

***QUARTZ HILL
WATER DISTRICT***

***REQUEST FOR PROPOSALS
FOR PROFESSIONAL AUDITING SERVICES***

QUARTZ HILL WATER DISTRICT

REQUEST FOR PROPOSAL
PROFESSIONAL AUDITING SERVICES
JANUARY 7, 2019

I. INTRODUCTION:

A. **General Information**

The Quartz Hill Water District (District) is requesting proposals (RFP) from qualified certified public accounting firms to audit its financial statements for three years beginning with the fiscal year ending June 30, 2019, with the option of extending the contract for two (2) additional one-year periods, at the District's sole discretion. The contract may be cancelled if the District determines the audit services to be unsatisfactory.

These audits are to be performed in accordance with the Minimum Audit Requirements and Reporting Guidelines for California Water Districts as required by California Public Utility Code Sections 22001 et. seq. and/or the State Controller's office and with generally accepted auditing standards.

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. Materials submitted by respondents are subject to public inspection under California Public Records Act (Government Code Sec. 6250 et. seq.), unless exempt. Additionally, the District reserves the right to reject any or all proposals submitted.

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 proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the District and the firm selected.

Proposals submitted will be evaluated by the General Manager, Finance Staff and the Finance Committee. During the evaluation process, the District reserves the right, where it may serve the District's best interest, to request additional information and clarification from proposers, or to allow corrections of errors or omissions. Oral presentations will be scheduled the week of March 11, 2019 at the District's discretion by any one or more firms. It is anticipated that recommendation of the auditing firm selection will be presented to the Board of Directors at its Thursday, March 21, 2019 meeting. Following notification of the selected firm, it is expected a contract will be executed between both parties by April 08, 2019.

II. DESCRIPTION OF THE QUARTZ HILL WATER DISTRICT

A. Background Information

Quartz Hill Water District (subsequently referred to as “QHWD” or “District”) is a California Public Utility in Quartz Hill, CA and was created in 1954.

QHWD is a political subdivision of the State of California guided by a five-member elected Board of Directors, each of whom serves a four-year term. As an independent district, the District focuses on essential quality of life services exclusive of water utility services. The District employs 12 full-time employees who handle over 5,800 customers and serve a population of approximately 20,400.

The District currently maintains ten wells and over 90 miles of pipes.

The District is located in Los Angeles County, 5 miles north of Palmdale, in the Antelope Valley, the westernmost desert valley of the Mojave Desert. The District is also 30 miles south of Mojave near the City of Lancaster. The District’s service area covers approximately 30 square miles.

The District’s 2018-2019 adopted budget totals \$6,315,880. Over seventy-five percent (75%) of the District’s revenue is charges for services, while the remaining twenty-five percent (25%) is made up of property taxes, user fees and assessments, permits and fees, connection and installation charges, rents, and interest and miscellaneous income.

More detailed information on the District and its finances can be found in the District’s 2018-2019 budget and the 2017 Basic Financial Statements, both of which are located on the District’s website at www.qhwd.org. Click on Transparency at the bottom of the page.

The District utilizes Abila (also known as MIP) software (general ledger, accounts payable and payroll) to record all accounting transactions and produce reports. A sister software, UMS (Continental Utility Service Incorporated), is used for utility billing from which data is imported directly into Abila. Reports and analysis are available from both programs.

B. Prior Auditor

Cobb, Doerfler & Associates, Certified Public Accountants has served as the District auditor for over five years. The prior year audit fee was \$17,500.

C. Contract Finance Staff

The District employs Vavrinek, Trine, Day & Co., LLP (VTD) to assist with month and year end close procedures as well as audit preparation and other general ledger maintenance and consulting, as needed.

III. NATURE OF SERVICES REQUIRED – Scope of Work

The selected auditor will be required to complete the following tasks:

1. Audit the District's basic financial statements in accordance with Generally Accepted Auditing Standards (GAAS) in the United States and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States and Governmental Accounting Standards Board (GASB).
2. Express an opinion on the financial statements as to whether they present fairly, in all material respects, the financial position of the District and the changes in financial position in conformity with generally accepted accounting principles (GAAP), and issue an independent auditors' report stating this opinion.
3. Test internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, in accordance with Government Auditing Standards, and issue a report on their considerations.
4. Apply limited procedures related to the Required Supplementary Information (RSI), Management's Discussion and Analysis (MD&A), budgetary comparison information and the Supplementary Information.
5. Perform agreed upon procedures on the appropriation limit under Article XIII B of the California Constitution, and issue related report, (where applicable).
6. Prepare report to Board of Directors and Management which identifies control deficiencies, significant deficiencies and material weaknesses, if any, and your recommendations for improvements in accounting and administrative controls.
7. Present and discuss annual financial statements and results of operations to the Board of Directors during its December meeting.
8. Communicate immediately and in writing all irregularities and illegal acts, or indications of illegal acts, of which they become aware, to the General Manager or his/her designee.
9. Provide general consultation as required, during the fiscal year, on financial accounting and reporting matters.
10. Retain, at auditor's expense, audit working papers for three (3) years, unless the firm is notified in writing by the District of the need to extend the retention period. In addition, the firm shall respond to reasonable inquiries of the District and successor auditors and allow the District and successor auditors to review working papers relating to matters of continuing accounting significance.

IV. TIMING AND OTHER REQUIREMENTS

1. Key Dates for Proposal Evaluation and Selection:

| Time Table | |
|--------------------------------------|------------------------|
| Distribution of RFP | January 7, 2019 |
| Deadline for submission of questions | February 1, 2019 |
| Proposal submission | February 15, 2019 |
| Proposal review | February 18-22, 2019 |
| Notification to all bidders | February 25, 2019 |
| Oral presentations, as needed | Week of March 11, 2019 |
| Board approval | March 21, 2019 |
| Notification to finalists | March 25, 2019 |
| Expected signing of contract | April 8, 2019 |

We have made every effort to include sufficient information within this Request for Proposal to prepare as responsive, comprehensive and competitive a proposal as possible.

The timing of the proposal process is as follows:

- A. Distribution of Request for Proposals:** January 7, 2019

- B. Questions:** General inquiries concerning the RFP should be addressed to Chad Reed, General Manager, at creed@qhwd.org. Technical inquiries should be addressed to Brad Rockabrand, Consultant, at brockabrand@vtcdcpa.com. Any and all inquiries are due no later than 5:00 P.M. on February 1, 2019.

- C. Proposal submission:** Proposals must be delivered in person or mailed directly to Quartz Hill Water District no later than 4:00 P.M. February 15, 2019. Late submissions after the deadline or proposals delivered via fax will not be accepted. A total of five identical proposals labeled "AUDIT SERVICES PROPOSAL" plus an electronic version on CD or USB (PDF email is preferred) must be submitted to the following address as follows:

Quartz Hill Water District
5034 West Avenue L
Quartz Hill, CA. 93536
Attention: Chad Reed, General Manager
creed@qhwd.org

- D. Proposal review:** Our review committee will evaluate each proposal submitted. It is anticipated that the review process will be completed by February 22, 2019.

- E. Notification to all bidders:** We anticipate sending written notification to all proposers regarding the outcome of the review process by February 25, 2019.
- F. Oral presentations, as needed:** During the notification to all bidders, any finalists selected for an oral presentation will be notified. Oral presentations will take place at the District during the week of March 11, 2019.
- G. Notification to finalists:** The review committee will forward its recommendation to the QHWD Board of Directors for approval at its regularly scheduled meeting of March 21, 2019. All finalists will be notified of the final decision by March 25, 2019.
- H. Contract term:** The audit services contract will become effective on the execution of the contract for three (3) fiscal years ending June 30, 2019, 2020 and 2021 with the option to extend the contract for two (2) additional one-year periods, at the District's sole discretion.

We will make every effort to administer the proposal process in accordance with the terms and dates discussed in this RFP. However, we reserve the right to modify the proposal process and dates as deemed necessary and reserve the right to not award a contract. The District assumes no obligation for any costs incurred by any proposer in preparing the response to this request, attending an interview, or any other activity prior to award of the contract to the selected proposer.

2. Project Schedule for Fiscal Year 2018-2019 Audit (Year ending June 30)

- A.** The auditor shall provide the District with an audit plan, including a list of schedules and other work requested no later than May 31, 2019.
- B.** Depending on the type and extent of interim audit procedures before June 30, 2019, the District expects to have all records, prepared by client lists and schedules ready for the audit field work no later than the middle of September, 2019 and would expect field work to commence shortly thereafter.
- C.** The auditor shall complete field work in time to allow preparation of the draft financial statements and discussion of the draft statements with District staff by October 31, 2019.
- D.** A draft of the management letter shall also be provided by October 31, 2019. District staff shall have the opportunity to discuss and comment upon any findings and recommendations prior to issuance.

- E. Final financial statements will be presented by auditor to the Board of Directors no later than at its December 19, 2019 meeting. The report to the Board of Directors and Management is required to be submitted to the District by October 31, 2019 to enable management to respond and present the report with management's responses to the Board of Directors.
- F. Final copies of the audited financial statements shall be issued no later than December 13, 2019. The final version of the management letter shall be issued by December 13, 2019. Five (5) comb bound hard copies will be provided by auditor along with a copy of the final financial statements in PDF format.

A similar schedule will be developed for audits of subsequent fiscal years.

3. Assistance Provided to the Auditor

District staff will be available during interim and audit field work to assist the firm by providing access and direction to information, documentation and be available for explanations of all inquiries. Staff will provide clerical assistance for preparation of confirmations and other routine correspondence. The District will be responsible for the preparation of the Management Discussion and Analysis (MD&A).

The District will provide the auditors with reasonable workspace, phone, wireless internet and copy machine access.

4. Additional Services

If it should become necessary for the District to request the auditor to render any additional services to either supplement the services requested in this RFP 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 Proposal Data Sheet and the contents of the Technical Proposal.

5. Payment

Progress payments will be made on work completed during the course of the engagement. Interim billings shall cover a period of not less than a calendar month.

V. PROPOSAL REQUIREMENTS

A. Format of Technical Proposal

1. Title page
 - a. The RFP subject
 - b. The proposing firm's name
 - c. Contact person's name, local address, telephone number and email address. If the firm has more than one office, state which office will be responsible for providing services to the District and,
 - d. The date of submission
2. Table of Contents
 - a. Identification of materials submitted, by section and page number
 - b. Cross reference to section and page number of RFP
3. Transmittal Letter
 - a. General introduction stating the proposer's understanding of the services to be provided,
 - b. A positive commitment to perform the service within the time period specified,
 - c. A statement why the firm believes itself to be best qualified to perform the engagement,
 - d. A statement of how long the firm has been in business and how many financial audits were performed by it for public agencies during the last five (5) years,
 - e. A statement that the proposal is a firm and irrevocable offer for the stated period of time,
 - f. Name(s) of person(s) authorized to represent the proposer, title, address, telephone number, email address and,
 - g. Signature
4. Detailed Proposal Following the Order Set Forth in Section B

B. Contents of 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 RFP. The Technical Proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It should also specify an audit approach that will meet the RFP requirements.

The Technical Proposal should address all the points in the order outlined in the RFP (exclude any cost information, which should only be included in the cost proposal section). The proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the RFP. While additional data may be

presented, the areas detailed below must be included. They represent the criteria against which the proposal will be evaluated.

1. 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.

2. Independence

The firm should provide an affirmative statement that it is independent of the Quartz Hill Water District as defined by generally accepted auditing standards and the US General Accounting Office's Government Auditing Standards.

The firm should also list and describe the firm's professional relationships involving the District for the past five (5) years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed audit.

In addition, the firm shall give the District written notice of any professional relationships entered into during this period of this agreement as they relate to maintaining independence.

3. Insurance Requirements

In order to provide services to the District, your organization must maintain the following insurance:

- A. Worker's Compensation and Employer's Liability Insurance in accordance with the applicable laws of the state of California or in accordance with the applicable laws of the State in which the contractor is obligated to pay compensation to employees engaged in the performance of the work. The policy limit shall not be less than one \$500,000 per occurrence with one million dollars (\$1,000,000.00) aggregate.
- B. Commercial General Liability and Bodily Injury Insurance. A commercial general liability insurance policy for at least \$1,000,000 combined limit for bodily injury and property damage.
- C. Insurance covering the work, the performance of the work and everything incidental thereto, with limits of not less than one million dollars (\$1,000,000.00) per occurrence combined single limit, or in whatever higher amounts as may be required by the District's insurer.
- D. This policy shall be endorsed to cover contractual liability assumed by the contractor under the indemnity agreement set forth below. If any of the work is sub-contracted, independent contractor's liability providing coverage in connection with such portion of

the work, which may be sub-contracted, broad form property damage liability and personal injury liability.

- E. Automotive Liability and Property Damage Insurance, including coverage on owned, hired and non-owned automobiles and other vehicles, if used in connection with the performance of the work, with bodily injury and property damage limits of not less than one million dollars (\$1,000,000.00) per person/per occurrence.
- F. Insurance covering loss of customer data and or breach with limits of not less than one million dollars (\$1,000,000.00)

Prior to commencing any work hereunder, you shall provide to QHWD proper certificates demonstrating that the types and amounts of insurance coverage specified above and any endorsements required hereunder are properly issued and in effect, and provide QHWD, its officers, employees and agents are named additional insured's under the policy. The policy shall state in writing either on the Certificate of Insurance or attached rider thereof that this insurance will operate as primary insurance for work performed by your organization, its employees, agents and subcontractors and that no other insurance carried by QHWD or other named insured will be called on to cover a loss covered thereunder.

4. Firm Qualifications and Experience

To qualify, the firm must have extensive experience in audits of local governments as well as experience with the preparation of basic financial statements in compliance with generally accepted auditing standards, Minimum Audit Requirements and Reporting Guidelines for Public Utilities as required by the State Controller's Office and Governmental Accounting Standards Board (GASB) requirements.

The proposal should briefly introduce your firm, indicating whether your firm is local, regional, national or international. 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. Indicate the name of the person who will be authorized to answer questions and to bind the firm, the person's title, address, email and telephone number.

The proposer should not be a joint venture or consortium.

If your firm participates in a peer review or quality review program, provide the year, month and result of the most recent review and submit a copy of the report on the firm's most recent external quality control (peer) review, with a statement whether that quality control review included a review of specific government engagements (required by Government Audit Standards).

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, 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.

5. Engagement Partner, Manager/Supervisor and Staff Qualifications and Experience

Identify the senior-level staff, including engagement partner and manager/supervisor, who would be assigned to this engagement on an on-going basis. Indicate whether these individuals have CPA licenses to practice in California. Please provide information on the governmental auditing experience of these individuals, 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. The District reserves the right to approve or reject any replacements in the senior level staff participating in the District's audit.

Identify junior-level staff who would be assigned to this engagement. How stable is this team of individuals in relationship to being assigned to this engagement on an annual basis? Please indicate their experience as outlined above for senior level staff. How will the quality of the junior-level staff be assured over the term of the agreement? The District reserves the right to approve or reject any replacements in the junior-level staff participating in the District's audit.

Staff consistency is a very important consideration.

Include resumes of those individuals supervising the audit.

6. Prior Engagement with the District

List separately all engagements within the last five (5) years, ranked on the basis of total staff hours, for the District by type of engagement, (i.e. audit, management or advisory services, other). Indicate the scope or 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.

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 Section III of this RFP.

1. Proposed segmentation of the audit work:
 - a. What will be accomplished during interim and what at year end?

- b. What other contact can the District expect during the year related to the audit engagement?
 - 2. Expectations of District staff:
 - a. What documents and working papers are expected to be provided by District staff during interim and year end work? Please provide sample Prepared by Client (PBC) lists and schedules for each section of the audit field work.
 - 3. Proposed time frame for each segment of audit work:
 - a. What is the anticipated length of field work for interim and year end work?
 - b. What is the standard turnaround time from end of field work, to senior level review, to final draft, to partner review to audit report issuance?
 - 4. Planned number of hours on the engagement for each level of auditing staff.
 - 5. Sample size and the extent to which statistical sampling is to be used in the engagement.
 - 6. Type and extent of use of software in the engagement.
 - 7. Type and extent of analytical procedures to be used in the engagement.
 - 8. Approach to be taken to gain and document an understanding of the District's internal control structure.
 - 9. Approach to be taken in determining laws and regulations that will be subject to audit test work.
 - 10. Approach to be taken in drawing audit samples for purposes of tests of compliance.
8. Identification of Anticipated Potential Audit Problems

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

9. References

Please provide the name of a sample of cities, counties and special districts for which the firm has audited basic financial statements during the past three (3) years. These engagements should be ranked first for water districts, then special districts on the basis of comparability to QHWD and followed by cities and counties ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partner and total hours. Please include reference contact information for at least three of these, including the name, telephone number and email address of the principal client contact. The District reserves the right to contact any or all of the listed references.

10. Proposal Data Sheet

In addition to your formal response, all firms must enclose a data sheet. Refer to the attached form.

11. Additional Information Required

What additional information would you require from the District, if you were selected to provide audit services, before you accepted the engagement?

12. Delegation or subcontract responsibilities

Proposer will not delegate or subcontract its responsibilities without prior written consent of the District.

13. Price

A complete estimate and explanation of fees is to be prepared and accompany your RFP in a **separate and sealed envelope** as outlined on the Proposal Data Sheet. Indicate how additional years' fees would be calculated if the contract is extended beyond three years. Please provide a list of fees for additional services that may be requested in relation to this audit.

All proposals shall contain provisions to the effect that in the event that extraordinary circumstances warrant more intensive and detailed services beyond those in the contractual agreement, the firm shall provide in writing and in advance, the reasons for additional services together with the firm's estimate of costs and a statement that no work will be performed without advance approval of the District. Any and all additional work as agreed in advance by the District shall be compensated for at the same rate quoted in the schedule submitted in the proposal.

VI. EVALUATION PROCEDURES

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 represents the principal selection criteria, which will be considered during the evaluation process:

1. Mandatory Elements:

- a. The audit firm is independent, insured and licensed to practice in California.
- b. The firm has no conflict of interest with regard to any other work to be performed for the District.
- c. The firm adhered to the instructions in the RFP.
- d. The firm submits a copy of its latest external quality control review report and the firm has a record of quality audit work.

2. Technical Quality (maximum 50 points):

- a. Expertise and Experience
 - i. The firm's substantial past experience in performing the required audits on government agencies comparable to the District.
 - ii. The quality and stability of the firm's professional staff to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation is acceptable to the District.
- b. Audit Approach:
 - i. The firm provided proposed plans for the various segments of the engagement which are acceptable to the District.
 - ii. The firm presented a thorough understanding of the objectives, scope and issues for this type of engagement.
 - iii. Adequacy of proposed staffing plan.
 - iv. Adequacy of sampling techniques.

- v. Adequacy of analytical procedures.
- vi. The firm is committed to the timeliness in the conduct and completion of the audit.
- vii. Location of firm managing and conduction the audit.

c. References

3. Price (maximum 50 points):

Evaluation of the maximum fee to conduct the audit.

4. Oral Presentation

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

5. Final Decision

It is anticipated that the Board of Directors will select a firm on March 21, 2019. Following notification of the firm selected, it is expected a contract will be executed between both parties by April 8, 2019.