



## **AUDIT COMMITTEE**

AGENDA FOR

**March 5, 2012**

**10:00 a.m.**

### **SECOND FLOOR CONFERENCE ROOM**

Hershell Price – Chair  
Kenneth Williams – Vice Chair  
David Barnum

Marilyn Dailey  
Mark Weston

1. Roll call – determination of quorum.
2. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.
3. Chair’s report.  
4-A Directors’ comments.
4. Adopt Audit Committee Minutes from November 10, 2011 meeting.

#### **I. CONSENT CALENDAR**

#### **II. ACTION/DISCUSSION**

1. Approve the updated Auditor Selection Committee’s recommendation of Macias Gini & O’Connell LLP (MGO) for auditing services for a five-year period (audit years 2012-2016) for a not-to-exceed amount of \$393,059, and direct staff to prepare an action item for consideration of the Board at its regular meeting in March.

Auditor Selection Committee’s Recommendation: To approve the recommendation of MGO as the Water Authority’s and QSA JPA’s independent auditors. To authorize staff to prepare a contract approval memo from the Audit Committee for the March 22, 2012 Board meeting to authorize the General Manager to enter into an agreement with MGO, for independent audits for a five-year period from April 1, 2012 through March 31, 2017, for a not-to-exceed amount of \$393,059. (Action)

2. Audit Committee members reporting out on Independent Auditor communications.



### III. ADJOURNMENT

Doria F. Lore  
Clerk of the Board

**NOTE:** This meeting is called as an Audit Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.



March 1, 2012

**Attention: Audit Committee**

**Approve the Auditor Selection Committee's recommendation of Macias Gini & O'Connell, LLP (MGO) for independent auditing services for a five-year period (audit years 2012-2016) for a not-to-exceed amount of \$393,059 and direct staff to prepare an action item for consideration of the Board at its regular meeting in March. (Action)**

**Auditor Selection Committee's Recommendation:**

To approve the recommendation of MGO as the Water Authority's and QSA JPA's independent auditors. To authorize staff to prepare a contract approval memo from the Audit Committee for the March 22, 2012 Board meeting to authorize the General Manager to enter into an agreement with MGO, for independent audits for a five-year period from April 1, 2012 through March 31, 2017, for a not-to-exceed amount of \$393,059. (Action)

**Fiscal impact**

Funds for financial audits are available in the approved multi-year budget in the Finance Department for Fiscal Years 2012 and 2013. Additional funds will be requested during subsequent bi-annual budget processes. Included in the not-to-exceed amount are reimbursable audit fees to the Water Authority of \$58,420 from the QSA JPA.

**Background**

The Board approved the establishment of an Audit Committee in August 2009 driven by the desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges. One of the key roles of the Audit Committee includes the responsibility for recommending selection and providing a line of communication with the accounting firm assigned to perform the annual audit. This includes the Committee approving the issuance of a Request for Proposals (RFP) for Audit Services before it is released and having the Committee Chair (or a designated representative) participate on the selection panel.

At the April 27, 2011 meeting the Audit Committee unanimously approved 1) not moving forward with the award of the audit services contract to MHM, 2) the draft RFP for a five-year audit services contract, 2) allowing the separation of RFPs; one for independent audit services and the other for agreed-upon-procedure services, 3) allowing the current audit firm, LSL as well as MHM to submit a response to the both RFPs, and 4) appointed Director Wilson to serve on the selection panel.

LSL, the Water Authority's current auditors, have performed the audits for the fiscal-year ends 2006 through 2011. Macia Gini & O'Connell, LLP is focused on the public sector and audits more top California public agencies than any other firm.

*Previous Board and Committee Actions:*

*On October 27, 2011, the Board approved the Audit Committee's recommendation of McGladrey & Pullen, LLP (MP) as independent auditor for a five-year period covering both the financial audits of the Water Authority and the QSA JPA for FY2012-FY2016.*

*On September 28, 2011, the Audit Committee voted to approve the Selection Committee's recommendation of MP as independent auditor, and to recommend the selection to the full Board of Directors at its regular meeting in October, 2011.*

*On April 27, 2011, the Audit Committee approved 1) not moving forward with the award of the audit services contract to Mayer, Hoffman, McCann P.C. (MHM), 2) the draft RFP for a five-year audit services contract, 2) allowing the separation of RFPs; one for independent audit services and the other for agreed-upon-procedure services, 3) allowing the current audit firm, LSL as well as MHM to submit a response to the both RFPs, and 4) appointed Director Wilson to serve on the selection panel.*

*On January 27, 2011, the Board approved rescinding the retention of the MHM five year audit contract for one year pending the outcome of MHM's peer review. In addition, the Board authorized staff to retain LSL, the current auditors, to perform the FY 2011 financial audits of the Water Authority and the QSA JPA, and any needed Agreed Upon Procedures services for an amount not to exceed \$131,467.*

*On January 12, 2011, the Audit committee reconsidered the pending contract with MHM pending the outcome of their peer review. The item was moved for action at the full board meeting on January 27, 2011.*

*On October 28, 2010 the Board approved the Audit Committee's recommendation of MHM as independent auditor for a five-year period covering both the financial audits of FY2011-FY2016 and Agreed Upon Procedures (AUP) services.*

*On September 9, 2010, the Audit Committee voted to approve the Selection Committee's recommendation of MHM as independent auditor, and to recommend the selection to the full Board of Directors at its regular meeting in October, 2010.*

**Discussion**

The Request for Proposals (RFPs) for Independent Audit and AUP Services was advertised and issued on June 21, 2011, with a pre-proposal meeting held on July 5, 2011. 32 firms received notifications through their registration on the Network, the Water Authority's collaborative online vendor registration system. In addition, the RFP was advertised in the Daily Transcript. Seven firms submitted proposals for Independent Audit services by the deadline of July 18th.

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The responding firms included Brown Armstrong Accountancy Corporation; Baker Tilly Virchow Krause, LLP.; Crowe Horwath, LLP.; Macias Gini & O'Connell, LLP; Mayer Hoffman McCann P.C.; McGladrey & Pullen, LLP.; and Maze & Associates.

On July 25, 2011 the San Diego County Water Authority completed the evaluation of proposals which had been received in response to the RFP for Audit Services. Respondents were evaluated using selection criteria, which included qualifications and experience of their staff, enterprise fund audit experience, audit plan and approach, continuity of staff and commitment, Single Audit experience, and municipal bond and official statement review experience.

Based on staff's evaluations and ratings of the proposals, a short-list of three firms was developed and interviews were conducted on Monday, August 1<sup>st</sup>. The three firms interviewed for independent audit services were McGladrey & Pullen, LLP; Brown Armstrong Accountancy Corporation; and Macias Gini & O'Connell, LLP (MGO). The interview panel and Auditor Selection Committee included Director of Finance Eric Sandler along with four CPA's: Audit Committee Member; Director Doug Wilson, and staff included Controller Rod Greek; and Accounting Supervisors Yollie Cerezo and Jeanette Ziomek.

After the evaluation of the RFP's and the completion of oral interviews, the Auditor Selection Committee recommended the selection of McGladrey & Pullen, LLP (MP) to provide independent audit services for fiscal-year ends 2012 through 2016 (work for 2016 is completed during FY2017). The selection panel's recommendation was forwarded to the Audit Committee and then to the full Board for approval.

Following approval by the full Board, staff has been working diligently to negotiate contract terms with the selected firm. Recently, negotiations came to a conclusion and staff informed the General Manager that the Water Authority was unable to come to terms with MP. The selection panel is recommending the Audit Committee proceed with a recommendation to the Full Board in March 2012 to authorize the General Manager to award a contract with the second ranked firm of MGO to perform Independent Auditor services for the Water Authority and QSA JPA for fiscal-year ends 2012 through 2016.

Prepared by:	Rod Greek, Controller
Reviewed by:	Eric L. Sandler, Director of Finance/Treasurer
Approved by:	Sandy Kerl, Deputy General Manager