



AUDIT COMMITTEE

**AGENDA FOR
Tuesday, July 12, 2016
10:00 a.m.
Library Conference Room**

David Barnum – Chair
David Cherashore – Vice Chair
Tony Heinrichs
Jim Murtland
Ken Olson

1. Roll call – determination of quorum.
2. Additions to agenda (Government Code Section 54954.2(b)).
3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.
4. Chair’s report.
 4-A Director’s comments
5. Approve Audit Committee Minutes from May 18, 2016 meeting.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION

1. Approve the Auditor Selection Panel’s recommendation of Davis Farr LLP for auditing services for a five-year period from April 1, 2017 through March 31, 2022, for a not-to-exceed amount of \$357,980, and direct staff to prepare an action item for consideration of the Board at its regular scheduled meeting on August 25, 2016. Christopher Woidzik
Interim Controller

III. INFORMATION

IV. ADJOURNMENT

Melinda Cogle
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 (Re-codified). 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.

AUDIT COMMITTEE
Meeting Minutes

May 18, 2016

CALL TO ORDER / ROLL CALL

Chair Barnum called the Audit Committee meeting to order at 11:05 a.m. Committee members present were Chair Barnum, Vice Chair Cherashore, Directors Heinrichs, Murtland and Olson. At that time, there was a quorum of the Committee. Staff present was Deputy General Manager Kerl, General Counsel Hattam, Director of Finance Harris, Interim Controller Woidzik, Accounting Supervisor Kleber, and Finance Analyst Parker.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to address the committee.

CHAIR'S REPORT

Thanked everyone for their attendance.

APPROVE AUDIT COMMITTEE MINUTES

Approve Audit Committee minutes from April 19, 2016 meeting.

Director Cherashore made the motion to amend the minutes to include General Counsel Hattam's presentation from the April 19, 2016 meeting. Director Heinrichs seconded the amended motion. Director Olson voted no. The minutes were approved with an amended motion to include the suggested addition.

ACTION/DISCUSSION

1. Audit RFP Draft – FY 2017 through FY 2021(Discussion)

Mr. Woidzik discussed the draft request for proposal (RFP) for the next Independent Audit Services. He reviewed the scope of the audit and the components of the RFP and explained the process.

Directors asked several questions that staff answered.

INFORMATION

1. RFP key dates

Mr. Woidzik pointed out key RFP dates.

2. RFP evaluation panel



Mr. Woidzik announced who would be involved in the proposal review and selection process.

ADJOURNMENT

There being no further business to come before the Audit Committee, Chair Barnum adjourned the meeting at 11:50 a.m.



July 12, 2016

Attention: Audit Committee

**Approve the Auditor Selection Panel's recommendation of Davis Farr, LLP as independent auditor for a five-year period covering the financial audits of Fiscal Years 2017-2021.
(Action)**

Purpose

The Water Authority's current five-year audit contract awarded in 2012 will end with the conclusion of the Fiscal Year 2016 audit. The purpose of this report is to discuss the steps taken towards awarding the next five-year audit contract and present the audit firm recommended by the Audit Selection Panel.

Audit Selection Panel recommendation

Approve the selection and make recommendation to the Board for Davis Farr, LLP to serve as the Water Authority's and QSA JPA's independent auditor to conduct independent audits and supply in-house staff training classes for a five-year period from April 1, 2017 through March 31, 2022, for a not-to-exceed amount of \$357,980.

Alternatives

Do not accept the Audit Selection Panel's recommendation and select the second choice firm or direct staff to reissue the Request for Proposals.

Fiscal Impact

There is no financial impact to the current fiscal year or Budget because this contract's costs apply to each of the next five fiscal years and will be included in the future bi-annual budgets when adopted. Included in the not-to-exceed amount is \$52,380 for the QSA JPA audits, for which the Water Authority will be reimbursed.

Background

One of the key roles of the Audit Committee includes the responsibility for recommending the selection of the independent auditor or auditing firm, including participation in the selection process and providing oversight of the audit contract and annual audit. This includes the Committee approving the 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.

Previous Committee Actions:

At its May 18, 2016 meeting the Audit Committee unanimously approved 1) the draft RFP for a five-year audit services contract, 2) allowing the current audit firm, Macias, Gini & O'Connell, LLP (MGO) to submit a response to the RFP, and 3) appointed Committee Chair Barnum to serve on the selection panel.

MGO, the Water Authority's current auditors, have performed the audits for the fiscal years ending 2012 through 2015, and are in the process of auditing fiscal-year end 2016. Prior to MGO, Lance, Soll & Lunghard, LLP performed the audits for fiscal years ending 2005 through 2011.

Discussion

The Request for Proposals (RFP) for Audit Services was advertised and issued on May 24, 2016 with a Pre-proposal meeting held on June 1, 2016. Twenty-three firms received notifications through their registration on the Bid Network, the Water Authority's collaborative online vendor registration and RFP posting system. Eleven firms submitted proposals by the deadline of June 15, 2016. The responding firms included Vasquez & Company, LLP; Davis Farr, LLP; Macias Gini & O'Connell, LLP; Nigro & Nigro, PC; Maze & Associates, LLP; Moss, Levy & Hartzheim, LLP; Vavrinke, Trine, Day & Co., LLP; The Pun Group; Lance, Sol & Lunghard, LLP; Brown Armstrong Accountancy Corporation; and Moss Adams, LLP.

On June 24, 2016 the Auditor Selection Panel 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, water utility 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 the Panel's evaluations and ratings of the proposals, a short-list of three firms was developed and interviews were conducted on Wednesday, June 29, 2016. The three firms interviewed included Davis Farr, LLP; Macias Gini & O'Connell, LLP; and Maze & Associates, LLP. The Auditor Selection Panel included Committee Chair Barnum, Dan Denham, Director of the Colorado River Program and Water Authority Alternate Commissioner for the QSA JPA, the Director of Finance, Lisa Marie Harris, Interim Controller, Christopher Woidzik CPA and Accounting Supervisor Joy Kleber CPA.

After the evaluation of the RFP's and the completion of oral interviews, the Auditor Selection Panel recommended the selection of Davis Farr, LLP, to provide independent audit services for fiscal-year ends 2017 through 2021. The second ranked firm is MGO, our current auditors, followed by Maze & Associates, LLP.

Davis Farr LLP is a full service accounting firm that specializes in providing attest and advisory services to local, state and federal governmental agencies, as well as non-profit entities. The Firm's personnel have served governmental agencies for over 40 years. The Firm is headquartered in Orange County and also has a local office in Carlsbad, California along with a Firm-wide staff of 44 professionals. Jennifer Farr, the engagement partner assigned to the audits of the Water Authority and QSA JPA, previously worked as both a senior auditor and audit manager of the Water Authority during the audits of Fiscal Years 2000-2005 while employed by Conrad & Associates, LLP, a predecessor firm. Jennifer also has familiarity with the QSA JPA and was the audit manager at its formation in 2004. The Firm also has experience with other water industry clients and this was verified as part of the reference verification step by Accounting Supervisor Kleber and Interim Controller Woidzik. Lastly, the Firm provided competitive pricing in their fixed fee cost proposal.

Overall, the total costs for the audit services component for the five-year contract totaled \$278,320 and \$52,380, which was a \$21,966 and \$6,040 reduction in audit fees to the Water Authority and QSA JPA, respectively, compared to the previous five-year contract. The RFP also asked for quotes for conducting a Single Audit (audit of Federal government expenditures) and providing for a four-hour training class to the staff each year amounting to \$17,760 and \$9,520, respectively, over the five-year contract. These two items are optional as there may not be a need for them each year and are at the request of the Water Authority. However, including the cost of these services with the audit fees for the full five-year contract, results in a total not to exceed amount of \$357,980. Additionally, due to the special circumstances for this type of service, SCOOP outreach requirements were not applicable.

Prepared by:	Christopher Woidzik, Interim Controller
Reviewed by:	Lisa Marie Harris, Director of Finance
Approved by:	Sandra L. Kerl, Deputy General Manager