



● **Board of Directors**
Audit and Ethics Committee

May 12, 2009 Board Meeting

8-1

Subject

Award contract to Richardson and Company in the amount of \$3.4 million for auditing Metropolitan's State Water Project charges

Description

Authority is requested to enter into a contract with Richardson and Company to audit Metropolitan's State Water Project (SWP) charges based on the scope of work described in [Attachment 1](#). The proposed contract term is for five years up to a maximum of \$3.4 million. The selected firm is a veteran-owned Sacramento-based small business, and the only qualified respondent to the RFQ. There were two initial respondents to the RFQ; one of whom submitted an incomplete application and subsequently withdrew.

Staff proposes a five-year contract rather than a normal three-year term due to the complex and specialized nature of the SWP contract. The contract term would provide important continuity to complete updates to DWR's accounting system and the resolution of administrative and accounting issues. A three-year term will not add any value to the contracting process but increase the frequency of the RFQ solicitation process and related costs.

Metropolitan contracts with an independent certified public accounting firm to audit each year's SWP charges billed by the Department of Water Resources. Based on a recently concluded Request for Qualifications (RFQ) No. 893, staff proposes to award a contract to the most qualified participating firm to carry out the annual audit. These services have consistently benefited Metropolitan with reduced SWP costs.

The respondents' qualifications were evaluated to ensure compliance with the RFQ's form and content requirements. The RFQ solicitation, sent to more than 500 prospective respondents, provided for minimum requirements and evaluation criteria in specific areas including:

- Organizational strength, areas of expertise, and number of years in business
- Experience providing complex auditing services to large public agencies of comparable size and scope
- Experience auditing activities of governmental agencies of the state of California within the past five years
- Demonstrated experience and competence in preparing technical reports
- Proposed staffing plan, qualifications and relevant professional licenses of team members
- California Certified Public Accounting firm and participation in the American Institute of Certified Public Accountants peer review programs
- Organizational policies or practices that have been implemented regarding environmental sensitivity

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

Richardson and Company was the only qualified respondent. Richardson and Company is the current auditor and has many years of experience auditing SWP charges. During the past five years, Richardson and Company identified nearly \$60 million in errors and adjustments that reduced Metropolitan's charges by \$13 million. The remaining \$47 million of adjustments are being negotiated with DWR under settlement discussions.

Policy

Metropolitan Water District Administrative Code Section 8121: General Authority of the General Manager to Enter Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

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 #3:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize the General Manager to enter into a five-year contract with Richardson and Company for the required State Water Project related audit services commencing May 15, 2009, and for a maximum amount payable of \$3.4 million.

Fiscal Impact: \$680,000 annual expenditure, (included in the 2009/10 budget) not to exceed \$3.4 million during the five-year term of the agreement

Business Analysis: This option offers an efficient approach to auditing the State Water Project and assures that Metropolitan's charges comply with the contract.

Option #2

Adopt the CEQA determination and authorize the General Manager to enter into a three-year contract with Richardson and Company for the required State Water Project related audit services commencing May 15, 2009, and for a maximum amount payable of \$2.04 million.

Fiscal Impact: \$680,000 annual expenditure, (included in the 2009/10 budget) not to exceed \$2.04 million during the three-year term of the agreement

Business Analysis: This option increases the frequency of the RFQ solicitation process and related costs; costs are more likely to increase above the favorable rates included in the long-term contract. In addition, the shorter contract term would not provide continuous audit services that are required to complete updates to DWR's accounting system and resolution of administrative and accounting issues over the next five years.

Option #3

Reject the recommendation to award the proposed contract for audit services and

- a. Direct staff to reissue the RFQ; and
- b. Amend existing contract with Richardson and Company and extend contract through January 31, 2010 to allow reissuance of RFQ.

Fiscal Impact: Dependent on new contract

Business Analysis: This option will result in reissuance of the RFQ, delay in processing the new contract, and potentially higher costs.

Staff Recommendation

Option #1

Stephen M. Arakawa 4/20/2009
Stephen N. Arakawa Date
Manager, Water Resource Management

Debra C. Man 4/22/2009
Debra C. Man Date
for Jeffrey Kightlinger
General Manager

Attachment 1 – Scope of Work

BLA #6675

Scope of Work

The scope of work will include:

- (a) Verify the annual Statement of Charges (SOC) is accurately and properly prepared according to the terms of Metropolitan's Water Supply Contract and other agreements with DWR related to the State Water Project.
- (b) Review and estimate annual refunds and adjustments that are not part of the SOC.
- (c) As requested by the Agreement Administrator, the Consultant shall provide analyses, reports, and advice related to the State Water Project cash flow, costs, charges, and financial policies.
- (d) Prepare summary and detailed reports on the results of the audit of the annual SOC in both paper and electronic form addressed to Metropolitan's Board of Directors before December of each year.

Typically, each year's report includes the following:

- Discussion of services, audit findings, and general comments
 - Independent auditor's report
 - Detailed discussion of findings
 - Comparison of the current and prior year SOC and narrative analysis of changes
 - Comparison of previously estimated SOC and the current year actual SOC and narrative analysis of the changes
 - Narrative on DWR's changes in cost allocation and distribution methodology and financial effect upon Metropolitan
 - Comparison of the current and prior year Delta Water Charge and narrative explanation of significant changes
 - Comparison of the current and prior year actual SWP operations and maintenance expenditures charges and a narrative explanation of significant changes
 - Narrative explanation of the results of the audit of Delta Fish Agreement costs included in the current year's statement of charges
- (e) Present the results of the audit to Metropolitan's Board of Directors
 - (f) Attend State Water Contractors & Department of Water Resources committee meetings