



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

2/8/2011 Board Meeting

7-1

Subject

Authorize execution of a three-year contract for external audit services with KPMG LLP in maximum amount of \$1,132,800

Description

Metropolitan's current external audit services with KPMG LLP expired with the completion of the FY 2009/10 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. 959 was issued on August 9, 2010, 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, 2010 and ending June 30, 2013. 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 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, 2010. The amount payable under the three-year contract will not exceed \$1,132,800 ([Attachment 1](#)).

Policy

Metropolitan Water District Administrative Code Section 6453: 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

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 ending June 30, 2011 through June 30, 2013. The amount payable under this three-year contract will not exceed \$1,132,800.

Fiscal Impact: \$1,132,800 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

Option #1


Gerald C. Riss
General Auditor

1/18/2011

Date

Attachment 1 – KPMG LLP Fees Summary

Ref# ae12609719

KPMG LLP 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, 2011, will be as follows:

	Discounted Rates	Projected Hours	2011 Fees	2012 Fees	2013 Fees
Partner	\$375	130	\$48,700	\$50,200	\$51,700
Senior Manager	\$295	230	\$67,800	\$69,900	\$72,000
Manager	\$250	80	\$20,000	\$20,600	\$21,200
Supervising Senior	\$215	320	\$68,800	\$70,900	\$73,000
Senior Associate	\$185	300	\$55,500	\$57,200	\$58,900
S&S Senior	\$140	200	\$28,000	\$28,800	\$29,700
2 nd Year Associate	\$165	450	\$74,300	\$76,500	\$78,800
Associate	\$140	450	\$63,000	\$64,900	\$66,800
S&S Associate	\$85	440	\$37,400	\$38,500	\$39,700
		2,600	\$463,500	\$477,500	\$491,800
Less: MWD Internal Audit Assistance	\$125	(800)	\$100,000	\$100,000	(\$100,000)
Total		1,800	\$363,500	\$377,500	\$391,800
Grand Total					\$1,132,800