



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

2/13/2018 Board Meeting

7-1

Subject

Authorization to award a four-year contract for external audit services to KPMG LLP for the maximum amount of \$1,764,900

Executive Summary

This action approves a four-year contract with KPMG LLP to perform periodic independent audits of Metropolitan's financial statements, to review accounting procedures used by Metropolitan, to recommend improvements to Metropolitan's accounting procedures and systems of internal control, and to express an opinion on Metropolitan's basic financial statements.

Details

Metropolitan's current External Audit Services Agreement 141596 with Macias Gini & O'Connell, LLP expires with the completion of the fiscal year 2016/17 annual audit. External Audit Services Agreement 141596 comprises several required audits including the annual financial audit, single audit for federal grants, and trustee agency audits. The agreement also requires an annual review of the Comprehensive Annual Financial Report.

Metropolitan issued Request for Proposal (RFP) for External Audit Services No. 1167 on September 18, 2017, for proposals to perform external audit services for four fiscal years beginning July 1, 2017, and ending June 30, 2021. RFP 1167 stated that Metropolitan is seeking a qualified Respondent to provide annual audits covering four fiscal years beginning July 1, 2017, and ending June 30, 2021. The Respondent would examine Metropolitan's annual 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 a panel made up of four Metropolitan directors. Three Respondents were interviewed by the panel which selected KPMG LLP as the most qualified candidate, and recommended the award of a four-year contract for annual audits commencing with the fiscal year ending June 30, 2018. The hourly billing rates payable under the contract are provided in **Attachment 1**, and amounts payable under the four-year contract will not exceed \$1,764,900.

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, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not defined as a project under CEQA because it involves other governmental 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 of CEQA Guidelines). Finally, where it can be seen with certainty that there is no possibility that the proposed actions may have a significant impact on the environment, those actions are not subject to CEQA pursuant to Section 15061(b)(3) of the State CEQA Guidelines.

The CEQA determination is: Determine that the project is not defined as a project and is not subject to CEQA pursuant to Sections 15378(b)(2), 15378(b)(4), and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and

Authorize the General Auditor to enter into a contract for external audit services with the firm of KPMG LLP for annual audits covering fiscal years ending June 30, 2018 through June 30, 2021. The amount payable under this four-year contract will not exceed \$1,764,900.

Fiscal Impact: \$1,764,900 during the four-year contract term

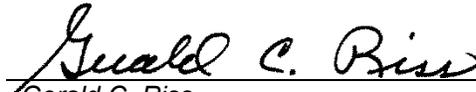
Option #2

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

Fiscal Impact: Unknown

Staff Recommendation

Option #1



Gerald C. Riss
General Auditor

1/23/2018
Date



Jeffrey Kightlinger
General Manager

1/25/2018
Date

Attachment 1 – KPMG LLP Fees Summary

The following is a summary of our projected professional fees for the years ended June 30, 2018 through 2021.

	(Amounts Rounded)					
	Discounted Rates	Projected Hours	2018 Fees	2019 Fees	2020 Fees	2021 Fees
Partner/ Managing Director	\$400	135	\$54,000	\$55,600	\$57,300	\$59,000
Senior Manager	\$325	225	\$73,000	\$75,200	\$77,500	\$79,800
Manager	\$275	125	\$34,400	\$35,400	\$36,500	\$37,600
Supervising Senior	\$245	395	\$96,800	\$99,700	\$102,700	\$105,800
Senior Associate	\$215	265	\$57,000	\$58,700	\$60,500	\$62,300
2nd year Associate	\$195	525	\$102,300	\$105,400	\$108,600	\$111,900
Associate	\$165	445	\$73,400	\$75,600	\$77,900	\$80,200
Intern	\$100	40	\$4,000	\$4,100	\$4,200	\$4,300
GDC	\$75	300	\$22,500	\$23,200	\$23,900	\$24,600
Subtotal		2,455	\$517,400	\$532,900	\$549,100	\$565,500
Less: internal audit assistance	\$125	(800)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
Total hours and fees		1,655	\$417,400	\$432,900	\$449,100	\$465,500