

# Palmdale Water District

2029 E Avenue Q, Palmdale, California 93550



## REQUEST FOR PROPOSALS

For

## PROFESSIONAL AUDITING SERVICES

Proposal Issue Date

September 8, 2021

Proposal Submittal Due Date

**Before 6:00 p.m. on September 30, 2021**

Please deliver one unbound, plus three (3) bound copies, plus one electronic copy in MS word or Excel of both the Technical Proposal and the Cost Proposal in the format prescribed by the Request for Proposal.

Proposals must be received at Palmdale Water District, Office of the Finance Manager/CFO, ATTN: Dennis Hoffmeyer, 2029 East Avenue Q, Palmdale, California, 93550, no later than September 30, 2021, at 6:00 PM. No proposals will be accepted after September 30, 2021, at 6:00 PM. Proposals must be received by the deadline stated herein and postmarks will not be considered.

## **INTRODUCTION**

### **General Information**

The Palmdale Water District (“District”) is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the three fiscal years ending December 31, 2021, 2022, and 2023, with the option of auditing its financial statements for each of the two subsequent fiscal years.

There is no expressed or implied obligation for the District to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. The District reserves the right to reject any or all proposals submitted.

Proposals submitted will be evaluated by staff, Finance Manager/CFO, and/or outside agencies. During the evaluation process, the District reserves the right, where it may serve the District’s best interest, to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of the District, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The District reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this Request for Proposal, unless clearly and specifically noted in the proposal submitted and confirmed in the agreement between the District and the firm selected. The District has a standard two-party Professional Services Agreement, to which adherence is assumed unless specific objections are noted in the proposal by the candidate firm.

It is anticipated the selection of a firm will be completed by November 1, 2021. Following the notification of the selected firm, it is expected the Professional Services Agreement will be executed between both parties by November 23, 2021.

### **Term of Engagement**

A three-year contract is contemplated, subject to the annual review and recommendation of the Finance Manager/CFO, the satisfactory negotiation of terms (including a price acceptable to both the District and the selected firm), the concurrence of the District Board of Directors, and the annual availability of an appropriation.

### **Subcontracting**

Following the award of the audit contract, no subcontracting will be allowed.

## **NATURE OF SERVICES REQUIRED**

### **General**

The District is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal years ending December 31, 2021, 2022, and 2023, with the option to audit the District's financial statements for each of the two subsequent fiscal years. These audits are to be performed in accordance with the provisions contained in this Request for Proposals (RFP).

The District is to be kept abreast of new developments affecting special district accounting and reporting as well as any other issues. This includes, but is not limited to, impacts of newly imposed State of California mandated procedures and required changes in grants and procedures. In addition, the District frequently requests professional advice on accounting matters throughout the fiscal year, and such advice should not be construed as consulting services, nor will compensation for such advice be contemplated unless explicitly negotiated by the District or its agents.

### **Scope of Services**

The Palmdale Water District desires the auditor to express an opinion on the fair presentation of its basic financial statements in conformity with generally accepted accounting principles. The auditor is not required to audit the District's supporting schedules but is to provide an "in-relation-to" opinion on the schedules based on the auditing procedures applied during the audit of the basic financial statements.

The selected independent auditor will be required to perform the following tasks:

1. The audit firm will perform a financial audit of the Palmdale Water District. The audit will be conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards 2018 Revision (Yellow Book), issued by the Comptroller General of the United States of America. The audit firm will render their auditors' report on the basic financial statements which will include the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. The audit firm will also apply limited procedures to the Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) in accordance with auditing standards generally accepted in the United States of America;
2. The audit firm will perform a single audit on the expenditures of federal awards, as required, in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The audit should be performed in accordance with the types of compliance requirements as described in the Office of Management and Budget's (OMB) Compliance Supplement that could have a direct and material effect on each of the District's major federal programs (optional);

3. The audit firm shall issue a separate “management letter” that includes recommendations for improvements in internal control, accounting procedures and other significant observations that are non-reportable conditions;
4. The audit firm shall perform an agreed upon procedures to assist the District in determining compliance with certain rate coverage ratio covenants as noted in the Water Revenue Refunding Bond Agreement, Series 2013A, Series 2018A, 2020A, and 2021A; and
5. The audit firm shall prepare the Annual Financial Transactions Report and submit the report to the State Controller’s Office for the District’s behalf (optional).

All auditors adjusting journal entries must be discussed and explained to the Finance Manager/CFO prior to recording. They should be in a format that shows the lowest level of posting detail needed for the District to enter the data into the general ledger.

### **Auditing Standards to be Followed**

To meet the requirements of this Request for Proposals, the audit shall be performed in accordance with:

1. Generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants;
2. The standards applicable to financial audits contained in *Government Auditing Standards* 2018 Revision (Yellow Book), issued by the Comptroller General of the United States;
3. The provisions of the Single Audit Act of 1984 as amended in 1996 (if applicable);
4. The provisions of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*, Audits of State and Local Governments (if applicable);
5. The audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance);
6. Minimum audit requirements and reporting guidelines for Special Districts pursuant to California Code of Regulations, State Controller, Subchapter 5, 1131.2, “Minimum Audit Requirements and Reporting Guidelines for Special Districts”; and
7. Statements on Standards for Attestation Engagements and Reviews of Financial Statements as set forth by Generally Accepted Government Auditing Standards and the American Institute of Certified Public Accountants.

## Reports to be Issued

To meet the requirements of this RFP, the audit shall be performed in accordance with:

1. A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles in the United States of America;
2. A report on internal control over financial reporting and on compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*;
3. A report on compliance for each major program and on internal control over compliance required by the Uniform Guidance;
4. A separate management letter report that contains two communication letters per Statement on Auditing Standards (SAS): (1) SAS 114 – Auditor’s communication with those charged with Governance letter; and (2) SAS 115 – Communicating Internal Control Related Matters Identified in an Audit; and
5. A report on applying agreed upon procedures in determining District’s compliance with certain rate coverage ratio covenants as noted in the Water Revenue Refunding Bond Agreement, Series 2013A, Series 2018A, and 2020A.

In the required reports on compliance and internal controls, the auditor shall communicate any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization’s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions that are also material weaknesses shall be identified as such in the report.

Nonreportable conditions discovered by the auditors shall be reported in a separate letter to the management (the “Management Letter”) which shall be referred to in the reports on compliance and internal controls.

Irregularities and illegal acts: Auditors shall be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the General Manager and Finance Manager/CFO.

Auditors shall assure themselves that the General Manager is informed of each of the following:

1. The auditor's responsibility under generally accepted auditing standards
2. Significant accounting policies
3. Management judgments and accounting estimates
4. Significant audit adjustments
5. Other information in documents containing audited financial statements
6. Disagreements with management
7. Management consultation with other accountants
8. Major issues discussed with management prior to retention
9. Difficulties encountered in performing the audit

A list of findings and other weaknesses from the District's most recent financial statement audit are attached to this document (Appendix A).

### **Working Paper Retention and Access to Working Papers**

All working papers and reports must be retained at the auditor's expense for a minimum of seven (7) years, unless the firm is notified in writing by the District of the need to extend the retention period. The auditor will be required to make working papers available to the District. The working papers are subject to review by federal and state agencies and other individuals designated by the District. Accordingly, the working papers shall be made available upon request.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers related to matters of continuing accounting significance.

- Parties designated by the Federal or State governments or by the District as part of an audit quality review process
- Auditors or entities of which the District is a sub recipient of grant funds. In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

## **District Responsibilities**

1. District staff will prepare the final closing of the general ledger and provide auditors with the District's trial balance, balance sheet and income statements for the period ending December 31, 2021, and the year thereafter. Staff will provide supporting documentation for all balance sheet accounts including aged accounts receivable and aged accounts payable, subsidiary ledgers, reconciliation of all capital asset accounts, and other necessary schedules;
2. District staff will prepare confirmation letters as requested by the auditor;
3. District staff will be available to assist the auditors by providing information, documentation, and explanations as needed;
4. District staff will be responsible for the preparation of the Management Discussion and Analysis (MD&A); and
5. District staff will provide the auditors with reasonable workspace, telephone, wireless internet, and copy machine access.

## **DESCRIPTION OF THE DISTRICT**

The auditor's principal contact with the District will be Dennis Hoffmeyer, Finance Manager/CFO, or a designated representative, who will coordinate the assistance to be provided by the District to the auditor.

### **Background Information**

The Palmdale Water District was formed as an Irrigation District under Division 11 of the California Water Code in 1918. The District provides potable water service to a portion of the City of Palmdale, California, and surrounding unincorporated areas of the County of Los Angeles, with approximately 27,000 water service connections. The District operates 22 active water wells, maintains 20 reservoirs ranging in individual capacity from 40,000 to 6,000,000 gallons with an aggregate storage capacity of 49.9 million gallons of water, the distribution system includes over 408 miles of pipelines, 14 booster pumping stations, and operates a 35 million gallons per day treatment plant. The District is operated under the direction of a five-member board of directors. The board members are elected by the public for staggered four-year terms.

The District has an operating budget of \$26 million and a Capital Improvement Budget of \$9 million for the fiscal year ending December 31, 2021. The District employs approximately 88 full-time employees. The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a similar manner to a private business enterprise.

### **Pension Plans**

The District participates in the California Public Employees Retirement System (PERS) an agent multiple-employer plan. Actuarial Services for the plan are provided by PERS.

### **Joint Ventures**

The District participates in a joint venture under a joint powers agreement (JPA) with the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority created under the provisions of California Government Code Section 6500 et. Sec.

The District also participates in a JPA with the City of Palmdale for the formation of the Palmdale Recycled Water Authority (PRWA). The purpose of the PRWA JPA is to establish an independent public agency in order to study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Sanitation Districts for any and all reasonable and beneficial uses.

AVSWCA, the Antelope Valley State Water Contractors Association (Association), was consolidated on May 26, 1999, as a joint powers authority in an effort to optimize the use of state water resources and protect surface water and groundwater storage within the Antelope Valley. Three public agencies

combined to form the Association in serving the Antelope Valley: Antelope Valley – East Kern Water Agency, Littlerock Creek Irrigation Association, and Palmdale Water District, which constitutes the member agencies. Each member agency appoints two members to the Governing Board.

### **Budgetary Control**

The Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

### **Accounting System**

The District utilizes TrueBill Customer Service Management software for utility billing, CIS & cashiering. For financial the District utilizes Microsoft Dynamics GP. The GP system is modular based and includes: General Ledger, Accounts Payable, Bank Reconciliation, Human Resources, Inventory, Fixed Assets, Project Accounting, Budgeting, Purchasing, and Payroll.

### **Availability of Prior Audit Reports and Working Papers**

Interested proposers who wish to review prior years' audit reports and management letters should contact the Finance Manager/CFO, Dennis Hoffmeyer, 2029 East Avenue Q, Palmdale, CA 93550, or phone 661-947-4111 ext. 1021. The District will use its best efforts to make prior audit reports and supporting working papers available to proposers to aid their response to this Request for Proposals.

### **TIME LINE**

The planning phase of the audit engagement may commence upon notification to the auditor of the acceptance of their proposal. Proposers are requested to submit the list of schedules to be prepared by District personnel as a part of the Technical Proposal of this Request for Proposals.

### **Schedule for the 2021 Fiscal Year Audit**

Proposers are requested to submit their proposed schedule for the 2021 Fiscal year Audit as a part of the Technical Proposal of this Request for Proposals. Please include entrance conferences, progress reporting and exit conference in your proposed schedule. Each of the following should be included in the proposed schedule:

Entrance Conference with the Finance Manager/CFO – To be decided

The purpose of this meeting will be to discuss prior audit problems and the interim work to be performed. This meeting will also be used to establish overall liaison for the audit and to make arrangements for workspace and other needs of the auditor.

Interim Work – Beginning and ending dates

Detailed Audit Plan – Date provided to the District

Field Work – Beginning and ending dates

Exit Conference with the Finance Manager/CFO – To be decided

The purpose of this meeting will be to summarize the results of the field work and to review significant findings.

Draft Reports – Date available to the District

Final Reports – It is anticipated that the process will be completed and final reports delivered no later than May 31, 2022.

#### Date Final Reports are Due

The General Manager and Finance Manager/CFO will complete the review of the draft reports as expeditiously as possible. It is expected that this process will not exceed two weeks and revised draft documents may be required as part of this process. During that period, the auditor should be available for any meetings that may be necessary to discuss the audit reports. Once all issues for discussion are resolved, the final signed reports shall be delivered to the Finance Manager/CFO within ten (10) working days. This process will be completed, and the final reports delivered no later than May 31, 2022.

The auditor is responsible for the printing, binding, and delivery of 10 copies of the final reports to the Finance Manager/CFO.

## **PROPOSAL REQUIREMENTS**

Contact with personnel of the District other than Dennis Hoffmeyer, Finance Manager/CFO, regarding this Request for Proposals may be grounds for elimination from the selection process.

### Transmittal Letter

A signed transmittal letter confirming the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement of why the firm believes itself to be best qualified to perform the engagement, and a statement that the proposal is a firm and irrevocable offer for fiscal years 2021, 2022, and 2023.

### Technical Proposal

The purpose of the Technical Proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to undertake an independent audit of the District in conformity with the requirements of this Request for Proposals. As such, the substance of proposals will carry more weight than their form or manner of presentation. The Technical Proposal should specify an audit approach that will meet the Request for Proposals requirements.

The Technical Proposal should address all the points outlines in the Request for Proposals (excluding any cost information, which should only be included in the Cost Proposal). The Technical Proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the Request for Proposals.

While additional data may be presented, the following subjects (Items 1 through 9) must be included. They represent the criteria against which the proposal will be evaluated:

1. Independence. The firm should provide an affirmative statement that it is independent of the District as defined by generally accepted auditing standards, the standards set forth for financial audits in the U. S. General Accounting Office's *Government Auditing Standards (1994)*.

In addition, the firm shall give the District written notice of any professional relationships entered into during the period of this agreement.

2. License to Practice in California

An affirmative statement should be included that the firm and all assigned key professional staff are properly licensed to practice in California.

### 3. Firm Qualifications and Experience

The proposer should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on a full-time basis and the number and nature of the staff to be so employed on a part-time basis.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement indicating whether that quality control review included a review of specific government engagements.

The firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations.

### 4. Partner, Supervisory and Staff Qualifications and Experience

Identify the principal supervisory and management staff, including engagement partners, managers, other supervisors, and specialists, who would be assigned to the engagement. Indicate whether each such person is licensed to practice as a certified public accountant in California. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

Provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. Indicate how the quality of staff over the term of the agreement will be assured.

The proposer should identify the extent to which staff to be assigned to the audit reflect the District's commitment to Affirmative Action.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of the District. However, in either case, the District retains the right to approve or reject replacements.

Consultants and firm specialists mentioned in response to this Request for Proposals can only be changed with the express prior written permission of the District, which retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same or better qualifications or experience.

5. Prior Engagements with the District

List separately all engagements within the last five years, ranked on the basis of total staff hours, for the District by type of engagement (i.e., audit, management advisory services, other). Indicate the scope of work, date, engagement partners, total hours, the location of the firm's office from which the engagement was performed, and the name and telephone number of the principal client contact.

6. Similar Engagements with Other Special District Water Districts

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum of five) performed in the last five years that are similar to the engagement described in this Request for Proposals. These engagements should be ranked based on total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

7. Specific Audit Approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed, to perform the services required in the section of the Request for Proposals, "Nature of Services Required." In developing the work plan, reference should be made to such sources of information as the District's budget and related materials, organizational charts, manuals and programs, and financial and other management information systems.

Proposers will be required to provide the following information on their audit approach:

- a) Proposed schedule for the 2021 audit
- b) List of proposed statements and schedules that the District would need to provide to the auditor and their due dates
- c) Information technology assistance request
- d) Method of providing the District with important accounting changes throughout the year
- e) Sample size and the extent to which statistical sampling is to be used in the engagement

- f) Type and extent of analytical procedures to be used in the engagement
- g) Approach to be taken to gain and document an understanding of the District's internal control structure
- h) Approach to be taken in determining laws and regulations that will be subject to audit test work
- i) Approach to be taken in drawing audit samples for purposes of tests of compliance

8. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems and any special assistance that will be requested from the District.

9. Report Format

The proposal should include sample formats for required reports.

The Technical Proposal is not to be more than ten single-sided pages in length including single page resumes of persons to be assigned to the project.

No dollars should be included in the Technical Proposal.

Cost Proposal  
Total All-Inclusive Maximum Price

The Cost Proposal should contain all pricing information relative to performing the audit engagement as described in this Request for Proposals. The total all-inclusive maximum price is to contain all direct and indirect costs including all out-of-pocket expenses.

The District will not be responsible for expenses incurred in preparing and submitting the Technical Proposal or the Cost Proposal. Such costs should not be included in the proposal.

The first page of the Cost Proposal should include the following information:

- Name of Firm
- Certification that the person signing the Cost Proposal is entitled to represent the firm, empowered to submit the proposal, and authorized to sign a contract with the District
- A total all-inclusive maximum annual price for the fiscal years 2021, 2022, and 2023 engagements.

Rates by Partner, Specialist, Supervisory and Staff Level Times  
Hours Anticipated for Each

The second page of the Cost Proposal should include a schedule of professional fees and expenses that supports the total all-inclusive maximum price. The District would like included as a separate line item costs associated with single audit services (if applicable).

Out-of-Pocket Expenses Included in the Total All-Inclusive Maximum Price  
and Reimbursement Rates

Out-of-Pocket expenses for firm personnel (e.g. travel, lodging and subsistence) will be reimbursed at the rates used by the District for its employees. All estimated out-of-pocket expenses to be reimbursed should be presented on the second page of the Cost Proposal. All expense reimbursements will be charged against the total all-inclusive maximum price submitted by the firm.

Rates for Additional Professional Services

If it should become necessary for the District to request the auditor to render any additional service to either supplement the services requested in this Request for Proposals, or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the District and the firm. Any such additional work agreed to between the District and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the Cost Proposal.

Manner of Payment

Progress payments will be made based on hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the firm's Cost Proposal. Interim billing shall cover a period of not less than a calendar month.

## **EVALUATION PROCEDURES**

Proposals submitted will be evaluated by a committee made up of District management and/or outside agencies.

### Evaluation Criteria

Proposals will be evaluated using three sets of criteria. Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria which will be considered during the evaluation process.

#### 1. Mandatory Elements

- a) The audit firm is independent and licensed to practice in California
- b) The firm has no conflict of interest with regard to any other work performed by the firm for the District
- c) The firm adheres to the instructions in this Request for Proposal on preparing and submitting the proposal
- d) The firm submits a copy of its last external quality control review report and the firm has a record of quality audit work

#### 2. Technical Qualifications

- a) The firm's past experience and performance on comparable water district engagements
- b) The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation
- c) Adequacy of proposed staffing plan for various segments of the engagement
- d) Adequacy of sampling techniques
- e) Adequacy of analytical procedures
- f) Answers to Item 7 in the Technical Proposal

#### 3. Price

Cost will not be the primary factor in the selection of an audit firm.

### Oral Presentation

During the evaluation process, the evaluation committee may, at its discretion, request any one or all firms to make oral presentations. Such presentations will provide firms with an opportunity to answer any questions the evaluation committee may have on a firm's proposal. Not all firms will be asked to make such oral presentations.

## Final Selection

The District will select a firm based upon the recommendation of the evaluation committee. It is anticipated that a firm will be selected, and a contract will be executed between both parties by November 23, 2021.

The firm awarded audit services for the District will be asked to provide audit services for the joint ventures for PRWA and Association after selection. The firm will have the right to refuse this portion of the contract at the time of this request. Refusing this portion will not affect the contract for the District's audit services. If the firm decides to undertake these additional engagements, negotiations will be conducted to establish costs for work to be performed on the joint ventures.

## Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the District and the firm selected. The District reserves the right without prejudice to reject any or all proposals.

APPENDIX A

No findings or material weaknesses were found.