

STATE OF CALIFORNIA – CALIFORNIA NATURAL RESOURCES AGENCY

EDMUND G. BROWN JR., Governor

DEPARTMENT OF WATER RESOURCES

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September 28, 2017

The Honorable Elaine M. Howle*
State Auditor
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814

California WaterFix Audit, State Audit Report No. 2016-132

Dear Ms. Howle:

On behalf of the Department of Water Resources (DWR), I am writing to address Draft Audit Report No. 2016-132 (Report) regarding the project that eventually developed into, and was recently approved, as the California WaterFix.¹ DWR appreciates the professionalism of the Bureau of State Audit staff and their openness to hearing DWR perspectives.

DWR is pleased that after 10 months of investigation, the Report validates that no General Fund money has been used for the planning and design for WaterFix. (Report p. 4.) All activities for the planning and design of the project were supported and paid for by the public water agencies that will benefit from the project.

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The Report also finds the project's complexity resulted in unforeseen expenses and schedule extensions. We appreciate this acknowledgement. WaterFix is unprecedented both in the scale of its complexity and the extent of its public and stakeholder engagement. DWR has worked diligently to address concerns as they emerged and has made significant changes to the project in direct response to input from the public and regulatory agencies, including analyses of additional alternatives, additional species evaluations and optimization of the project. These changes required additional time and funding to implement.

The Report's primary concern involves the way DWR documented project decisions and selected the program manager. DWR agrees that decisions should be documented. We also agree that a governance structure is critical for a project of this scope, and one has been in development and will be ready for implementation at the appropriate stage of the project.

¹ For convenience, we refer to the project variously known as Delta Habitat Conservation and Conveyance Program, the Bay Delta Conservation Plan, and California WaterFix as "WaterFix" throughout these comments.

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In addition, DWR agrees that a financial analysis is important, and is prepared to complete a final economic analysis when each potential participant in WaterFix has made its decision to opt into the project.

- ③ We must respectfully disagree with the Report's conclusion that DWR did not follow state law in selecting the project manager. As project needs changed, DWR reassigned the project management task consistent with the terms of the contract and pursuant to DWR and state policies. The facts demonstrate the high value that DWR and the project have received from the project manager's performance.

WaterFix is a science-driven project that will upgrade the state's outdated water delivery system and maintain a reliable source of water for 25 million Californians and more than 3 million acres of farmland in the San Francisco Bay Area, Central Valley and Southern California. It is a critical element of the state's overall strategy to address climate change and ensure a reliable water supply for the future, as outlined in Governor Brown's California Water Action Plan.

The extensive outreach and responsiveness to stakeholder and public input described above resulted in what many considered unachievable: the issuance of permits from state and federal agencies to move forward with a viable and achievable long-term solution to decades-old problems in the Bay-Delta. Consistent engagement with the local public agencies funding the project has allowed for close scrutiny of any increased costs and changes to the project, affecting the scope and schedule. These local agencies have found the additional work on the project to be reasonable and necessary.

DWR's response to the Report's findings is summarized here, followed by detailed discussion of each, and concludes with our comments on the Report's recommendations.

④ Summary:

1. DWR Received Excellent Value and Quality for Services Under the Hallmark Group Contract
2. The URS Contract Authorized Multiple Tasks; Only One Task was Construction
3. Requiring a Subcontractor to Provide Program Management Services to URS was Necessary and was Appropriately Defined
4. DWR Followed Proper and Lawful Procedures in the Necessary and Appropriate Replacement of the Program Manager
5. The Structure of The McKinsey Contract was Beneficial to Both DWR and the Public Water Agencies that Will Ultimately Pay for the Project,
6. DWR Developed a Governance Structure for Implementation at the Appropriate Project Stage

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7. DWR Will Prepare a Financial Analysis and Economic Analysis When WaterFix Participants are Identified
8. DWR Has Performed Significant Planning During the Planning Stage and Has Maintained and Provided Extensive Documentation

Our comments will address the Report's specific findings, and then address the Report's recommendations.

A. FINDINGS

1. DWR Received Excellent Value and Quality For Services Under The Hallmark Group Contract

The Report devotes a full one-fourth of its length to DWR's hiring and subsequent utilization of the Hallmark Group (Hallmark) to provide program management services for what has become California WaterFix. In these sections, the Report finds that Hallmark's program manager did not appear to possess the qualifications DWR required when it selected contractor URS, and that the failure to ensure Hallmark possessed these qualifications was contrary to the letter and spirit of the law, which is intended to create competition to ensure that the state obtains a competent and qualified contractor at a fair and reasonable price. Finally, the Report notes that DWR "potentially" did not receive "the best value for the contracted services." (Report p. 27-29.) DWR addresses the contracting issues later in this response, but here, we note the facts about Hallmark's performance are contrary to the above statements in the Report. The state received excellent value and a high work product for the services Hallmark provided. ①

When URS was hired for WaterFix, the project was conceived as an engineering enterprise, to be staffed and managed by engineers. After little more than a year, it became apparent to DWR and its stakeholders that engineering expertise alone would not be sufficient to manage the project; efficiency and management expertise would be essential in successfully moving the project forward. ⑤

As described by former DWR Director Lester Snow, the almost exclusive motivator to bring the Hallmark Group on as program manager was cost control. The entities funding WaterFix, the water contractors, were impressed by Hallmark's work managing the \$500 million UC Merced campus construction project and presented a united front in urging Hallmark be utilized to increase efficiencies on the project. Hallmark's job was to scrutinize costs, monitor schedules and ensure that tasks were completed on time. Hallmark's task did not include performing engineering work, such as deciding what approach (canals, tunnels, or levies) should be used. ⑥

Hallmark was not a substitute for URS expertise in large water infrastructure management. Rather, when added as a subcontractor, the Hallmark Group augmented

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- ⑧ URS' engineering expertise by providing proven project management skills. Later in the program, the contract was divided, with program management being assigned to Hallmark, and URS retaining engineering tasks.
- ⑥ Addition of a specialized program management team made sense. Not all engineers make great managers. Management excellence transcends the field in which one is trained: many exceptional managers succeed in overseeing work in specialized fields
- ⑧ not because of their particular scholarly training, but because of the strength of their leadership and management abilities.
- ⑤ ⑦ Hallmark has succeeded in the task which it was originally brought on board to provide, cost control. As stated repeatedly by the participating public water agencies and DWR, Hallmark has done an outstanding job managing WaterFix. For example, within a year of being hired, Hallmark reduced staffing on the project by 40 percent, reduced monthly burn rate costs by 44 percent, and within two years costs were reduced by 65 percent.
- ⑨ Further, Hallmark dramatically increased program efficiency, enabling WaterFix to take a budget projection intended to last for three years through an initial projected project approval of April 2012, and extend it to cover nearly five years of unanticipated additional work through project approval (the California Environmental Quality Act Notice of Determination) in July 2017.

Over time, WaterFix evolved, transitioning from a Habit Conservation Plan to an Endangered Species Act section 7 process, resulting in further revisions to the schedule. On two different occasions in 2013 and 2014 Hallmark developed ramp down plans to further contain costs allowing the project to continue the environmental process. Beyond its obvious cost control success, Hallmark provided excellent leadership by keeping the teams organized, the stakeholders completely informed and an unflagging focus on resolution of issues as they developed.

California water law and policy is extremely complicated, making all water development projects protracted and therefore challenging—not least of which a project like WaterFix. There will be many more challenges to overcome in the future. The Hallmark Group has provided indispensable assistance to DWR, enabling the Department to reach this point of the process.

2. The URS Contract Authorized Multiple Tasks; Only One Task Was Construction

- ⑩ The Report characterizes the URS contract as one for “construction project management, which a licensed engineer or general contractor must perform under state law.” (Report, p. 24.) This is a misunderstanding of the URS contract, which can be readily understood by reviewing the contract’s scope of work which states the services contracted for included:
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[E]ngineering support services and the program management of the planning, coordination and oversight of the programs, environmental engineering and construction phases, strategic program development, risk assessment and oversight of program costs and schedules of DWR's Delta Habitat Conservation and Conveyance Program (DHCCP). (Contract 46-00008104, p. 1, attached hereto as Exh. 1.)

Thus, the contract DWR made with URS authorized a number of tasks to be performed, including strategic program development, planning, coordination and oversight among other tasks. It is inaccurate to summarize the above services as "construction project management." Rather, construction is one element of a multi-element program where oversight of environmental engineering, strategic program development, risk assessment and oversight of program costs and schedules are equally or more important. At the time the contract was made, comparatively little environmental analyses was performed for the project, there was no overall project plan, and no environmental permits had been obtained. The Report's incomplete characterization of the URS contract appears to undermine the Report's conclusions. (10)

3. Requiring A Subcontractor To Provide Program Management Services To URS Was Necessary And Was Legally Justified

The Report criticizes the manner in which DWR utilized Hallmark, a subcontractor, to provide project management services for the prime contractor. It asserts that this 2008 subcontract "does not appear to be a contractor-subcontractor arrangement" and is different from what the Report believes to be a "traditional contractor-subcontractor relationship." The Report further criticizes sections of the subcontract that details how DWR expected Hallmark to work as program manager with DWR and with URS staff. (Report p. 28.) (11)

The URS amendment made clear the uniqueness of the program management function, performed as a subcontract, and provided clear specific provisions to prevent any conflict. (Contract No. 4600008104, Am. 1, Exhibit E, Attachment 6, attached hereto as Exh. 2.) The subcontract to Hallmark was to provide a specific service – program management. In order to accomplish this function it was essential that Hallmark, as the program manager, exercise the functions typically performed by that position, including general direction and reporting, tasks which are essential for a program manager to perform in order to successfully manage WaterFix. (1)

The URS amendment provided comprehensive details, "... in order to avoid the appearance of or any actual conflicts that might arise from such an arrangement" (Ibid, page 1.) For example, the contract required Hallmark to submit all invoices to URS, whereupon URS would submit the invoice to DWR for approval while Hallmark

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was to provide program management functions by communicating and coordinating with URS. The roles and responsibilities of the parties to the agreement were clearly defined by the amendment. The amendment proved successful to the program, as demonstrated by the high level of performance for the three years duration in which the amendment was in effect.

⑫ ⑤

4. DWR Followed Proper Procedures in Replacing the Program Manager for the Conservation and Conveyance Program.

a. The URS Subcontracting of Program Manager Responsibilities to Hallmark was Both Necessary and Lawful.

The Report's finding that DWR "... later used other methods to select a replacement program manager, and these methods did not follow the competitive process required under the law" does not take into account applicable statutes, regulations and contract terms permitting the replacement. DWR's replacement of the WaterFix program manager was in full compliance with the law.

- ⑪ As explained above, the URS contract expressly permitted subcontracting, the terms of which DWR followed in selecting the Hallmark firm. (Contract No. 4600008104; Exhibit D, paragraph 6, attached hereto as Exh. 3.) Architectural and Engineering ("A&E") contracts are frequently amended to subcontract for specialized services, replacement personnel, program changes, and for other reasons. Such amendments permit DWR to accomplish cost effective, specialized services as program needs change or require. The original URS contract was for a term of 7.5 years for a project that the Report recognizes presented "unexpected complexity." A contract for such a lengthy term for such a complex project will by necessity require modifications and changes consistent with law. When it became apparent that the assigned URS program manager was not able to devote himself full-time to the project, and that the program required a stronger emphasis on cost containment, it became essential for DWR to subcontract for a program manager to ensure effective continued progress of the contract.

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The Legislature intended that the A&E process be liberally construed to accomplish its purposes. (Gov't Code § 4529.19.) Specific legal authority permitting modification of A&E contracts is provided by DWR regulation:

Where the Director determines that a change in the contract is necessary during the performance of the services, the parties may, by mutual consent, in writing, agree to modifications, additions or deletions in the general terms, conditions and specifications for the services involved, including extensions of time,

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with a reasonable adjustment in the firm's
compensation.
(23 Cal.Code Regs § 387.)

Lester Snow, DWR Director in 2008, determined that a change in the contract was necessary and effected a change. There is no indication that Director Snow failed to sufficiently assess the qualifications of Hallmark in doing so. (8)

The Report narrowly focuses on the Request for Qualifications (RFQ) process as the sole mechanism to replace the WaterFix program manager. But the contract itself, as well as DWR's regulations, provides another equally appropriate path. (13)

Indeed, the circumstances on the ground indicate why DWR's approach to contract amendment was appropriate. For example, as the contract performance was already in its 13th month, an RFQ selection process, even when given a high priority, would have required at least five months to obtain a new program manager. The program could not afford the absence of the program manager for such a lengthy period of time. Had an RFQ been utilized, it would likely have significantly delayed the project and incurred higher costs while waiting five months for a replacement program manager. Given the authorized alternative approach that DWR took, a "competitive" RFQ selection process for replacing the program manager was simply not a realistic or optimal option.

b. It Was Not Necessary That Hallmark As A Subcontractor Be An Engineer or Licensed Contractor.

The Report faults Hallmark for not having engineering expertise, but the contractor team as a whole provides all necessary expertise. As a subcontractor, Hallmark was a member of the URS team. The team, including URS, retained all the engineering/licensed contractor knowledge that was required to perform the services required under the contract. As the contract itself stated, the contract had many purposes well beyond just engineering. (14)
(11)

Government Code section 4529.5 requires any individual or firm to have requisite experience to provide construction project management services.² The firm, URS, had engineering expertise before Hallmark was assigned to provide program management

² Section 4529.5 states the following:

Any individual or firm proposing to provide construction project management services pursuant to this chapter shall provide evidence that the individual or firm and its personnel carrying out onsite responsibilities have expertise and experience in construction project design review and evaluation, construction mobilization and supervision, bid evaluation, project scheduling, cost-benefit analysis, claims review and negotiation, and general management and administration of a construction project.

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- ⑭ services and afterwards. All requisite engineering qualifications were retained within the URS contract to be performed by URS personnel after Hallmark was added to the team.

The URS contract's terms make clear that "... the various areas of expertise required of the successful Program Management team include planning and implementation of . . . engineering and construction program phases." (Exh. A, attached hereto at p 1, emphasis added.) No one person has all of the qualifications necessary to perform all of the services under the contract. It is a team approach, here contained within URS and its subcontractor Hallmark.

c. Assignment of Program Management Responsibilities to Hallmark Was Appropriate and Legally Supportable

- ⑮ DWR respectfully submits that the Report incorrectly concludes that the 2013 contract assignment to Hallmark violated the law and, instead, should have been accomplished through a competitive RFQ process. (Report pp. 29-30.) With the essential engineering expertise firmly in place, DWR determined that to improve workflow efficiencies and to save the 5 percent subcontractor markup costs imposed by URS, it was necessary to assign program manager responsibilities directly to Hallmark.

- ⑤ The Hallmark assignment was for the initial planning, coordination, and oversight of WaterFix. The engineering, environmental and construction management functions remained separately as a continuing part of the URS contract. The program manager responsibilities had already been performed by Hallmark for the three preceding years prior to the assignment. DWR management was satisfied with Hallmark's performance and Hallmark was experienced and successful in managing the program. Given Hallmark's success, there appeared to be no benefit from introducing a new less-experienced program manager to replace the successful incumbent and disrupt the continuity of the program. DWR determined that given Hallmark's experience and demonstrated performance, it was clearly the most qualified contractor to perform the assignment function.

- ⑬ Nor did it make any sense to adjust the timeline for the program for five months in order to submit an RFQ to replace the successful program manager not to mention the additional time required for a new untested program manager to become knowledgeable of the program's requirements. For the success of the WaterFix program, it was important to keep the existing program manager and maintain continuity.

- ⑮ The contract assignment was accomplished lawfully. As previously mentioned, DWR's regulations permit the Director to make a change in an A&E contract when necessary. (See 23 Cal.Code Regs § 387 ["Where the Director determines that a change in the contract is necessary during the performance of the services, the parties may, by mutual consent, in writing, agree to modifications, additions or deletions in the general

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terms, conditions and specifications for the services involved. . .”.) The Director appropriately determined that a change was necessary, for the reasons stated above, to help ensure the success of the program.

Finally, the URS contract contained a specific provision regarding contract assignments:

GTC 307, 3. ASSIGNMENT: This agreement is not assignable, either in whole or in part, without the consent of the State in the form of a written amendment.
(Contract 4600008104, Exhibit C, paragraph 3, attached hereto as Exh. 4.)

Further, state law allows contracts to be assigned without a new competitive bidding process. DWR followed state law, its own regulations and the contract terms in the January 2013 contract assignment of program management responsibilities to Hallmark.

(15)

5. The Structure of the McKinsey Contract Was Beneficial to Both DWR and the Public Water Agencies That Will Ultimately Pay for the Project

The Report finds that DWR did not ensure that the price paid for work product produced by subcontractor McKinsey & Company (McKinsey) was fair and reasonable. (Report, p. 31.) It may be difficult to appreciate today, but when DWR authorized the work performed by McKinsey in 2012, it was widely believed by DWR and its stakeholders that the WaterFix (then the BDCP) project would be approved in 2013, and construction would commence shortly thereafter. Even after substantial prior work by DWR and its WaterFix program manager there was still no consensus among stakeholders about how the project would be managed during construction. In June 2012, DWR and its WaterFix stakeholders determined to retain highly specialized consultants tasked with resolving these fundamental issues, and to resolve them in an expeditious manner to match the perceived tight time schedule.

(17)

(1)

DWR initially contemplated six consultants, McKinsey, Bain, Boston Consulting, Monitor, Booz/Allen/Hamilton, AT Kearney, and KPMG. In July 2012 multiple prospective qualified consultants were interviewed by phone, reducing the number of candidates to two, McKinsey and KPMG. These candidates were interviewed by a DWR/water contractor panel, and McKinsey emerged as the top ranked firm. References provided by McKinsey were interviewed, with interviewees reporting outstanding consultant performance and extraordinary results on projects with similar challenges. A fee for the work plan was established.

(17)

DWR determined the work required to produce the product was appropriately valued at \$2.6 million. Due to the expedited timeline, a fixed price contract task order was utilized to establish a time frame and to control costs. DWR maintained control of the final

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product and the value derived. As the amendment to the contract authorizing this work noted, "The structure of the contract, fixed fee based on deliverables, is beneficial to both DWR and the stakeholders that will ultimately pay the costs for this consultant, since the consultant is only authorized to bill the fixed price for deliverables that have been accepted and approved, as opposed to hourly labor each month." (Contract 4600008104, Am. 5, Std 215, p. 3, attached hereto as Exh. 5.)

6. DWR Developed a Construction Governance Structure For Implementation at the Appropriate Project Stage

- ⑱ ① The Report (pp. 37-38) implies no governance structure exists and that lack of a governance structure for implementation of the WaterFix is somehow contrary to DWR's legal requirements. This implication is not supported by the facts. DWR has always had the legal authority to carry out the project itself. There is no legal requirement that it have a governance structure in place prior to approval of a project. Based on recommendations by McKinsey, DWR developed a governance structure in the last quarter of 2012. DWR posted the governance structure on the BDCP website and it has been publicly available since January 2016. When a decision is made regarding public water agency participation, a structure will be ready for implementation at the appropriate time and will be able to draw on the substantial materials already prepared during the work with McKinsey.

7. DWR Will Prepare a Financial Analysis and Economic Analysis When WaterFix Participants Are Identified

- ① As the Report noted, DWR cannot complete a final economic analysis until individual water agencies define their level of involvement in WaterFix. We are pleased the Report reflects this consideration. (Report, p. 35.)
- ⑱ ① With regard to the WaterFix financial analysis, the Report appears to suggest that DWR must assess each water agency's needs and provide a final financial analysis before the decision to opt in to WaterFix is made. (Report, pp. 36-37.) This is not correct: DWR's contractor Public Finance Management has already provided a wide range of financing options to water contractor governing boards as tools to enable each contractor to determine what financing option would best work for them. To date, we have received no requests for additional information. Once individual agencies decide to participate, financing will be tailored to meet each agency's needs. There is no need to prepare a full financial analysis for each potential participant in WaterFix before the decision is made to opt in to the project.

8. DWR Has Performed Significant Planning During The Planning Stage and Has Maintained and Provided Extensive Documentation

The Report states DWR failed to update its Program Management Plan (PMP) and suggests that the absence of a PMP meant there was little or no documented WaterFix

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planning effort. Although DWR did not update the PMP itself, DWR has maintained an extensive record of program management documents meeting the same planning function. DWR has provided State Auditor full access to all of the program management and planning documents on the program manager's database, Acononex, and on multiple occasions provided them with physical samples. These documents included but were not limited to documentation for the Business Committee, Core Policy, DCE, EIR/S, Biological Opinion, Project Manager, Finance, engineering, Request for Qualifications, major agreements, budget reports, invoices, and deliverables. Maintaining the critical project documentation throughout the program has been performed. (20)

Although DWR experienced management changes, as an industry best practice, DWR required that the program manager maintain all work plans and associated documents to provide continuity for the project. This practice provided seamless transitions without loss of institutional knowledge. This proved to be a successful strategy as the project continued to make consistent progress throughout management changes.

As evidenced in the program documents, as early as 2012 DWR anticipated project approvals by the federal and state participants and began preparing to transition to the design and construction phase. DWR began the update to the PMP for the design stage, but unexpected complexities of the project forced a delay in implementing the design stage and the PMP update effort was put on hold. Given the constantly changing nature of the planning process, DWR managed the project from workplans that could quickly be developed and implemented to react to changing conditions, which proved to more efficient than constantly updating the planning PMP.

B. RECOMMENDATIONS

In this section of DWR's comments, DWR provides a response to the Auditor's recommendations made throughout the report. Since the recommendations are not consecutively numbered, DWR identifies them by the page on which they appear. DWR's response to the recommendation is provided in italicized text.

(Report, p. 21) To improve management of large and complex infrastructure projects, the Legislature should enact legislation requiring agencies to publicly report significant changes in the cost or schedule of such projects if they are expected to exceed their established budgets by 10 percent or schedules by 12 months. (1)

The Department will continue to abide by any existing or new laws, and takes no position on this general recommendation to the Legislature.

(Report, p. 21) To better manage large infrastructure projects, DWR should develop and implement a project reporting policy requiring its management staff to document and justify decisions to proceed with such projects if they are expected to (1)

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exceed their established budgets by 10 percent or schedules by 12 months. DWR should make these documented decisions and justifications publicly available and submit them to the Resources Agency for review and approval.

This recommendation does not make a distinction between the planning phase of a project and the design and construction phase. DWR believes this is an important distinction, as evidenced in the Report's findings for the planning phase of the WaterFix. The recommendation presupposes that an extension of time during a project planning phase is something that has a negative consequence. This recommendation has limited applicability here, since decisions regarding this project were made in response to stakeholder input and public comments to increase the range and scope to better meet the needs of the state. The planning process for large infrastructure projects is complex and subject to changing requirements and scope from a variety of sources including regulating agencies, project proponents, stakeholders, and the public at large. As seen with WaterFix, this results in increases in scope and schedules that are beyond the control of DWR. Limiting the Department's ability to be responsive to stakeholder input during complex "planning" efforts would be counterproductive.

②1

- ① (Report, p. 22) To ensure it makes appropriate use of its growing surplus revenue balance, by December 2017 DWR should develop a detailed plan describing how it intends to use these funds.

The Department is already in the process of preparing this plan related to Water Code section 12937(b)(4) funds.

- ① (Report, pp. 32-33) To fully comply with state contracting law, DWR should ensure that it competitively selects architectural and engineering consultants based on demonstrated competence and professional qualifications. In addition, DWR should document in the contract file its evaluation of the competence and professional qualifications of all contractors and any subcontractors that are added to the contract subsequent to the competitive selection process.

- ③ *The Department will continue to comply with state contracting law including the process outlined above.*

- ① (Report, p. 33.) To ensure that only qualified subcontractors are added to contracts after the initial award is made, DWR should make sure that contractors select their own subcontractors and that DWR subsequently approves the selection after it verifies their qualifications.

- ②2 *It is essential that DWR work with a contractor to identify the specific tasks for which a subcontractor will be required. Additionally, it is important to convey to the contractor the expertise and qualifications necessary of the subcontractor in*

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order to ensure the most highly qualified subcontractor is chosen to accomplish the specified tasks. The Report's Recommendation, above, isolates DWR from such consultation. Without these communications, time is unnecessarily expended while the contractor attempts to obtain a suitable sub-contractor without the benefit of input from DWR. The recommended edit below allows for the indispensable communications necessary to successfully obtain, and approve, subcontractors.

Proposed Revision: To ensure that only qualified subcontractors are added to contracts after the initial award is made, DWR should make sure that contractors select their own subcontractors in consultation with DWR and that DWR subsequently approves the selection after it verifies their qualifications (Report, p. 33). (22) (1)

(Report, p. 33) DWR should ensure that it retains documentation in its contract files to support that contract prices are fair and reasonable. (1)

The Department agrees to adopt the above recommendation.

(Report, p. 41) To ensure that DWR manages WaterFix in an effective manner, DWR should complete both the economic analysis and financial analysis and make the analyses publicly available as soon as possible. (1)

As planned, the Department will release completed versions of these reports as soon as practicable. This will necessarily follow the determinations currently being contemplated by the public water agencies regarding level of participation.

(Report, p. 41.) In order to prepare for the potential approval of WaterFix and to ensure that the project is managed properly during the design and construction phase, DWR should do the following: (1)

- Develop an appropriate governance structure so that it is prepared to oversee the design and construction of WaterFix in the event it is ultimately approved.

A governance structure will be ready to be implemented to oversee the design and construction of WaterFix in the event it is ultimately approved.

- Develop and update when necessary the associated program management plan for the design and construction phase of the project.

The Department agrees to adopt the above recommendation.

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We appreciate this formal opportunity to respond to the Draft Audit Report No. 2016-132. If new evidence presents itself in the finalizing of this draft Report, DWR requests the opportunity to respond to such new information, which the Auditor may send to Deputy Director Taryn Ravazzini at taryn.ravazzini@water.ca.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'Grant Davis', is written over the word 'Sincerely,'.

Grant Davis
Director

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Attached Exhibits

1. URS Contract, Exhibit A (Scope of Work)
2. URS Contract, Amendment 1, Exh. E, Attachmt 6 (Covenants)
3. URS Contract, Exhibit D (Special Terms and Conditions)
4. URS Contract, Exhibit C (General Terms and Conditions)
5. URS Contract, Amendment 5, Std. 215 (Agreement Summary)

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