



Agenda Item: 4

Date: November 10, 2009

Subject: Outside Auditing Firm Engagement Letter

Staff Contact: Daniel A. Bills, Director of Finance

Recommended Board Action:

As recommended by the Finance and Audit Committee, approve the audit Engagement Letter with Gilbert Associates, Inc. and authorize the Finance and Audit Committee Chair (Director Schild) to execute the Engagement Letter.

Discussion:

The District has received an "Engagement Letter" for the December 31, 2009 audit from Gilbert Associates, Inc., the new auditing firm approved by the Board of Directors in its October Board meeting. The Engagement Letter is essentially the contract agreement between the District and the auditor's and is renewable annually.

Staff has reviewed the Engagement Letter and confirmed it meets all the services requested in the original Request for Proposal, including the expanded expenditure testing the District has requested for the past six years over and above that required for a standard public agency audit (see the third paragraph on page 1 of the Engagement Letter).

Per the District's "Engagement of Auditor Policy" (PL – Fin 001) (Policy), the Finance and Audit Committee is responsible for ... administering the relationship between the District and the auditor. Therefore, the Finance and Audit Committee will review audit results as the audit progresses. At the conclusion of the audit, the auditors will provide a report to the Finance and Audit Committee and a report to the Board of Directors.

Fiscal Impact:

Approximately \$35,000.

Strategic Plan Alignment:

Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.



Gilbert Associates, Inc.
CPAs and Advisors

November 4, 2009

Mr. Daniel A. Bills
Director of Finance
Sacramento Suburban Water District
3701 Marconi Avenue, Suite 100
Sacramento, California 95821

Dear Mr. Bills:

We are pleased to confirm our understanding of the services we are to provide Sacramento Suburban Water District (the District) for the year ended December 31, 2009. We will audit the basic financial statements of the District as of and for the year ended December 31, 2009. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany the District's basic financial statements. As part of our engagement, we will apply certain limited procedures to the District's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

-Management's Discussion and Analysis

Supplementary information other than RSI also accompanies the District's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

-Schedule of Net Revenues

Additionally, as part of these services, we will expand the scope of our expenditure testing to include additional sample sizes requested by the District. Sample sizes under Generally Accepted Auditing Standards (GAAS) vary based on auditor judgment and evaluation. These expanded procedures are intended to go beyond the sample sizes determined by Gilbert Associates, Inc. under GAAS. This expenditure testing will include general cash disbursements, payroll disbursements, wire and ACH transfers, petty cash, and Purchasing Card payments. Additionally, this testing will include verifying payments to District employees and Board members on a sample basis. Furthermore, it will include verifying the pay rates for at least one period of senior management, finance staff, anyone involved in the payroll processing function and a sample of 10 other employees. For expenditures, the additional sample size will be between 50 to 75 expenditures.

Furthermore, upon completion of these services, Gilbert Associates, Inc. will present the financial statements and the results of the audit to the District's Finance and Audit Committee.

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Audit Objectives

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and will include tests of the accounting records of the District and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal controls related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal controls and compliance will include a statement that the report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the District is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the District and the respective changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on any current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors,

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and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal controls and, accordingly, no opinion will be expressed in our report on internal controls issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal controls or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing.

We will provide copies of our reports to the District; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Gilbert Associates, Inc. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Gilbert Associates, Inc. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies. The audit documentation for this engagement will be retained for a minimum of seven years after the report release date.

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Director of Finance
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Our fee for these services will be \$35,000. Our detailed invoices for these fees will be rendered each month as work progresses and are payable on presentation. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. In the event that either party claims a breach of contract of any term of this engagement, the claim shall, at our option, be submitted to binding arbitration at 2880 Gateway Oaks Drive, Suite 100, Sacramento, California 95833.

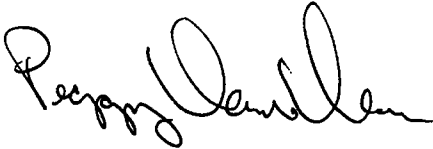
The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2008 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Sacramento Suburban Water District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

GILBERT ASSOCIATES, INC.



Peggy A. Vande Vooren, CPA
Shareholder

RESPONSE:

This letter correctly sets forth the understanding of Sacramento Suburban Water District.

BY: _____

TITLE: Finance and Audit Committee Chairman

DATE: _____

BY: _____

TITLE: Director of Finance

DATE: _____