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

7/13/2021 Board Meeting

7-1

Subject

Authorize extending Agreement No. 177666 for one year with KPMG LLP to continue engagement for external audit services for fiscal year 2021/22, for an amount not to exceed $465,500; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This action requests board authority for a one-year extension with KPMG LLP to perform periodic independent audits of Metropolitan's financial statements, 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 No. 177666 with KPMG, LLP expires with the completion of the fiscal year 2020/21 annual audit. External Audit Services Agreement No. 177666 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 initially issued a 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. 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. KPMG LLP was selected as the most qualified candidate, and an award for a four-year contract was made for annual audits commencing with the fiscal year ending June 30, 2018.

KPMG LLP has provided consistent, highly-professional service to Metropolitan during their contract. They are one of the leading providers of services to governments and utilities and bring a thorough understanding of the water industry, the State Water Project, and have the depth of resources needed to serve Metropolitan. In addition, their audit team transitioned to a work-from-home environment in response to the COVID-19 pandemic.

Given the challenges of issuing a new RFP to potential respondents, scheduling interviews of prospective firms by Metropolitan directors, and awarding a new contract, it seemed prudent to seek an extension to the existing contract. The proposed extension was discussed in the February 2021 Audit and Ethics Committee, and the consensus was to pursue such an action. The hourly billing rates payable under this extension have not changed from the 2020/21 rates and are provided in **Attachment 1**. The amounts payable under the one-year contract extension will not exceed $465,500.

Policy

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

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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.

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize the General Auditor to enter into a one-year contract extension for external audit services with the firm of KPMG LLP for annual audits covering fiscal years ending June 30, 2021, through June 30, 2022; for an amount not to exceed $465,500.

Fiscal Impact: $465,500 for the one-year contract term extension, funded within the FY 2021/22 budget.
Business Analysis: This option will ensure the continuity of the external audit services until 2022, when a new Request for Proposal can be issued.

Option #2

Reject the recommendation to award the proposed contract to KPMG LLP and issue another Request for Proposal.
Fiscal Impact: Unknown
Business Analysis: Issuing a Request for Proposal under current pandemic restrictions may limit prospective external audit firms from making proposals. This could result in a candidate pool of firms without a thorough knowledge of the Metropolitan's operations and the State Water Project complexities.

Staff Recommendation

Option #1

Gerald C. Riss 6/11/2021

Gerald C. Riss *Date*
General Auditor

Attachment 1 – Projected Professional Fees

Ref# a12681965

Projected Professional Fees

The following is a summary of projected professional fees for the year ended June 30, 2022.

		Amount
	Projected Hours	2022 Fees
Partner/Managing Director	135	$59,000
Senior Manager	225	$79,800
Manager	125	$37,600
Supervising Senior	395	$105,800
Senior Associate	265	$62,300
2nd year Associate	525	$111,900
Associate	445	$80,200
Intern	40	$4,300
GDC	300	$24,600
Subtotal	2,455	$565,500
Less: Internal Audit assistance	800	$100,000
Total hours and fees	1,655	$465,500