January 05, 2018

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

Dear Mr. John Laird,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Water Resources submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Kathie Kishaba, Deputy Director, Business Operations, at (916) 653-6743, 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. For more information on the Department’s mission and goals, please click on the following link for a summary of DWR’s Strategic Business Plan:

http://www.water.ca.gov/strategic_business_plan.cfm

To view DWR’s entire Strategic Business Plan, please click on the following link:


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 (SWP) 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.

In early 2017, a steady barrage of storms resulted in serious damage to the Lake Oroville spillways. Since the damage to the flood control spillway at Lake Oroville became apparent on February 7, 2017, the primary objectives of DWR have been and continue to be 1) ensuring public safety and 2) ensuring the integrity of the dam and its associated structures. On November 1, 2017, DWR completed the monumental task of repairing the severely damaged main spillway ensuring that it was operational in time for the rainy season. Although the main spillway is operational, recovery efforts in Oroville are ongoing and DWR staff continue to be devoted to seeing recovery to completion.
DWR has approximately 3,400 positions working in facilities throughout California. Its headquarters is in Sacramento. The Department’s 2017-18 budget consists of 28 funds totaling $3.53 billion.

The Central Valley Flood Protection Board (CVFPB – formerly known as the State Reclamation Board), has been in existence since 1911. CVFPB is the state’s regulatory agency charged with the mission of reducing the risk of catastrophic flooding to people and property within the California central valley. The seven voting members of the Board are Governor-appointed and Senate confirmed. Board members bring expertise in the areas of flood control, engineering, water law, hydrology, and environmental stewardship, providing a balanced review and discussion of flood management issues brought before them. The CVFPB has approximately 43 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 CWC 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 SWP.

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 CWC as the agency responsible for appropriately allocating these funds. The CWC, 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 five permanent positions. Its administrative functions are managed by DWR.

**ONGOING MONITORING**

As the head of Department of Water Resources, Grant Davis, Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

**Executive Monitoring Sponsor(s)**

The executive monitoring sponsor responsibilities include facilitating and verifying that the Department of Water Resources internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Kathie Kishaba, Deputy Director, Business Operations.

**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.

**Addressing Vulnerabilities**
DWR’s Executive management team is always notified when vulnerabilities are identified. A task force of Department subject matter experts is typically convened to assess the magnitude of the vulnerability on operations and identify solutions and resource costs (both financial and human) to address the issue. Vulnerabilities are validated and assessed using data that is available through DWR’s enterprise resource planning (ERP) program, SAP, and business analytics and reporting. DWR also uses a document management system to house business records. 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.

**Communication**
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. DWR’s Chief Internal Auditor meets regularly with the Executive Monitoring Sponsor and reports any issues of concern that require action by DWR management.

**Ongoing Monitoring Compliance**
The Department of Water Resources is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Department of Water Resources systems of controls and monitoring.

**Risk Assessment Process**
The following personnel were involved in the Department of Water Resources risk assessment process: Executive Management, Middle Management, and Front Line Management.

**Risk Identification**
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, Chief Information Officer, Chief Counsel, Chief of Business Services, CVFPB Executive Officer, and CWC Executive Officer. The discussions focused on risks that could adversely impact DWR’s ability to achieve its mission. Risks were also identified based on prior and ongoing external influences, including the Administration’s priorities and directives, public perception of DWR and its programs, stakeholder feedback, and legislative interests and mandates.

**Risk Ranking**
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.

The Department sets policies 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.

Risks and Controls

Risk: Operations - External - FI$Cal Implementation, Maintenance, Functionality, or Support

With regard to FI$Cal, DWR is designated as a “deferred” Department which is defined as “departments that have implemented or are in the process of implementing their own financial management system.” While it has not been determined when, or if DWR will fully convert to FI$Cal, a recent communication from the November FI$Cal Forum states that deferred departments may be required to manually enter data into FI$Cal. There are inherent risks in this approach. Best business practices call for a single system of record for an organization's financial transactions. For DWR, that is SAP, our enterprise financial system.

Since 1999, DWR has employed SAP, an ERP system, as our Enterprise Financial System of Record. SAP is a sophisticated, complex, and highly integrated financial system that encompasses DWR's budgeting and accounting, human resources, materials management, purchasing, contracting, training and events planning, and plant maintenance. Truly an all-purpose and powerful tool, SAP has provided greater accountability and visibility of financial and operational data. SAP has improved DWR's business processes by enabling employees to track time, training and travel; plan and control the budget; manage purchases and contracts; and even monitor water deliveries. The potential that DWR will be required to manually enter data into FI$Cal is a risk.

Requiring dual entries in DWR's SAP system and FI$Cal will result in errors. Manual entries would be inefficient and time-consuming for staff who would be required to maintain two systems that track the same data and transactions. Inefficiencies will result in higher costs and will reduce operational productivity. Reporting of inaccurate data due to manual entries could lead to poor management decisions regarding DWR programs.

Control A

DWR staff will continue to stay closely engaged in the FI$Cal implementation efforts to ensure we are aware of any policy decisions or procedural changes that will negatively impact our operations and financial management.
**RISK: OPERATIONS-EXTERNAL-FUNDING—SOURCES, LEVELS**

General Obligation bonds (Propositions 1, 13, 50, 84, 204 and 1E) that support DWR mission-critical programs will be reduced or fully expended in the near future.

Beginning with 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.

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.

**CONTROL A**

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.

**CONTROL B**

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.

**RISK: COMPLIANCE-INTERNAL-STAFF ADHERENCE TO POLICIES, PROCEDURES, OR STANDARDS**

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 carry 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.

Employees are allowed to carry leave balances in excess of the State caps.

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 2017 shows that in five years, 28 percent of DWR employees will be eligible to retire (will be 55 years of age and have 20 years of State service). For those in leadership positions (supervisors, managers, CEAs and above), 45% will be eligible to retire. This presents a financial risk to DWR since many of those employees maintain high leave balances.

**CONTROL A**

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 Oroville Spillways Incident response and recovery effort precluded some staff from fulfilling their leave reduction plans, all staff exceeding 640 hours are being required to submit a new plan for 2018. Progress on that plan will be monitored by their supervisors, 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.
**Risk: Operations - Internal Staff — Key Person Dependence, Workforce Planning**

DWR could be facing a lack of qualified staff resources to accomplish its mission.

DWR, like all State agencies, is facing the loss of years of experience and expertise as large numbers of Department employees reach retirement age. Although initially the 2009 recession may have mitigated some of the projected workforce gaps, the retirement eligibility for our supervisory and management positions indicates that the Department is faced with a critical challenge to ensure the right staff with the right qualifications are prepared to assume leadership positions at the right time in order to achieve our mission.

In 2017, 21 percent of employees in leadership positions (supervisors, managers, CEAs and above) were immediately eligible to retire (55 years of age and have 20 years of State service). By January 2022, 45 percent will be eligible to retire, and by 2027, 63 percent will be eligible.

**Control A**

DWR has prepared and continues to update a Department Succession Plan with the goal of:

1. Developing an Introduction to Leadership class that is available to rank and file employees. (Note: This class was developed and is currently available to employees.)
2. Enhancing DWR’s supervisory training programs to emphasize leadership skills based on leadership competencies.
3. Enhancing DWR’s current Appraisal and Development program to incorporate an individual development plan program using leadership competencies and incorporating leadership development. (Note: DWR supervisors, managers, and CEAs currently participate in ongoing training to meet the State’s 20-hour ongoing leadership development requirement.)
4. Developing a process and a program to educate lower-level leaders in effective decision making in preparation for assuming higher-level positions.
5. Developing a program to enhance the process of delegation of work to employees.
6. Hire a replacement before someone leaves so institutional knowledge can be transferred. (Note: Since this strategy was identified, some DWR divisions have begun using it to facilitate knowledge transfer between high-level supervisors. This has resulted in smoother management transitions for those divisions.)

**Risk: Operations - External Staff — Recruitment, Retention, Staffing Levels**

DWR management constantly monitors the vacancy rate because it is one of the key indicators used to predict future gaps in the workforce.

State hiring practices and compensation often make it difficult for DWR to hire personnel in specialized fields which presents a risk in carrying out critical operations.

As of August 4, 2017, DWR had 350 vacant positions out of a total base of 3,398 positions. DWR’s current vacancy rate is 10.3 percent. Year-end retirements are expected to bring this percentage up to approximately 11.5 percent, 2.5 percent higher than what was reported in DWR’s 2015 SLAA report.

**Control A**

DWR prepared and continues to update a workforce plan which details a number of strategies to attract, develop and retain the quality workforce essential to accomplishing the goals and mission of the Department. The following are some strategies that are being considered for implementation:

1. Increasing recruitment efforts amongst students.
2. Developing a DWR employment brand.
3. Creating a leadership skills training program for employees in order to prepare them for leadership positions.

Regarding managing vacancies, DWR is currently taking the following steps:

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 and SCO to provide additional information if necessary.
4. Continues to be an active participant on various Civil Service Improvement initiatives led by the Government Operations Agency.

CONCLUSION

The Department of Water Resources strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Please note that Karla Nemeth replaced Grant Davis as the Director, Department of Water Resources, effective January 10, 2018.

Grant Davis, Director

CC: California Legislature [Senate (2), Assembly (1)]
   California State Auditor
   California State Library
   California State Controller
   Director of California Department of Finance
   Secretary of California Government Operations Agency