

● **Audit, Budget and Finance Committee**

February 12, 2001 Committee Meeting

**10b**

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**Subject**

Request to Solicit Proposals for External Audit Services for FY2001-02, FY2002-03 and FY2003-04

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**Description**

Metropolitan's current external audit services agreement with KPMG LLP (KPMG) will expire later this year upon completion of the FY2000-01 annual audit. The external audit services agreement includes several required audits, including the annual financial statement audit, the single-audit for federal grants and the trustee audits. The agreement also includes quarterly audits of Metropolitan's statements of cash and investments and an annual review of the Comprehensive Annual Financial Report.

To facilitate replacement of the current agreement, I have attached the **Scope of Work** describing these audit services, in draft-form, for your review and approval. When approved, the **Scope of Work** will be included in a Request for Proposal (RFP) for External Audit Services. The RFP will seek a three-year agreement beginning July 1, 2001, and if approved as drafted, will maintain the same level of audit services currently received, as well as the same level of internal audit staff participation in the quarterly and year-end audits.

Proposals will be requested from the "Big Five" public accounting firms, as well as other qualified audit firms as approved by the Audit, Budget and Finance Committee. All proposals received will be evaluated. The firms deemed to have submitted the best proposals would be invited to make a presentation to the Audit, Budget and Finance Committee for the final selection process. The RFP screening panel would include the Chief Financial Officer (or his designee), the Controller, the Principal Auditor and me.

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**Policy**

Procedures for contracting for professional services.

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**Board Options/Fiscal Impact**

**Option #1**

Authorize the Interim General Auditor to issue a Request for Proposal for the purpose of soliciting proposals from qualified audit firms to provide external audit services for fiscal years 2001-02, 2002-03 and 2003-04.

**Option #2**

Extend current external audit services agreement with KPMG LLP.

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**Staff Recommendation**

Option #1

  
Interim General Auditor

1/24/2001  
Date

**REQUEST FOR PROPOSAL TO PROVIDE  
EXTERNAL AUDIT SERVICES**

**SCOPE OF WORK**

**1-2 General**

1-2.1 The Metropolitan Water District of Southern California (Metropolitan) is seeking a certified public accounting firm (Accountant) to: 1) perform periodic audits of Metropolitan's financial statements, 2) to review accounting procedures utilized by Metropolitan, and 3) to make recommendations in regard to Metropolitan's accounting procedures and systems of internal control.

1-2.2 Accountant shall have experience in auditing utilities and governmental agencies, and also experience in tax-exempt bond and other municipal financing activities. Metropolitan's General Auditor will administer the audit services agreement on behalf of the Board of Directors.

1-2.3 It is anticipated that Metropolitan will issue a three-year contract for services beginning July 1, 2001.

1-2.4 Metropolitan reserves the right to interview all personnel to ensure that each person meets the background experience and expertise required by Metropolitan

1-2.5 Metropolitan's external audit services for the fiscal year ending June 30, 2001, are currently being provided by KPMG LLP.

**1-3 Professional Licenses**

1-3.1 Accountant, its subconsultants, and Key Personnel shall have the required professional licenses or certifications required for these services.

1-3.2 All professional licenses or certifications required for performance of these services shall be maintained in good standing during the term of the agreement.

**1-4 Respondent's Requirements**

1-4.1 The Accountant's staff must be of sufficient size to provide the required professional services in a timely manner throughout the contract period. On occasion, service may require the Accountant to respond on a priority basis.

1-4.2 The Accountant, or its principals, shall be an established provider of the type services required by the Scope of Work for three (3) years and shall have conducted these type services within the past year.

1-4.3 Accountant shall be expected to provide professional personnel for each assignment who are highly qualified and experienced in relation to the tasks assigned. Accountant's personnel shall also possess the professional licenses or designations which are applicable to the work assigned.

Accountant and staff shall conduct their work in accordance with all applicable accounting and auditing standards.

1-4.4 Metropolitan's General Auditor will have the right to direct the Accountant to change its personnel on any assignment.

### **1-5 Subconsultants**

1-5.1 Accountant shall identify all subconsultants to be used in the performance of these services and provide a resume and a detailed description of the services to be performed by subconsultants. Each subconsultant's billing rate shall be identified in the Fee Schedule.

1-5.2 All subconsultant's shall be approved by the Agreement Administrator. Any substitution of the subconsultants submitted in Respondent's proposal requires prior written approval by Metropolitan and an amendment to the Agreement.

1-5.3 Accountant shall be responsible for all services performed under an Agreement with Metropolitan.

1-5.4 Accountant shall not assign or transfer its interest in any contract or subcontract for any services without amending the Agreement.

1-5.5 Metropolitan will not approve Accountant's billing for any personnel who are not specifically approved for work on this project. Metropolitan will reject all personnel provided by Accountant who do not meet requirements for the classification assigned. Accountant shall supply a suitable qualified replacement.

### **1-6 Professional Services Required**

1-6.1 Metropolitan requires annual and quarterly audits covering three fiscal years beginning July 1, 2002 and ending June 30, 2004. The Accountant shall perform examinations of Metropolitan's annual and quarterly financial statements in accordance with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants, Government Auditing Standards promulgated by the Comptroller General of the United States, and any other audit standards appropriate to public agencies in the State of California.

1-6.2 Specific audit services requirements are outlined in the following paragraphs.

#### **(a) Annual Financial Statement Audits**

1) An audit of Metropolitan's general purpose comparative financial statements, prepared on the accrual basis of accounting, shall be made by Accountant for each of the fiscal years ending on June 30, 2002 through June 30, 2004. Metropolitan's comparative financial statements, presented in conformity with generally accepted accounting principles, shall include the Balance Sheets, as of June 30 of each fiscal year, and the related Statements of Revenues, Expenses and

Changes in Equity, and Statements of Cash Flows for the fiscal years then ended, together with all required footnote disclosures. Accountant's annual audit reports shall consist of an Independent Auditors' Report and Metropolitan's aforementioned comparative financial statements.

(b) Quarterly Financial Statement Audits

1) An audit shall be made by Accountant of Metropolitan's Statements of Cash and Investments, prepared on the cash basis of accounting, as of the last day of the fiscal quarterly periods ending September 30, December 31, March 31, and June 30, for each of the three fiscal years 2000/02 through 2003/04, as well as the related year-to-date cash basis Statements of Cash Receipts and Disbursements by Fund Category, as of the periods then ended, together with all required footnote disclosures. Accountant's quarterly audit reports shall consist of an Independent Auditors' Report and contain Metropolitan's aforementioned cash basis financial statements.

(c) Annual Letter of Recommendations to Management

1) Accountant shall prepare an annual letter of recommendation to management at the conclusion of each of the annual financial statement audits for fiscal years 2001/02 through 2003/04. The letters shall summarize any significant observations or findings noted by Accountant during the conduct of both the annual and quarterly audits, together with Accountant's related recommendations for improvements or management corrective actions. Accountant shall submit such letters to management more frequently than annually if the circumstances dictate.

(d) Annual Single Audits

1) For each fiscal year covered by the term of this Agreement, the Accountant shall make a determination, in conjunction with Metropolitan's Chief Financial Officer, as to whether a "Single Audit" will be required. For a year that a Single Audit is required pursuant to applicable Federal Laws or regulations, Accountant shall perform such Single Audit of Metropolitan's Federal Financial Assistance Programs in accordance with generally accepted auditing standards; Government Auditing Standards promulgated by the Comptroller General of the United States; and, the provision of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(e) Audits of Metropolitan Water District Asset Financing Corporation (MWDAFC)

1) In connection with the annual audits of Metropolitan's accrual basis comparative general purpose financial statements, Accountant shall also audit the MWDAFC (the MWDFAC was established in June 1996; as of December 21, 2000, there has been no activity in the Corporation). The financial positions and results of operations of the MWDAFC for each of the three fiscal years ending June 30, 2002 through 2004, are expected to be reported as part of Metropolitan's aforementioned general purpose financial statements. However, in the event it is determined that

separate audited financial statements are required annually for the MWDAFC, the Accountant shall perform audits of such separate statements annually.

(f) Audits of Trustee Agency Financial

1) Metropolitan acts as administrator/depository trustee for the following agencies:

- Six Agency Committee
- Colorado River Association

2) Annual audits of the Statements of Cash Receipts and Disbursements, prepared on the cash basis of accounting, are required for these agencies for the fiscal years ending June 30, 2002 through June 30, 2004, performed in accordance with generally accepted auditing standards. Separate audit reports for each agency are required annually from Accountant, and such reports shall consist of an Independent Auditors' Report and the agencies' aforementioned comparative financial statements.

(g) Reviews of Metropolitan's Annual Financial and Comprehensive Annual Financial Reports

1) As an additional service to management, each year the Accountant will read and critique drafts of both Metropolitan's Annual Financial Report and its Comprehensive Annual Financial Report prior to their publication. This review helps Metropolitan ensure that the data, and narrative content of such financial reports is consistent, in all material respects, with the audited general purpose financial statements contained in such financial reports.

(h) Attendance at Board of Directors and Other Meetings

1) Accountant's representatives shall attend meetings of Metropolitan's Board of Directors, or its committees, primarily meetings of the Audit, Budget and Finance Committee, whenever requested by Metropolitan's General Auditor, General Manager, General Counsel, or the Board of Directors. In addition to Board of Directors', or committee meetings, Metropolitan may also require Accountant's representatives to attend, or participate in other staff meetings upon the request of Metropolitan's General Auditor, General Manager, General Counsel or their designees.

(i) Other Required Services

1) Metropolitan expects that:

- In a timely manner, Accountant will inform Metropolitan's staff and Board of Directors of matters which may be of interest (particularly those of a financial or accounting nature). Examples of such information might include (but would not be limited to) proposed changes in accounting regulations or auditing standards, comments on business or economic

trends or conditions, or general business advice. Such information could be presented to Metropolitan either orally or in writing, as deemed appropriate by Metropolitan's General Auditor, General Manager, or General Counsel.

2) It is anticipated that:

- The Internal Audit Department will provide approximately five hundred (500) hours of assistance to the Accountant in performing Metropolitan's annual and quarterly audits. Personnel from Metropolitan's Chief Financial Officer's office will also provide significant assistance by preparing required workpaper schedules, supplying the Accountant with requested information and explanations, and drafting the comparative financial statements at year-end.

- The audit workpapers prepared by the Accountant during the performance of Metropolitan's required audit services shall be the property of the Accountant. However, to facilitate the joint work efforts with the Internal Audit Department, the Accountant is required to provide Metropolitan's General Auditor with copies of the annual and quarterly audit workpapers, as well as periodic summaries of audit time incurred, by area, for budget and planning purposes.

- In a timely manner, Metropolitan's Board of Directors, General Manager, General Counsel, or General Auditor may request the Accountant to perform services in addition to the required services outlined above. These additional services would generally include matters such as reviewing Official Statements for bond issues or performing special examinations upon request. Such additional services must be approved in writing by either the General Manager, General Counsel, or General Auditor prior to their performance. Charges for such services will be paid to the Accountant in addition to the Accountant's charges for the required audit services. The charges for such additional services will be based upon the same hourly rates charged by Accountant for the required services unless other rates are provided for in the Accountant's contract with Metropolitan.