

● **Board of Directors**
Audit, Budget and Finance Committee

June 12, 2001 Board Meeting

8-5

Subject

Award of Contract for External Audit Services

Description

The Audit, Budget and Finance Subcommittee to Select an Outside Auditing Firm is recommending the award of a three-year contract to the firm of KPMG LLP (KPMG) for annual and quarterly audits commencing with fiscal year June 30, 2002. KPMG was selected as the most qualified to perform the external audit services required by Metropolitan based on a competitive process. The contract will be based on the proposal submitted by KPMG in response to Metropolitan’s RFP No. 482. The amount payable under the three-year contract will not exceed \$460,545 as shown below:

FY 2001-02	\$149,000
FY 2002-03	\$153,470
FY 2003-04	\$158,075
Total	\$460,545

In addition, as part of its fee proposal, KPMG has committed to providing Metropolitan 80 hours of “Executive Time” at no additional charge to be used at Metropolitan’s discretion.

Background

Metropolitan’s current external audit services agreement with KPMG expires later this year upon completion of the FY 2000-01 annual audit. At the February 12, 2001 Audit, Budget and Finance Committee meeting, the Interim General Auditor was authorized 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. At the May 14, 2001 Audit, Budget and Finance Committee meeting, a subcommittee was formed to expedite review and selection of an outside auditing firm. Members of the subcommittee included Directors Battey, Blake, Grandsen, Hansen, Mejia and Wein.

Proposals to provide the required external audit services were received from four firms by the April 12, 2001 deadline. After a preliminary screening of the proposals by the Chief Financial Officer, the Controller and the Interim General Auditor, three of the firms were asked to submit fee proposals and were invited to a panel interview held by the subcommittee on May 29. Upon completion of the interviews and evaluation of the fee proposals, the subcommittee unanimously selected KPMG as the best qualified to provide the required External Audit Services commencing with FY 2001-02.

Among the factors considered in reaching its decision were:

- KPMG's extensive experience in performing governmental and utility audits.
- KPMG's experience in tax-exempt and other municipal financing activities.
- The qualifications and experience of the team assigned to work on the engagement.
- The competitive hourly rates and not-to-exceed amounts which are guaranteed for the life of the contract.
- KPMG's knowledge of Metropolitan.

A schedule of the hourly rates and not-to-exceed amounts for such services, for the three-year contract term, is attached to this letter (Attachment 1).

Policy

Existing policy contained in Administrative Code Sections 2561(a)(3) and 2561(b) specify that the Special Audit Committee (now the Audit, Budget and Finance Committee) shall study, advise, and make recommendations to the Executive Committee with regard to the selection of external auditors.

CEQA

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA) because it involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines. In addition, the proposed action is not subject to CEQA because it involves government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize the Interim General Auditor to enter into a contract for External Audit Services with the firm of KPMG LLP for annual and quarterly audits covering the fiscal years June 30, 2002 through June 30, 2004. The amount payable under this three-year contract will not exceed \$460,545.

Fiscal Impact: \$460,545 during the three-year contract term.


Option #2

Reject the recommendation to award the proposed contract to KPMG.

Fiscal Impact: Unknown, but likely higher than Option #1 for similar quality of services.

Subcommittee Recommendation

Option #1


 Ted Grandsen, Chair
 Subcommittee to Select
 Outside Auditing Firm

5/31/01
Date

Attachment 1—KPMG Hourly Billing Rates and Not-to-Exceed Amounts

The hourly billing rates and not-to-exceed amounts for services to be rendered under the External Audit Services Agreement with KPMG for annual and quarterly audits covering the fiscal years June 30, 2002 through June 30, 2004 will be as follows:

	FY02			FY03			FY04		
	Hourly Rate	Hours	Amount	Hourly Rate	Hours	Amount	Hourly Rate	Hours	Amount
Partner	\$ 250	100	\$ 25,000	\$ 257.50	100	\$ 25,750	\$ 265.23	100	\$ 26,523
Manager	\$ 170	150	25,500	\$ 175.10	150	26,265	\$ 180.35	150	27,053
Consulting Managers	\$ 185	-	-	\$ 191.00	-	-	\$ 196.00	-	-
Supervising Senior Accountants	\$ 160	-	-	\$ 165.00	-	-	\$ 170.00	-	-
Senior Accountants	\$ 130	400	52,000	\$ 133.90	400	53,560	\$ 137.92	400	55,167
Staff Accountants	\$ 110	650	71,500	\$ 113.30	650	73,645	\$ 116.70	650	75,854
Assistant Accountants	\$ 100	350	35,000	\$ 103.00	350	36,050	\$ 106.09	350	37,132
Consultants	\$ 140	-	-	\$ 144.00	-	-	\$ 149.00	-	-
		1,650	209,000		1,650	215,270		1,650	221,729
Less MWD	\$ 120	(500)	(60,000)	\$ 123.60	(500)	(61,800)	\$ 127.31	(500)	(63,654)
Total		1,150	\$ 149,000		1,150	\$ 153,470		1,150	\$ 158,075