



- Board of Directors
Finance and Insurance Committee

3/13/2012 Board Meeting

8-5

Subject

Authorize execution of professional services agreement with Richardson and Company in the amount of \$3.9 million for State Water Project Statement of Charges audit

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 \$3.9 million. The selected firm is a small business and the only respondent to the Request for Qualifications (RFQ) No. 1000.

Metropolitan contracts with an independent certified public accounting firm to audit each year's SWP charges billed by the Department of Water Resources. This is a unique and highly specialized audit that provides Metropolitan's Board with an independent third-party opinion regarding the consistency of actual charges with the terms of the SWP Contract. Richardson and Company has audited the State Water Project charges for the past 22 years. During that time, Richardson and Company identified \$202 million in errors and adjustments that reduced Metropolitan's charges by \$172 million. The remaining \$30 million of identified adjustments are being negotiated with DWR under current settlement discussions. Staff explored alternative options to retaining an external audit firm. Recent analysis concluded that performing the annual audits with Metropolitan staff would require additional hires and office space in Sacramento at an approximate annual cost of \$1.25 million.

Based on a recently concluded Request for Qualifications No.1000, staff proposes to award a contract to Richardson and Company to carry out the annual audit. Richardson and Company meets all of the requirements included in RFQ No. 1000. Staff proposes a five-year contract period. The five-year option allows Metropolitan to obtain favorable rates for a longer period, is likely to have a lower overall cost, and maintains continuity for monitoring of identified errors over a longer period.

The respondent's qualifications were evaluated to ensure compliance with the RFQ's form and content requirements. The RFQ solicitation, sent to more than 550 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
- Sacramento area office

Richardson and Company is a small business and has 22 years of experience auditing SWP charges. Since 2001, Metropolitan has conducted four solicitations' for State Water Project charges audit services. Richardson and Company was the successful respondent for each of those solicitations due to their specialized expertise in this area.

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 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 Manager to enter into a five-year contract with Richardson and Company for the required State Water Project related audit services commencing March 2012, and for a maximum amount payable of \$3.9 million.

Fiscal Impact: Average annual expenditure over the five-year contract is \$780,000. The total contract amount is not to exceed \$3.9 million during the five-year term of the agreement. These annual expenditures have been included in the proposed budgets for FY 2012/13 and FY 2013/14.

Business Analysis: The five-year option allows Metropolitan to obtain favorable rates for a longer period, is likely to have a lower overall cost, and maintains continuity for settlement discussions and monitoring of identified errors over a longer period.

Option #2

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 February 28, 2013 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



Deven N. Upadhyay
Manager, Water Resource Management

2/24/2012
Date



Jeffrey Nightlinger
General Manager

2/29/2012
Date

Attachment 1 – RFQ 1000 Scope of Services

Ref# wrm12615959

RFQ 1000 SCOPE OF SERVICES

Professional Services Required

1. Metropolitan is seeking experienced and qualified consulting firms to provide contract auditing services of Metropolitan's annual Statement of Charges (SOC) it receives from California Department of Water Resources for water supplied from the State Water Project (SWP) annual Water Supply Contract Charges.
2. All audit services and report preparation shall be performed under the supervision of a California licensed Certified Public Accountant.
3. Consultant shall prepare two reports with opinions prepared in accordance with Generally Accepted Auditing Standards on the results of the audit of the annual State Water Contract charges in both paper and electronic format addressed to Metropolitan's Board of Directors before December of each contract year. Draft copies of the audit reports shall be submitted to the Agreement Administrator for review and comment before the final reports to the Board.
4. The two reports will consist of a summary and detailed report covering the results of the review of the State Water Contract charges. Unless otherwise specified by the Agreement Administrator, the contents of the detailed report will include:
 - (a) Discussion of Services, Audit Findings, and General Comments
 - (b) Independent auditor's report
 - (c) Detailed discussion of findings
 - (d) Comparison of the current and prior year SOC and narrative analysis of changes
 - (e) Narrative on DWR's changes in cost allocation and distribution methodology and financial effect upon Metropolitan
 - (f) Comparison of the current and prior year Delta Water charge and narrative explanation of significant changes
 - (g) Comparison of the current and prior year actual SWP operations and maintenance expenditures charges and a narrative explanation of significant changes
 - (h) Narrative explanation of the results of the audit of:
 - (i) East Branch Enlargement charges and costs
 - (ii) Variable and Minimum Energy charges
 - (iii) Special priced, unscheduled, and other water deliveries
 - (iv) Downstream distribution of costs
 - (v) Off Aqueduct Power Facilities costs
 - (vi) Replacement costs
 - (vii) Future costs
 - (viii) Monterey Amendment implementation
 - (ix) Cost Allocation and Distribution
 - (x) Property
 - (xi) Delta Water charge
 - (xii) Operations
 - (xiii) Delta Fish Agreement
 - (xiv) Capital costs
 - (xv) Project Purpose Allocations
 - (xvi) Recreation
 - (xvii) Indirect costs

- (xviii) Extension of time to protest
 - (xix) Pending litigation
 - (xx) Review of audit reports
 - (xxi) Project interest rate
 - (xxii) Settlement letters
 - (i) Summary of settled findings resulting in changes to the annual charges
 - (j) Summary of findings projected to result in changes to the next year's annual charges
 - (k) Summary of finding resulting in credits, refunds and adjustments
 - (l) Summary of findings not expected to be corrected
 - (m) Glossary of terms used
 - (n) Orally present the results of the review of the statement of charges and other consulting services to directors and/or Metropolitan management, if required by the Agreement Administrator.
5. The work will be performed in the offices of the Department of Water Resources located in Sacramento, California.