

- **Board of Directors**  
**Business and Finance Committee**

November 20, 2007 Board Meeting

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**8-11**

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**Subject**

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Authorize execution of a three-year contract for external audit services with KPMG LLP in maximum amount of \$1,035,250

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**Description**

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Metropolitan's current external audit services with KPMG LLP expired with the completion of the FY 2006/07 annual audit. The external audit services agreement comprises several required audits, including the annual financial audit, the single-audit for federal grants, and the trustee audits. The agreement also requires quarterly audits of Metropolitan's statements of cash and investments and an annual review of the Comprehensive Annual Financial Report.

A Request for Proposal for External Audit Services No. 837 was issued on July 26, 2007, for statements of qualifications to perform external audit services. Metropolitan is seeking a highly qualified Respondent ("Accountant") to provide quarterly and annual audits covering three fiscal years beginning July 1, 2007 and ending June 30, 2010. The Respondent shall examine 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 principles relevant to public agencies in the State of California.

Three proposals were received and they were reviewed by an interview panel made up of Metropolitan Directors. Each Respondent was then interviewed by the panel, and the Directors selected KPMG LLP as the most qualified candidate and recommended the award of a three-year contract for annual and quarterly audits commencing with the fiscal year ending June 30, 2008. The amount payable under the three-year contract will not exceed \$1,035,250 ([Attachment 1](#)).

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**Policy**

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Metropolitan Water District Administrative Code Section 6453: Authority to Obtain Professional Services

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**California Environmental Quality Act (CEQA)**

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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

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### Option #1

Adopt the CEQA determination and authorize the 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, 2008 through June 30, 2010. The amount payable under this three-year contract will not exceed \$1,035,250.

**Fiscal Impact:** \$1,035,250 during the three-year contract term

### Option #2

Reject the recommendation to award the proposed contract to KPMG LLP and rebid the Request for Proposal

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

## Staff Recommendation

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### Option #1

  
Gerald C. Riss  
General Auditor

10//30/2007

Date

## Attachment 1 – KPMG LLP Professional Fees Summary

BLA #5705

### KPMG LLP 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 LLP for annual and quarterly financial statements commencing with fiscal year June 30, 2008, will be as follows:

	Discounted Rates	Projected Hours	2008 Fees	2009 Fees	2010 Fees
Partner	\$375	110	\$41,250	\$43,300	\$ 45,500
Senior Manager	\$295	225	\$66,375	\$69,700	\$ 73,200
Supervising Senior	\$215	315	\$67,725	\$71,100	\$ 74,700
Senior	\$185	300	\$55,500	\$58,300	\$ 61,200
2 <sup>nd</sup> Year Staff	\$165	450	\$74,250	\$78,000	\$ 81,900
Staff	\$145	850	\$123,250	\$129,400	\$135,900
		2,250	\$428,350	\$449,800	\$472,400
<b>Less: MWD Internal Audit Assistance</b>	<b>\$125</b>	<b>(800)</b>	<b>\$100,000</b>	<b>\$105,000</b>	<b>(\$110,300)</b>
<b>TOTAL</b>		1,450	\$328,350	\$344,800	\$362,100