

**LOS VAQUEROS RESERVOIR JOINT POWERS AUTHORITY  
AUDIT POLICY**

**A. Purpose and Scope.** Under Government Code Section 6505 and the provisions of its Joint Exercise of Powers Agreement, the Los Vaqueros Reservoir Joint Powers Authority (the “Authority”) must prepare an audit each year, which must be filed with the California State Controller within twelve (12) months of the end of the fiscal year being audited. In addition, as the recipient of funding provided by the federal government, the Authority is subject to single audit requirements.

The purpose of this policy is to ensure the Authority complies with all state and federal audit requirements, including the State Controller’s minimum audit requirements set forth at Title 2, Section 1131.2 of the California Code of Regulations (a copy of which is attached hereto as Exhibit A) and does so in a timely and efficient manner. In addition, the audit will verify the existence of adequate internal controls and attest whether financial statements are accurate, complete and fairly represent the position and performance of the Authority. This policy also establishes the Finance Committee’s role in appointing external auditors and provides the requirements and guidelines to be used in screening, engaging and monitoring the external auditor.

**B. Definitions.**

1. Audit: an independent and objective appraisal to examine or review the fair presentation of financial statements, economy and efficiency of operations, the compliance with laws and regulations, and/or the detection of fraudulent activities.
2. External Audit: an independent and objective appraisal performed by a non-Authority audit entity of the Authority’s financial and administrative performance.
3. Request for Proposal: an invitation for service providers to submit a proposal to perform audit activities for a specific fiscal period. The request for proposal (RFP) process brings structure to the procurement decision and is meant to allow the risks and benefits to be identified clearly upfront.

**C. Policy.**

1. Auditor Engagement Process: The Authority shall use a formal RFP process to seek qualified accounting firms to provide independent external audit services. The RFP shall include:
  - a. An introduction regarding the Authority, the range of services sought and a request to submit an engagement proposal;

- b. A statement of the minimum qualifications required from any proposing firm and a requirement for the proposing firm to list by name and experience the audit team members to be assigned to the engagement;
- c. Proposing firms are to provide a list of at least three (3) contacts with any current and/or former public agency clients for which they have performed financial audits; and
- d. A request for information on the method and basis of compensation for services. Basic audit services, preparation of the annual financial transactions report to be filed with the State Controller's Office and the preparation of any necessary tax filings will be quoted as a not-to-exceed fixed fee; and the cost to prepare single audit will be included as an alternative cost item. Fees for any related consulting services are to be quoted at an hourly rate. Submitted proposals must include an estimated number of hours to complete the audit and annual financial transactions report work.

2. Selection Criteria:

- a. The fundamental criteria in selecting the audit firm are the firm's capability to perform the required work, prior experience with entities similar to the Authority and on work similar to the Los Vaqueros Reservoir Expansion Project, professional reputation and cost of services.
- b. The audit firm should demonstrate through the RFP process that the engagement proposal is complete, responsible and responsive to the audit specifications.

3. Timing:

- a. The Authority operates on a July 1 to June 30 fiscal year. The Authority's audit must be completed at least one (1) month in advance of any continuing disclosure requirements for debt issued by the Authority, but no later than March 31 of the year following the year under audit.
- b. When the Authority must proceed with the RFP process to engage an auditing firm (see Section 6, below, for potential continued engagement), the RFP should be completed and sent to qualified firms by no later than July 31; responses from the prospective auditing firms should be due by no later than August 31; staff and Finance Committee review of proposals to be conducted at the September Finance Committee meeting with the Finance Committee

recommendation to be made at that meeting; and award of auditing contract and appointment of auditor at the October Board of Directors' meeting.

4. Engagement: The acceptance of the independent audit services proposal shall be by motion passed by the Board of Directors and confirmed in writing to the firm selected. The selected firm will work with Authority staff in conducting the audit and will present its initial report to the Finance Committee and final report to the Board of Directors.
5. Post-Audit Performance Review: Following the completion and acceptance by the Authority of the audit report for each fiscal year, the Finance Committee will evaluate the performance of the audit firm, including:
  - a. Did the firm meet all requirements for the audit and related annual financial transactions report?
  - b. Did the firm maintain and meet the audit schedule?
  - c. Were reports and recommendations timely, clear and complete?
  - d. Were the firm's personnel assigned to the audit those identified in the firm's proposal?
  - e. Did the firm's personnel perform their duties in a professional manner?
  - f. Was the firm responsive to the Authority's auditing and related needs?
6. Continued Engagement:
  - a. Based upon a favorable post-audit performance review by the Finance Committee, the Board of Directors may consider continued engagement of the auditing firm for multiple years. The RFP shall address this potential for multiple-year services conditioned upon a satisfactory post-audit performance review.
  - b. Pursuant to Government Code section 12410.6(b), the Authority will limit any engagement term by one auditing firm to not more than five (5) years. A sixth-year extension may be considered by the Finance Committee, to be recommended to the Board of Directors, based upon exemplary performance by the engaged auditing firm.

- c. An audit firm engaged by the Authority in a prior term is eligible to respond to an RFP for a subsequent term after a one-year waiting period.

**D. Responsibilities.** The Finance Committee will also serve as the Authority's audit committee. The Finance Committee will: (1) review and approve the RFP that Authority staff prepares; (2) screen and recommend for appointment to the Board of Directors the final candidate(s) to serve as the Authority's auditor to prepare the audit report and related filings; (3) review the draft audit report and recommend the draft audit report for approval by the Board of Directors; (4) ensure Authority staff implements any actions recommended by the auditor; (5) conduct the post-audit performance review of the auditor; and (6) perform other related duties as directed by the Board of Directors.

## EXHIBIT A

### § 1131.2. Minimum Audit Requirements.

(a) The audit shall be made in accordance with generally accepted auditing standards. Various auditing procedures are suggested and described on pages 41 through 69 of the American Institute of Certified Public Accountants publication Audits of State and Local Governmental Units. No hard and fast rules can be set down as to the specific procedures that should be taken. Professional judgment must be exercised. Following are general statements that the county auditor or independent accounting firm should consider in preparing an audit program in connection with the audit of a California special district.

(1) A proper study and evaluation of the existing internal control and the financial organizational structure should be made. The extent to which an auditor should go in testing the evidential matter supporting his opinion on the financial statements depends on the effectiveness of the district's system of internal control. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination. If the internal control is so deficient that an auditor must disclaim his opinion in this regard, the reason for this disclaimer must be set forth in the audit report.

(2) The auditor should review the laws applicable to the financial transactions of the district. For instance, all special districts are subject to a uniform accounting system prescribed by the State Controller. Should there be indications that the district may have failed to comply with legal requirements, the transactions may be referred to proper legal counsel for interpretation of the applicable law. Noncompliance should be commented upon in the report and, if necessary, the auditor's opinion should be qualified, disclaimed or adverse.

(3) The district's report of financial transactions to the State Controller should be reviewed to see that it agrees with the official records of the district for the period. The State Controller should be informed of any material difference.

(4) A review should be made of the previous audit report workpapers and program if available.

(5) The auditor should ascertain what funds are maintained and by what authority or under what circumstances each fund maintained was created.

(6) The auditor should ascertain the basis of accounting, that is, cash, accrual or modified accrual. Accrual is the basis for enterprise funds and modified accrual is the basis for non-enterprise funds. The cash basis is no longer approved for special districts.

(7) The auditor should take a trial balance of the accounts of each fund and should list both opening and closing balances. The opening balances should be compared with the

amounts shown in the audit report for the previous period, if any, and any difference should be investigated and reconciled.

(8) A summary of the financial data included in the minutes or other official records of the proceedings of the legislative body should be prepared. Expenditure authorizations and the appropriations made to cover the authorizations should be confirmed.

(9) The auditor should verify the balance of cash on hand.

(10) The auditor should reconcile bank accounts including cash on deposit with county treasurer as of the balance sheet date and such other times as is necessary. He should obtain confirmation from depositories for (1) all bank accounts, time certificates or savings and loan accounts, and (2) collateral securing such accounts, if applicable. Collateral should be examined or confirmed with the depository holding the collateral as trustee. The auditor should determine the adequacy and propriety of the collateral pledged.

(11) The auditor should test the tax levy, tax collection and delinquencies whether processed by the district or the county.

(12) The collection and recording of all ascertainable revenues should be tested during the period under audit. The test should be sufficient to determine that receipts have been recorded in the proper funds and period.

(13) The auditor should determine:

(A) That the expenditures were properly authorized and incurred and are proper charges to the fund and appropriation against which they have been charged.

(B) That the expenditures are supported by the proper documents and that the documents are so marked as to prevent their reuse. In this connection, it should be ascertained whether noncash expenditures, that is, interdepartmental transactions are supported by adequate documentation and were properly recorded.

(14) A review should be made of nonrevenue receipts and nonexpense disbursements to determine if they were legal and properly recorded.

(15) All other assets such as investments, accounts receivable, inventories, paid expenses, fixed assets and similar items should be verified in accordance with generally accepted auditing standards.

(16) All liabilities such as accounts payable, notes payable, contracts payable, judgments and similar items should be verified in accordance with generally accepted auditing standards. Proper authorities should be contacted to ascertain existence of any possible contingent liabilities.

(17) The auditor should verify the fund balance and reserve accounts of all funds.