



MEMORANDUM

Date: March 16, 2017 File No. 7200

To: William Croyle, Acting Director
Department of Water Resources
P.O. Box 942836
Sacramento, CA 95814

From: Department of General Services
Office of Audit Services

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

This report presents the results of our compliance audit of the California Department of Water Resources' (DWR) delegated purchasing program. 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. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

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. The state's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (non-IT) and 3 (IT). 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 \$5,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers.

Based on the results of our fieldwork conducted over the period July 14, 2016 through October 11, 2016, we concluded that DWR is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreements. DWR's delegated purchasing policies and procedures are sufficient to provide reasonable assurance of compliance with the state's procurement statutes, policies, and procedures.

During our review we identified a number of areas for improvement within DWR's delegated purchasing program. These areas included our concern that policies and procedures were not always ensuring full compliance with SCM provisions governing the: (1) properly completed Purchasing Authority Purchase Order, STD 65, form that accurately referenced the procurement method used to award the purchase order (SCM 2, 8.4.3 and SCM 3, 8.4.11); and, (2) obtaining of bidder declaration forms from SB/DVBEs that assist in verifying the performance of a commercially useful function (SCM 2, 3.5.7 and SCM 3, 3.4.7) and (SCM 2 and SCM 3, 3.2.6).

We are pleased with the prompt actions taken by DWR to address findings identified during our audit fieldwork. 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.

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 2015/16 fiscal year. Our transaction tests included the review of 84 delegated procurements.

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) 376-5058, or Maricela Bautista at (916) 376-5066.



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Acting Chief, Office of Audit Services

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