disabled veteran business enterprises (DVBE), establishment of fair and reasonable pricing for acquisitions of less than \$10,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Overall, we concluded that DWR is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreement. However, as discussed under the Findings and Recommendations section of this report, we identified a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. The implementation of the recommendations presented in this report will assist DWR in addressing these issues.

During our review we also identified other matters requiring attention, but did not pose a significant risk to the delegated purchasing program, that we discussed with DWR's management and are not further detailed in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork, DWR's management agreed to take action to address our concerns. We were pleased with the commitment shown to improve compliance with state requirements. 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 business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

Your response to our recommendations as well as our evaluation of the response are included in this report.

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

If you need further information or assistance on this report, please contact me at (916) 376-5054, or Amalia H. Sanchez, Management Auditor, at (279) 946-8574.

*Olivia Haug*

OLIVIA HAUG  
Manager, Office of Audit Services

Staff: Amalia H. Sanchez, Management Auditor  
Melissa Hambridge, Management Auditor

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DWR  
Richard Zmuda, SB/DVBE Program Manager, DWR  
Purchasing Authority Management Section (PAMS), Procurement Division,  
DGS

## **DEPARTMENT OF WATER RESOURCES**

### **DELEGATED PURCHASING PROGRAM AUDIT**

#### **FINDINGS AND RECOMMENDATIONS**

The following presents our detailed findings and recommendations developed based on our compliance audit of DWR's delegated purchasing program. The state's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (Non-IT), 3 (IT), and F (FI\$Cal).

This information was developed based on our fieldwork conducted over the period of March 24, 2022 through August 22, 2022. To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2021-22 fiscal year. Our transaction tests included the review of 38 delegated non-IT and IT procurements, including 12 leveraged procurement agreement transactions.

#### **DELEGATED PURCHASING PROGRAM**

Overall, we concluded that DWR has implemented a delegated purchasing program that ensures compliance with the state's primary procurement requirements, including those governing the obtaining of bids from multiple suppliers. However, our tests disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements.

It should be noted that though the frequency of occurrence is low in some cases for some types of noncompliance instances, when combined, the numerous instances indicate a weakness in the procurement program that warrants addressing.

Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted with procurement transactions performed by DWR staff involved either missing or inadequate procurement documentation for the following areas:

- Purchase Orders are not listed on the department's logs and the FI\$Cal-SCPRS log (SCM 2, Section 2200.1)
- State's General Provisions incorrectly referenced on Purchase Order (SCM 2, Section 1403.3)



Department of Water Resources  
Findings and Recommendations, Cont'd

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- State's General Provisions were not included in the solicitation (SCM 2, Section 1403.3)
- No Seller's Permit on file (SCM 2, Section 1403.3)
- Purchase Orders are not being signed by someone with signature authority or being signed at all (SCM 2, Section 1804)
- Procurement files did not include a solicitation (SCM 2, Section 1403.1)
- Commercially Useful Function (CUF) Evaluation was not performed for SB/DVBE contractors (SCM 2, Section 1200.1)
- The signed Bidder Declaration Form (GSPD 05-105/05-106) for SB/DVBE transactions was not located in the transaction file (SCM 2, Section 1202)
- Solicitations over \$100,000 are not in the IFB Format (SCM 2, Section 1403.2)
- Target Area Contract Preference Act (TACPA) was not included in solicitations when applicable (SCM 2, Section 1207)
- Purchase Orders are not entered into FI\$Cal-SCPRS as required (SCM 2, Section 2200.1)
- SB/DVBE Certification data is not being entered into FI\$Cal-SCPRS as required (SCM 2, Section 2200.1)
- Purchase Order number does not match the document number listed in FI\$Cal-SCPRS (SCM 2, Section 2200.1)
- Purchase Order start/end dates do not match dates on FI\$Cal-SCPRS (SCM 2, Section 2200.1)
- Dollar cost identified on Purchase Order are not entered accurately into FI\$Cal-SCPRS (SCM 2, Section 2200.1)
- Supplier Name on Purchase Order does not match name entered into FI\$Cal-SCPRS (SCM 2, Section 2200.1)
- Quantities on Purchase Order do not match quantities entered into FI\$Cal-SCPRS (SCM 2, Section 2200.1)
- Incorrect acquisition method entered into FI\$Cal-SCPRS (SCM 2, Section 2200.1)

- A signed Certification of Compliance with State IT Policies for IT Transactions over \$5,000 was not in transaction file (SCM 2, Section 1013)
- No evidence on file that FTB and CDTFA websites were verified that the contractor was not on a prohibited list prior to executing the contracts (SCM 2, Section 605)
- No documentation as to the methodology used to determine the "Fair and Reasonable" procurement method (SCM 2, Section 1510)
- Procurement methodology used to determine "Fair and Reasonable" was done incorrectly (SCM 2, Section 1510)

Leveraged Procurement Agreement (LPA) proper documentation:

- o The transaction was not documented on the department's purchasing logs and the FI\$Cal-SCPRS log (SCM 2, Section 2200.1)
- o The department did not obtain and maintain a complete copy of the LPA in the procurement file (SCM 2, Section 1602)
- o The purchasing transaction file did not include a copy of the User Instructions (SCM 2, Section 1602)
- o The purchasing transaction file did not include a copy of the Contract Pricing Page (SCM 2, Section 1602)
- o The purchase was not made in accordance with the terms and conditions of the LPA (SCM 2, Section 1602)
- o No evidence on file that FTB and CDTFA websites were verified that the contractor was not on a prohibited list prior to executing the contracts (SCM 2, Section 605)
- o Transactions in excess of \$5,000 are not being reported to the Fair Employment and Housing (DFEH) as required (SCM 2, Section 2200.4)
- o LPA purchases are not being entered into FI\$Cal-SCPRS (SCM 2, Section 2200.1)
- o SB/DVBE Certification data is not being entered into FI\$Cal-SCPRS as required (SCM 2, Section 2200.1)
- o Solicitations are not being obtained and/or are not being kept in the procurement file (SCM 2, Section 1403.1)

- Purchase Orders are not being signed by someone with signature authority or being signed at all (SCM 2, Section 1804)

### **RECOMMENDATIONS**

1. Enforce current policies and procedures to ensure full compliance with the requirements of the delegated purchasing program. In addition, provide additional training for staff and require staff to attend training courses offered by DGS where applicable.
2. DWR should follow the SCM 2, Section 1802, and submit an alternative version of the Std.65 that would serve the department's needs.

### **CONCLUSION**

Our findings and recommendations are presented to aid DWR in administering its delegated purchasing program. DWR should address the reported issues to assist in ensuring compliance with applicable state laws, policies and procedures.



# Memorandum

Date: 10/20/2022

To: Olivia Haug, Manager  
Office of Audit Services  
Department of General Services  
707 3<sup>rd</sup> Street, 8<sup>th</sup> Floor  
West Sacramento, CA 95605

From: **Department of Water Resources**

Subject: Department of General Services Purchasing Authority Compliance Audit

Thank you for the opportunity to review and comment on a draft copy of the recent Department of General Services (DGS) Purchasing Authority Compliance Audit. The Department of Water Resources (DWR) concurs that the Department is conducting its delegated purchasing program in compliance with the terms and conditions of the delegation agreement. DWR also concurs that DGS identified areas of improvement that do not represent significant risk; nevertheless, DWR has already started to implement DGS's recommendations for improvement. Specifically, these actions include:

## 1. Enforce Current Policies and Procedures

DGS Recommendation:

Enforce current policies and procedures to ensure full compliance with the requirements of the delegated purchasing program. In addition, provide additional training for staff and require staff to attend training courses offered by DGS where applicable.

Actions taken by DWR:

- Training plans are currently being reviewed during the annual Appraisal and Development process and staff will be directed to take applicable DWR and California Procurement and Contracting Academy (Cal-PCA) training courses that have not been completed.
- DWR will conduct a Buyers Conference in the first half of 2023 to review current policies and procedures to ensure they are being followed. Topics will include signature delegation, solicitation requirements, procurement file documentation, Commercially Useful Function, Target Area Contract Preference Act (TACPA), and Fi\$Cal-State Contract & Procurement Registration System (SCPRS) uploads.
- DWR will continue to send Procurement Broadcasts notifying staff involved in the procurement process of updates and changes to the procurement process, including a reminder of how to upload their procurements to Fi\$Cal-SCPRS and to update Fi\$Cal-SCPRS when a procurement is amended.

Olivia Haug, Manager

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- Staff will be instructed to run regular reports to ensure purchasing documents are being uploaded appropriately into Fi\$Cal-SCPRS.
- A Buyers Checklist will be published on a SharePoint site and made accessible to all Buyers. Buyers will be reminded to use the checklist to ensure their procurement files contain all required documentation. Management will review procurement files to ensure the checklist is being used.
- Solicitation templates will be published on a SharePoint site and SAP, and accessible to all Purchasing Coordinators and Buyers. Staff will be directed to use the solicitation template published on the SharePoint site or SAP to ensure they are using the most up to date version with the appropriate terms and conditions and TACPA language.

## **2. Obtain an Alternative Version of the Purchasing Authority Purchase Order Form (STD. 65)**

DGS Recommendation:

DWR should follow the State Contracting Manual (SCM) 2, Section 1802 and submit an alternative version of the STD. 65 that would serve the Department's needs.

Actions taken by DWR:

- DWR has already started working with the Department's Division of Technology Services on the development of a new STD. 65 in DWR's SAP enterprise resource management system. DWR will obtain approval of the new STD. 65 form in accordance with SCM 2, Section 1802 before rolling out the form for use by the Department.

DWR sincerely appreciates DGS's recommendations. The Department's contracting and procurement staff and management continually strive to improve DWR's processes and procedures to ensure compliance with the laws, rules, and regulations set forth by the State.

If you have any questions regarding the information in this memorandum, please contact Nikki Hatcher at (916) 820-8123.

Sincerely,

*Stephanie Varrelman*  
Stephanie Varrelman  
Deputy Director, Business Operations

Attachments

Olivia Haug, Manager

Page 3

cc: David Whitsell, Manger, Internal Audit Office  
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Stacey Cunningham, Supervisor, IT Contracting and Purchasing Services  
Richard Zmuda, SB/DVBE Program Manager

## **DEPARTMENT OF WATER RESOURCES (DWR)**

### **EVALUATION OF DWR'S RESPONSE**

We have reviewed the response by the Department of Water Resources (DWR) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by DWR to improve its delegated purchasing functions.

As a part of our operating duties, we are responsible for following up on audit recommendations and will require a six-month status report on the implementation of those recommendations that have not been fully implemented. To the extent practical, supporting documentation should reflect the requirements stated in the Recommendations section in the report.