

- **Board of Directors
Audit Committee**

October 11, 2005 Board Meeting

7-3

Subject

Authorize increase of \$80,975 in maximum amount payable under contract with KPMG for external audit services

Description

In October 2004, Metropolitan retained the firm of KPMG on a one-year contract to perform external audit services. KPMG was selected as the most qualified to perform the annual and quarterly audits for fiscal year June 30, 2005 based on a competitive process. The amount payable under the one-year contract was not to exceed \$208,350 for fiscal year 2004/05.

However, there have been unprecedented demands on staff and management teams within the public accounting industry. Because of these demands and the impact Sarbanes-Oxley has had on the industry, KPMG increased their billing rates to be able to maintain the staffing levels needed to serve its clients. Accordingly, KPMG has revised its fee estimates from \$208,350 to \$289,325. Therefore, authority is being requested to increase the maximum amount payable under the KPMG contract by \$80, 975 (see [Attachment 1](#)).

Policy

Metropolitan Water District Administrative Code Section 6452: Authority to Obtain Professional Services

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under 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 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 the provisions of CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and approve amendment of contract for external audit services with KPMG to increase maximum amount payable from \$208,350 to \$289,325.

Fiscal Impact: \$80,975 in current and future invoices

Option #2

Do not amend subject contract.

Fiscal Impact: Unknown at this time

Staff Recommendation

Option #1


Gerald C. Riss
General Auditor

9/20/2005
Date

Attachment 1 – KPMG Professional Fees Summary

BLA #3962

KPMG PROFESSIONAL FEES SUMMARY

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 for fiscal year June 30, 2005, will be as follows:

	FY 2004/05	Hours	Fees
	Hourly Rate		
Partner	\$325	100	\$ 32,500
Senior Manager	\$275	185	\$ 50,875
Supervising Senior	\$225	300	\$ 67,500
Senior	\$200	300	\$ 60,000
2 nd Year Staff	\$175	400	\$ 70,000
Staff	\$130	765	\$ 99,450
		2,050	\$380,325
Less: Metropolitan Water District Internal Audit Assistance	\$130	(700)	(\$ 91,000)
TOTAL		1,350	\$289,325