

CENTRAL BASIN MUNICIPAL WATER DISTRICT **SEPTEMBER 14, 2006-Finance/Administration**
Hawkins, Apodaca
SEPTEMBER 25, 2006 - Board Meeting
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ACTION CALENDAR

ANNUAL AUDIT AND ACCOUNTING SERVICES

SUMMARY:

Per California Government Code Section 26909 and the District's Administrative Code, Central Basin is required to conduct an annual audit of its financial statements. Currently, the District's auditor is Vasquez & Company LLP (V&C). V&C's three-year engagement expires upon the completion of the fiscal year 2005-06 annual audit. V&C has been instrumental in keeping District staff informed of the significant developments in the accounting field and in achieving excellence in financial reporting.

Similar to the District's Legal Counsel and the General Manager, the auditor is retained by, and reports to, the Board of Directors. Even though management is primarily responsible for financial reporting, the Board is ultimately responsible for ensuring that management meets that responsibility. This reporting structure for auditors is essential to ensure independent review and oversight of the reporting process.

The Governmental Accounting Standards Board ("GASB") has continually issued concept statements and pronouncements affecting the financial reporting of state and local governments. A recent review of GASB's upcoming projects shows a number of changes in financial reporting being implemented in the next few years. The challenges brought about by these changes call for continuity or a long-term relationship with an audit firm that will support District staff during the process.

The following are the advantages and disadvantages of changing to a new audit firm:

Advantages:

- a) Fresh Outlook - While this will be obtained with a new auditor, it may also be achieved, with less disruption, by rotation of audit staff within the existing audit firm;
- b) Positive perception by the public; and
- c) Possible reduction in fees - If a new audit firm is keen to win the audit, they may undercut the current auditor's fees.

Disadvantages:

- a) Loss of familiarity with the District's processes and issues - Changing auditor will incur District staff time and costs. In addition, the first year audit is always more difficult as the auditor lacks the cumulative knowledge of the District that is built up over time; and

- b) Loss of focus on high-risk areas - During the first few audits, the auditor spends time understanding the unique characteristics of the District's operations. This may result to lack of focus on other significant areas.

Options Available

There are two options available:

1. **Option A** - Extend the contract with V&C for two years (fiscal years 2006-07 and 2007-08) and direct staff to negotiate a fixed audit fee for an amount not-to-exceed \$118,000.
2. **Option B** -Re-bid the District's auditing and accounting services through a competitive process, in which the audit firm to be selected would serve the District for a five-year period, with option to renew for another two years.

It is imperative that the audit firm and its staff have the necessary qualifications and experience in the accounting and audit of local governments, particularly water districts. Furthermore, the auditor should be committed to an excellent client service. The audit firm is expected to provide the following services:

- Annual Financial Audit;
- Quarterly Compilations;
- Compilation for the State Controller's Report;
- Parity Calculations;
- Single Audit; and
- Agreed-upon Procedures for the Code of Conduct.

FISCAL IMPACTS:

Audit and accounting services are included in the annual budget.

ENVIRONMENTAL COMPLIANCE:

Not required.

COMMITTEE STATUS:

This item was reviewed by the Finance/Administration Committee on September 14, 2006. The Committee recommended approving Option "A" at the September 25, 2006 Board meeting.

RECOMMENDED MOTION:

That the Board authorizes the General Manager to extend the contract with Vasquez & Company for two years (fiscal years 2006-07 and 2007-08) and direct staff to negotiate a fixed audit fee for an amount not-to-exceed \$118,000.