

- **Board of Directors**  
**Audit Subcommittee**  
**Executive Committee**

June 8, 2004 Board Meeting

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**9-8**

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## **Subject**

Award contract to Richardson & Co. for audit services in the amount of \$2.6 million for Metropolitan's State Water Project charges

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## **Description**

Metropolitan contracts with an independent certified public accounting firm to audit each year's State Water Project (SWP) Statement of Charges billed by the Department of Water Resources. Based on a recent Request for Qualifications (RFQ) No. 658, staff proposes to award a contract to a single audit firm. These services have consistently benefited Metropolitan with reduced SWP costs.

Authority is requested to enter into a contract with Richardson & Co. to conduct Metropolitan's audit work of its SWP Statement of Charges, described in [Attachment 1](#). The selected firm is a Sacramento-based small business. The proposed contract term is five years up to a maximum of \$2.6 million.

The respondents' qualifications were evaluated to ensure compliance with the RFQ's form and content requirements. In addition to making a presentation and undergoing an interview, respondents' qualifications were also subject to an evaluation consisting of a detailed review of eight areas:

- Team member and firm experience during the last five years doing large complex public agency audits of similar scope
- Experience auditing activities of the state of California
- Organizational strength of firm and principal areas of expertise
- Proposed staffing plan
- Skill and experience writing technical reports
- Team technical qualifications and experience
- Participation in the American Institute of Certified Public Accountants peer review programs
- Overall quality and strength of the respondent's organization

Another factor was whether the selection would achieve Metropolitan's business outreach goals.

Richardson & Co. was selected as the most qualified to perform the audit services required based on this competitive process. The selection panel of seven consisted of: two representatives from member agencies; one State Water Contractor; and four Metropolitan representatives from the Office of the Chief Financial Officer, the Office of the General Auditor and Water Resource Management Group.

The work plan for the contract term will focus on auditing the Statement of Charges.

During the past five years these audits have identified errors and adjustments that have resulted in a reduction of over \$70 million in State Water Project charges to Metropolitan.

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## **Policy**

Board authorization is required for annual expenditures exceeding \$250,000. Existing policy contained in Administrative Code Section 2420 (c).

## California Environmental Quality Act (CEQA)

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CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other 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).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

## Board Options/Fiscal Impacts

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### Option #1

Adopt the CEQA determination and authorize the Chief Executive Officer to enter into a contract with the firm of Richardson & Co. for required State Water Project related audit services for a five-year period commencing July 1, 2004, and for a maximum amount payable of \$2.6 million.

**Fiscal Impact:** \$520,000 annually, not to exceed \$2.6 million during the five-year term of the agreement. Sufficient funds are available in the fiscal year 2004/05 Operations and Maintenance Fund budget for July 2004-June 2005 payments, and sufficient funds would be proposed in future years for payments over the term of the agreement.

### Option #2

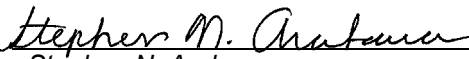
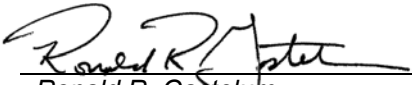
Reject the recommendation to award the proposed contract for audit services and direct staff to reissue the RFQ. Adopt the CEQA determination and amend contract with Richardson and Co. and extend contract term through December 2004 to allow reissuance of RFQ.

**Fiscal Impact:** No feasible estimate until a reevaluation of qualifications is completed.

## Staff Recommendation

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Option #1

 Stephen N. Arakawa Manager, Water Resource Management	5/14/2004 Date
 Ronald R. Gastelum Chief Executive Officer	5/19/2004 Date

## Attachment 1 – Scope of Work Statement of Charges Audit

BLA #2924

## **Scope of Work**

### **Statement of Charges Audit**

The principal assignment will be the audit of Metropolitan's Annual State Water Project Statement of Charges. This audit work is conducted yearly on a sustaining basis to protect Metropolitan's large financial exposure. Likely areas where the auditor's services will be utilized include:

- Support Metropolitan and/or State Water Contractor's activities to reduce Department of Water Resources' operating and maintenance costs and/or facilities
- Represent Metropolitan at SWC meeting
- Support Metropolitan and SWC activities to improve the fairness, accuracy, and compliance with law of agreements and policies for cost allocations among project purposes and amongst contractors
- Support Metropolitan and SWC activities to increase financing flexibility for SWP programs and facilities
- Monitor implementation and costs for DWR's new business information systems
- Provide services reporting how best business practices might be applied to the SWP

The auditor will provide advice or information to the Agreement Administrator on areas of opportunity for future auditing. The scope of all required services will be agreed upon, prior to commencing any assignment, through the use of a Task Order document.