

# Department of Water Resources

## 2015 SLAA REPORT

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December 30, 2015

John Laird, Secretary  
California Natural Resources Agency  
1416 Ninth Street, Suite 1311  
Sacramento, CA 95814

Dear Mr. Laird,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Water Resources submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Kathie Kishaba, Deputy Director, Business Operations, at (916) 653-6743, [Kathie.Kishaba@water.ca.gov](mailto:Kathie.Kishaba@water.ca.gov).

### **BACKGROUND**

The Department of Water Resources (DWR) is responsible for managing and protecting California's water. DWR works with other agencies to benefit the State's people, and to protect, restore and enhance the natural and human environments. DWR's core values are workplace safety, sustainability, environmental stewardship, environmental justice and climate change management. For more information on these values and for a description of the Department's eight Strategic Goals please click here: [http://www.water.ca.gov/core\\_values\\_strategic\\_goals.cfm](http://www.water.ca.gov/core_values_strategic_goals.cfm).

In 1956, the Legislature passed a bill creating DWR to plan, design, construct, and oversee the building of the nation's largest state-built water development and conveyance system. Today, DWR protects, conserves, develops, and manages much of California's water supply including the State Water Project which provides water for 25 million residents, farms, and businesses.

Working with other agencies and the public, DWR also develops strategic goals, and near-term and long-term actions to conserve, manage, develop, and sustain California's watersheds, water resources, and management systems. DWR works to prevent and respond to floods, droughts, and catastrophic events that would threaten public safety, water resources and management systems, the environment, and property.

Balancing the State's water needs with environmental protection remains a long-term challenge. With California facing one of the most severe droughts on record, Governor Brown declared a drought State of Emergency in January 2015 and directed State officials to take all necessary actions to prepare for water shortages. DWR has continued to lead the way to make sure California is able to cope with an unprecedented drought.

DWR has approximately 3,400 positions working in facilities throughout California. Its headquarters is in Sacramento. The Department's 2015-16 budget consists of 29 funds totaling \$3.44 billion.

The Central Valley Flood Protection Board (CVFPB), formerly known as the California State Reclamation Board, has had a long and proud history since first being granted regulatory authority in 1911 to reduce the risk of flooding within California's Central Valley. More recently in 2007, and later in 2009, the Board was restructured, re-named, and given the important responsibility to review and adopt the historic 2012 Central Valley Flood Protection Plan. CVFPB has approximately 35 employees. Its administrative functions are managed by DWR.

The California Water Commission (CWC) consists of nine members appointed by the Governor and confirmed by the State Senate. Seven members are chosen for their general expertise related to

the control, storage, and beneficial use of water. The other two are chosen for their knowledge of the environment. The Commission provides a public forum for discussing water issues, advises DWR, and takes appropriate statutory actions to further the development of policies that support integrated and sustainable water resource management and a healthy environment. Statutory duties include advising the Director of DWR, approving rules and regulations, and monitoring and reporting on the construction and operation of the State Water Project.

In November 2014, California voters overwhelmingly passed Proposition 1: the Water Quality, Supply, and Infrastructure Improvement Act of 2014, a \$7.5 billion water bond that will make needed investments in the State's water management systems. The bond dedicated \$2.7 billion for investments in water storage projects and designated the California Water Commission as the agency responsible for appropriately allocating these funds. The Commission, through the Water Storage Investment Program, will fund the public benefits of these projects. Eligible projects must also provide measurable benefits to the Delta ecosystem or its tributaries. The program will support the California Water Action Plan and its call for a safe and reliable supply of water to support the State's economy, environment, and quality of life.

In addition to its nine appointed members, CWC has 5 permanent positions. Its administrative functions are managed by DWR.

## **RISK ASSESSMENT PROCESS**

The risks listed in this report were identified in meetings led by the Deputy Director, Business Operations, which included Executive staff and the Department's Chief Financial Officer. The discussions focused on risks that could adversely impact DWR's ability to achieve its mission and included feedback from prior employee surveys that were conducted under the Financial Integrity and Manager's Accountability Act (FISMA). Risks were also identified based on prior and ongoing external influences including the Administration's priorities and directives, public perception of the Department of Water Resources and its programs, stakeholder feedback, and legislative interests and mandates.

The risks were prioritized based on an assessment of the level of impact to DWR's operations, and whether the risk, if realized, would: 1) completely stop operations, 2) severely hinder operations, or 3) slow down operations. DWR's Executive Management also considered the likelihood of when the risk could occur, in the next fiscal year, two fiscal years out, or longer.

Once the risks were identified and prioritized, corresponding controls were identified to provide reasonable assurance that risks would be mitigated. In some instances, the risks facing DWR are outside its control, and therefore, management accepts some level of risk and provides guidance to staff so they can make informed business decisions.

DWR recognizes the importance of maintaining an adequate and effective control environment over its operations by adherence to its mission statement and core values.

The Department takes action to ensure that ethics and values are strongly promoted within the organization, that employees receive the proper training and tools to complete their assignments, and that risks and controls are communicated to employees so they can take appropriate action.

## **EVALUATION OF RISKS AND CONTROLS**

### **Compliance- External- Funding—Sources, Levels**

Programs funded by General Obligation bonds (Propositions 13, 50, 84, 204 and 1E) will be reduced or fully expended in the near future.

Beginning with the the passage of Proposition 204 in 1996 and continuing through 2006 with the passage

of Propositions 84 and 1E, voter-approved General Obligation bond initiatives have provided an increasing proportion of funding for many of DWR's mission-critical programs, including infrastructure work, flood protection, drought and emergency response, environmental studies and water management. DWR's General Obligation bond funds are limited and some are further restricted by expiration dates which will essentially terminate funding. Therefore, DWR programs are at risk and will need stable and predictable funding sources for the future to maintain an aging infrastructure for water management, flood control and environmental water needs and to sustain future growth.

DWR's Executive Management is actively monitoring and managing activities that are funded with General Obligation bond funds that are scheduled to expire. This includes a full evaluation of positions and programs, and development of a near and long-term resourcing plan.

DWR will work with the Administration to identify other sources for funding critical programs. DWR is aware that if additional funding cannot be identified, important initiatives and vital public safety services might be discontinued.

### **Operations- External- Business Interruption, Safety Concerns**

The General Operating Account (GOA) was created as part of the Monterey Amendment in 1995 for the purpose of providing an account to allow DWR to respond to emergency and cash flow needs of the State Water Resources Development System (SWRDS). The provisions in the amendment limit the GOA to a maximum level of \$32 million; however, the current reserves are only at \$27 million. A minimum of 90 days of operating expenditures is an industry standard used to determine an appropriate reserve level. For the largest state-built utility in the United States, this equates to approximately \$150 million for the SWRDS.

An increase in the reserve amount requires a change in the long-term water supply contract with the State water contractors. The current contract has the GOA increases as a low priority. DWR has never reached that priority to increase the reserve to \$32 million. An amended contract will not only increase the level and allow for subsequent increases based on a review every five years, but also brings the priority to fund and increase the GOA to a higher level.

The GOA is used to mitigate for the following:

1. The two-year lag time between setting projections and truing up actuals received in the Statement of Charges to the water contractors.
2. Extraordinary expenses, such as establishing an escrow account for Reid Gardner or the extraordinarily large power costs during the energy crisis in 2001.
3. Normal business cycle fluctuations, such as the differences between power costs under the transportation variable and the actual net power costs.
4. Emergencies affecting the SWRDS.

DWR expects the cash reserve to be increased as part of the SWP Contract Extension process. Until then, DWR must accept this risk and will continue to operate with an inadequate cash reserve until the contract extension is fully executed and goes into effect.

### **Compliance- Internal- Resource Limitations**

A March 2013 report issued by the Legislative Analyst's Office, entitled "After Furloughs: State Worker's Leave Balances" highlights a risk for DWR and other agencies. The State of California caps the amount of vacation/annual leave that most State employees may accumulate. That cap is 640 hours or 80 days. Many DWR employees have in excess of 640 hours of vacation/annual leave credits. This puts DWR programs at risk because employees with large vacation/annual leave balances will eventually retire or otherwise separate from State service, requiring a "cash-out" or "burn-off" of their leave credits. This often causes significant and unanticipated expenditures and sometimes precludes a program's

ability to immediately fill behind a departing employee because of the drain on financial resources. Data compiled by DWR's Human Resources Office in 2012 shows that over the next four years, 25% percent of DWR employees will be eligible to retire. For those in leadership positions (supervisors, managers, CEAs), 44% will be eligible to retire. This presents a financial risk to DWR since many of those employees maintain high leave balances.

As part of DWR's appraisal and development process, leave reduction plans are required of all employees exceeding 640 hours of leave. Although DWR's active involvement in the emergency drought situation precluded some staff from fulfilling their leave reduction plans, all staff exceeding 640 hours are being required to submit a new plan for 2016. Progress on that plan will be monitored by their supervisors and Division Chiefs and by DWR's Human Resources Office. Only staff who can demonstrate extraordinary circumstances will be exempted from the requirement to reduce their balances.

### **Compliance- Internal- Staff Not Adhering to Policies, Procedures, or Standards**

DWR's ERP system, SAP, is the system of record for all Departmental financial transactions. SAP has built-in functionality that is capable of putting an automated hard stop on transactions when expenditures exceed the planned budget. This functionality has not been activated because other manual processes are in place to control over-expenditures. Although utilization of Availability Control would require both a business process and cultural change for DWR staff, having an automated expenditure control system would provide immediate feedback to the user that insufficient funds are available to carry out a transaction.

DWR's Division of Fiscal Services and program staff continue to monitor budget vs. expenditures using existing SAP reports and functionality, and through various other fiscal processes. Program managers are alerted when potential problems arise, and corrective action is taken to ensure over-expenditures do not occur.

DWR accepts this risk and will continue with its current process of using existing SAP reports and functionality, and various other fiscal processes to monitor budget vs. expenditures. As appropriate, DWR will continue to explore the option of activating "Availability Control" in SAP. DWR must weigh the pros and cons of making any changes to current processes.

### **Operations- External- Staff—Recruitment, Retention, Staffing Levels**

As of December 4, 2015, DWR had 250 vacant positions out of a total base of 3,363 employees. DWR's current vacancy rate is 7.43%. Year-end retirements are expected to bring this percentage up to a rate similar to the 8.93% reported in FISMA 2013. DWR management constantly monitors the vacancy rate because it is one of the key indicators used to predict future gaps in the workforce. DWR is expecting increasing gaps in rank and file and management workforces in coming years. Furthermore, State hiring practices often make it difficult for DWR to hire personnel in specialized fields which presents a risk in carrying out critical operations.

DWR takes the following steps to manage vacancies:

1. Provides monthly vacancy reports to DWR supervisors and managers for monitoring their vacancies.
2. Reconciles internal position database with the State Controller's Office (SCO) position roster on a regular basis.
3. Reconciles Schedule 8 every year and works with the Department of Finance (DOF) and SCO to provide additional information if necessary.
4. Is in the final stages of developing Workforce and Succession Plans which will provide management with a framework for future workforce development.
5. Is an active participant on various Civil Service Improvement initiatives led by the Government Operations Agency.

## **ONGOING MONITORING**

Through our ongoing monitoring processes, the Department of Water Resources reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Department of Water Resources is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

### **Roles and Responsibilities**

As the head of Department of Water Resources, Mark W. Cowin, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Kathie Kishaba, Deputy Director, Business Operations, as our designated agency monitor(s).

### **Frequency of Monitoring Activities**

DWR's financial health, processes, activities, programs, and internal controls are continuously monitored by DWR management. This is accomplished through various management meetings at all levels of the organization, including the Directorate. DWR management advocates for and supports open communication throughout the Department so as concerns are identified, they can be elevated and appropriately addressed at any time. Continuous monitoring also occurs through constant reporting and analysis of data. DWR's internal and external auditors also provide monitoring and feedback to DWR management.

### **Reporting and Documenting Monitoring Activities**

The Director and Deputy Directors of DWR meet on a weekly basis. The Department also has a Governance Board which is made up of its Director, Deputy Directors, other Executive staff and all Division/Office Chiefs. The Governance Board meets on a regular basis - often twice a month. The risks identified in this report are often the subjects of both groups' meetings. Division/Office Chiefs are responsible for sharing the decisions of the Governance Board with their staff.

### **Procedure for Addressing Identified Internal Control Deficiencies**

DWR's Executive management team is always notified when internal control deficiencies are identified. A task force of Department subject matter experts is typically convened to assess the magnitude of the deficiency on operations and identify solutions and resource costs (both financial and human) to address the issue. Deficiencies are validated and assessed using data that is available through DWR's enterprise resource planning (ERP) program, SAP, or through other sources as required. DWR uses a document management system to house business records, and is also in the process of deploying business analytics functionality. These systems aid management in identifying gaps and possible solutions. Executive management, including DWR's Governance Board, is continually briefed so that informed policy decisions can be made in a timely manner. Issues and decisions are documented via Director's Decisions memos, white papers, meeting minutes, reports, memorandums, spreadsheets and forms, as appropriate. Once remedies are in place, DWR management monitors results to ensure the selected action is effective.

## **CONCLUSION**

The Department of Water Resources strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Water Resources accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Mark W. Cowin, Director

cc: Department of Finance  
Legislature  
State Auditor  
State Library  
State Controller  
Secretary of Government Operations