



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: [Signature] Date: 3/17/17
General Manager

DATE: March 17, 2017
TO: General Manager
FROM: Director of Finance and Administration
SUBJECT: Selection of Accountancy Firm of Vavrinek, Trine, Day & Co., LLP for FY 2016/17 through FY 2019/20 Audits

RECOMMENDATION: That the Board award a four-year contract to Vavrinek, Trine, Day & Co., of Sacramento, CA, to perform the District's Annual Audit for Fiscal Years 2016/17 through 2019/20 at a cost of \$106,832, in accordance with their proposal dated January 24, 2017 (attached). Funds for this work will be included in the Professional Services portion of each fiscal year budget.

DISCUSSION

At the December 2016 Board meeting, the Board authorized staff to issue a Request for Proposals (RFP) for preparation of the District's Annual Audits for Fiscal Years 2016/2017, 2017/2018, 2018/2019, and 2019/2020. Staff sent the RFP to 17 auditing firms. Eight proposals were received; 9 firms did not respond. The following table summarizes the proposed fees from the responses:

Firm	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	Total
Flechter & Company , Sacramento	\$24,050	\$24,651	\$25,268	\$25,899	\$99,868
Vavrinek, Trine, Day & Co. , Palo Alto	\$25,920	\$26,438	\$26,967	\$27,507	\$106,832
RT Dennis Accountancy , Rancho Cucamonga	\$26,400	\$27,100	\$27,800	\$28,500	\$109,800
Maze & Associates , Pleasant Hill	\$27,290	\$28,109	\$28,952	\$29,821	\$114,172
The Pun Group , Santa Ana	\$29,561	\$30,448	\$31,361	\$32,302	\$123,672
McGilloway, Ray, Brown & Kaufman , Salinas	\$29,798	\$31,277	\$32,822	\$34,436	\$128,333
James Marra & Company , Sacramento	\$34,600	\$35,500	\$36,400	\$37,300	\$143,800
Bianchi, Kasavan & Pope , Salinas	\$35,000	\$36,500	\$38,000	\$39,500	\$149,000

Bianchi, Kasavan & Pope conducted the FY 2015/16 audit for \$27,500, and completed the annual audit for the past three years. In 2012 they were selected in a competitive process. Audits are a unique professional service and fees should not be the only criteria in the selection process.

Staff has conducted due diligence on the proposers, including contacting certain reference clients. References were asked a series of questions regarding their history with the firm, the firm's quality of work, staff professionalism and performance, ability to meet deadlines, and if they would want to engage the firm again. All references gave favorable responses.

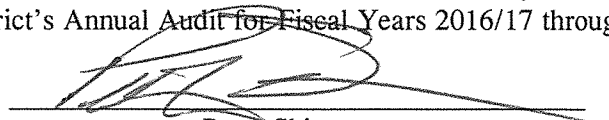
Each of the firms stated that they will comply with the requirements of the RFP and will meet all the deadlines for reporting. Each firm has successfully completed an independent quality review of their accounting and auditing

practice as established by the American Institute of Certified Public Accountants. The following is information for all the firms who submitted a proposal:

- Fechter & Company is based in Sacramento and performs audits throughout the state. The firm has 10 employees, 8 of whom work on governmental audits. The firm has performed CPA services since 2005 and specializes in agencies with annual budgets of less than \$25 million. Fechter has estimated 260 hours to complete the audit at an average rate of \$93 per hour.
- Vavrinek, Trine, Day & Co. was established in 1948 and today has 36 partners and over 250 professional staff in 8 offices in California and 1 in Arizona. The proposed audit team is based in Palo Alto. Ninety percent of the firm's business is with government clients, including many Enterprise Districts similar to MRWMD. Current and recent local clients include MRWPCA, MST and the City of Santa Cruz. VTD has estimated 216 hours to complete the audit at an average rate of \$120 per hour.
- RT Dennis is based in San Bernardino county. The firm focuses exclusively on government and not-for-profit audits, with a significant history serving school districts. RT Dennis has estimated 152 hours to complete the audit at an average rate of \$174 per hour.
- Maze & Associates is located in Pleasant Hill. Municipal auditing is Maze's main business and their clients have included well over 200 government and regulated industries in the state. Staffing levels have ranged from 44 to 48 employees over the past 5 years. Maze has estimated 234 hours to complete the audit at an average rate of \$117 per hour.
- The Pun Group is headquartered in Santa Ana, with offices in Orange County, San Diego, Palm Desert and Phoenix. The firm has 40 professionals, 30 of whom are focused in their Governmental Assurance Practice. A local client includes the Marina Coast Water District. The Pun Group has estimated 231 hours to complete the audit at an average rate of \$128 per hour.
- McGilloway, Ray, Brown & Kaufman has offices in Salinas, Monterey and Pleasant Hill. The firm specializes in serving governmental agencies and not-for-profit and privately-held business. The Salinas office has 2 principles, 4 audit managers, 2 senior accountants, 4 staff accountants and 2 clerical assistants. The audit team would be led by Patricia Kaufman. Similar clients include the Salinas Valley Solid Waste Authority, the City of Salinas and the San Benito County Water District. The firm has estimated 210 hours to complete the audit at an average rate of \$142 per hour.
- James Marta & Company, based in Sacramento, has extensive special district expertise, having performed over 300 special district audits in the last 5 years. A local client includes the Monterey Peninsula Airport District. The firm actively participates in the delivery of CSDA webinars and conferences and in the CSDA's Leadership Academy. The firm has 6 CPAs. James Marta & Co. has estimated 280 hours to complete the audit at an average rate of \$124 per hour.
- Bianchi, Kasavan & Pope has offices in Salina, Monterey and Hollister and has 9 partners, 11 managers and 33 professional staff members. The firm has conducted the District's audits for the past three years.

CONCLUSION

Staff believes all of the firms would perform a quality audit for the District. Because of their reasonable fees, their demonstrated experience with Enterprise Districts similar to MRWMD and their proven track record of working effectively with organizations in our geographic region, staff recommends the Board award a four-year contract to Vavrinek, Trine, Day & Co., LLP to perform the District's Annual Audit for Fiscal Years 2016/17 through 2019/20.



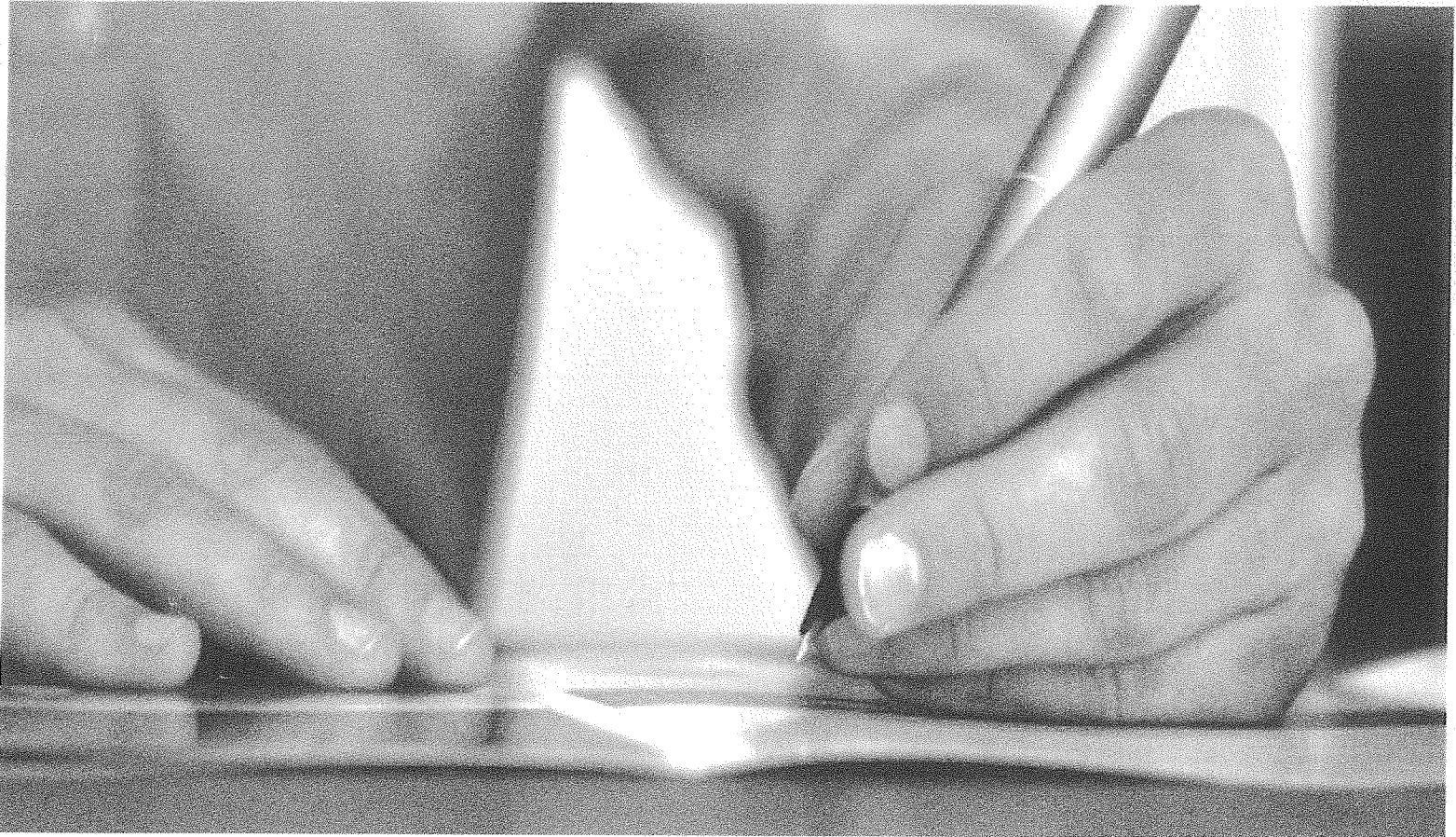
Peter Skinner



Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

VALUE THE DIFFERENCE



**Proposal to Provide Independent
Auditing Services
January 24, 2017**

Monterey Regional Waste Management District

Submitted by:

Vavrinek, Trine, Day & Co., LLP

Nathan Edelman, Partner

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CALIFORNIA:

FRESNO ■ LAGUNA ■ PALO ALTO ■ PLEASANTON ■ SACRAMENTO ■ RANCHO CUCAMONGA ■ RIVERSIDE ■ SAN DIEGO

ARIZONA

PHOENIX





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January 24, 2017

Mr. Peter Skinner
Director of Finance and Administration
Monterey Regional Waste Management District
14201 Del Monte Blvd.
Marina, CA 93933

Dear Mr. Skinner:

We are pleased to respond to the request for proposal to provide audit services for the Monterey Regional Waste Management District (District). We provide auditing services to regional governments including, counties, cities and various types of special districts throughout California.

Our success has been driven by using staff who are experienced and well trained in governmental operations. We understand the requirements, as described in the request for proposal, and understand that the District wants a timely audit conducted in a professional manner. We are committed to perform our work within the strict timelines and to meet all the requirements as specified in the request for proposal. We recognize that experience, communication and quality are important factors to deliver an effective and efficient audit. Each of these important factors are discussed as follows:

Experience

Vavrinek, Trine, Day & Co., LLP provides governmental auditing services to over 500 governmental agencies. Our experience includes counties, cities, hospitals, transportation agencies, water and sanitation and a variety of special districts.

- CPA firms often fill time during a slow season with governmental clients. We specialize in audits of local governments. Every member of the proposed audit team works exclusively for local governments similar to your District. Our experiences facilitate an effective and efficient audit process.
- Each member of the audit team takes part in excess of 80 hours per year of governmental continuing professional education (CPE).
- We participate in national sessions lead by the AICPA, OMB, GAO, and OIG relating to all areas of governmental accounting and auditing.
- We offer training sessions to industry groups and clients regarding GASB pronouncements and single audit reporting requirements.

Communication

We will be in constant communication regarding each aspect of the audit throughout the entire process.

- The partner in charge of the engagement is on-site during fieldwork. The partner will meet with management and the Board to ensure open communication, outstanding issues are resolved timely, and that all pertinent deadlines are met.
- Findings are never a surprise during the exit meeting. Potential findings are identified during fieldwork, to allow time, and ensure management and the audit team have a clear understanding of all facts and circumstances.
- We will present to you a clear audit plan at early stages of the audit.
- In addition to an entrance and exit meeting, we believe in continual status updates, as needed, during fieldwork.
- We utilize a cloud based portal to share and collaborate documents between clients and the audit team.
- Prior to fieldwork, we give our clients with a detailed listing of documents needed for the audit.
- We encourage communication between client and the audit team to remain open throughout the entire year; not only during fieldwork.

Commitment to Quality

Vavrinek, Trine, Day & Co., LLP adheres to strict policies and procedures to ensure we provide only quality audit services to our clients. Our firm has a dedicated quality control department responsible for ensuring our policies are implemented as follows:

- Our firm has a quality control partner that conducts in-house annual inspections to ensure our work product follows professional standards.
- Because of the clients we serve, our firm is subject to a tri-annual inspection of our public company audits by the Public Company Accounting Oversight Board (PCAOB) and voluntary AICPA Peer Reviews.
- Ensuring adherence to independence standards of the GAO, PCAOB and AICPA.
- Handling inquiries from engagement team members regarding technical accounting and audit issues.

We hope that as you read this proposal, you recognize the philosophy of our firm which is to provide each of our clients with exceptional service, experienced staff, and an audit approach that will fit your needs. Our dedication to quality, professional standards, and service are unmatched in the industry. Vavrinek, Trine, Day & Co, LLP is an equal opportunity employer.

Thank you for providing us the opportunity to present our proposal. Should you have any questions, please feel free to contact Nathan Edelman, Partner, who is authorized to make representations on behalf of the firm at (650) 462-0400, email at nedelman@vtdcpa.com, or the mailing address detailed on the cover page. This proposal offer is valid for 60 days.

Very truly yours,



Vavrinek, Trine, Day & Co., LLP
Nathan Edelman, CPA
Partner



Section 1 – Firm’s Qualifications and Experience

A. Firm's Qualifications

Vavrinek, Trine, Day & Co., LLP – VTD

VTD was established in 1948. Our firm offers a full range of services for several different lines of businesses throughout California. Proudly, our governmental practice is key to our firm's success. VTD has experienced a solid 70 years of growth and commitment to client service. Now with 36 partners and over 250 professional staff, VTD is one of California's top CPA firms.

VTD is ranked within the "top 100" CPA firms in the United States with a significant percentage of our practice devoted to our governmental audit and consulting practice. VTD is a leader in providing audit, consulting, and tax services to various industries including large municipal and regional governments, financial institutions, manufacturing, and retail enterprises, and not-for-profit corporations. As governmental auditing is our primary practice. We do not use governmental clients to fill our down time.

VTD is organized into industry practice groups. In today's regulatory environment it is necessary to specialize in specific industry practice areas so that our clients are given the highest quality service. In order to accomplish this, we have structured our firm with the following industry practice groups:

- State and Local Government
- Higher Education
- K-12 School Districts
- Not-for-Profit
- SEC/PCAOB
- Manufacturing, Retail, and Distribution
- Financial Services

Our Offices are located throughout California and Arizona:

- Rancho Cucamonga, California
- Palo Alto, California
- Pleasanton, California
- Fresno, California
- Sacramento, California
- Riverside, California
- Laguna Hills, California
- San Diego, California
- Scottsdale, Arizona

Our staff in the Palo Alto and Pleasanton offices will have the pleasure of servicing the District.



Section 1 – Firm’s Qualifications and Experience

A. Firm's Qualifications, (continued):

Professional Associations

We are members of the American Institute of Certified Public Accountants (AICPA), the California Society of Certified Public Accountants (CalCPA), and we have registered with the Public Companies Accounting Oversight Board (PCAOB). In addition, our firm is a member of the AICPA's Governmental Audit Quality Center. Several of the firm's partners serve on several Audit and Accounting subcommittees for the CalCPA.

We are active members in the Governmental Finance Officers Association (GFOA) and attend training seminars provided by GFOA. Several of our partners serve on the GFOA CAFR Special Review Committee. We are also active members of the California Society of Municipal Finance Officers (CSMFO).

All staff assigned to serve the District are full-time VTD employees.

The ranges of activities performed by our firm includes the following:

- *Governmental auditing and consulting* – VTD now provides services to more than 500 governmental agencies throughout California, including but not limited to Counties, Cities, School Districts, Community Colleges and Transit/Transportation Agencies.
- *Financial Institutions* – VTD provides auditing services to more than 70 independent banks throughout California. Our financial institutional clients have assets ranging from \$50 million to more than \$3 billion dollars.
- *Manufacturing, Retail, and Distribution* – VTD provides auditing services to many commercial companies in California, Nevada, and Arizona.
- *Tax Compliance* – Our commitment to our clients includes offering professional tax preparation and planning services. Each of our offices has tax partners with a complete tax practice to meet the needs of our clients.
- *Not-for-Profit* – VTD provides services to over one hundred not-for-profit entities.



Section 1 – Firm’s Qualifications and Experience

A. Firm's Qualifications, (continued):

Quality Control

Our firm has a program of quality control to ensure that our engagements meet the standards of the AICPA and Yellow Book, including qualifications, independence, due professional care, and quality control. VTD has a quality control department with a dedicated Partner and staff delegated the responsibility of implementing and monitoring the firm's quality control policies and procedures. VTD also has a quality control committee that meets regularly to discuss emerging issues and new professional pronouncements, which are then communicated to our professional staff to ensure the firm has a working knowledge of professional standards.

We have undergone voluntary, independent, external quality reviews (peer reviews). We received our most recent peer review in 2015 for the 2014 year, at which time we received an unqualified (clean) opinion regarding our audit and accounting practice.

We also undergo periodic inspections by the PCAOB and the California State Controller.

We ensure that our professional staff obtain the required continuing professional education. As part of VTD's quality control program, all members of the firm, including our governmental sector team, must complete a minimum of 80 hours of continuing professional education every two years. Additionally, our professionals devoted to audits of governmental entities are required to obtain 24 hours directly related to government audits. We offer our staff in-house training, as well as provide access to external CPE conferences and updates. Additionally, our firm requires each professional staff to attend eight hours of single audit training and eight hours of fraud risk training annually.





Section 1 – Firm’s Qualifications and Experience

B. Firm's Experience

VTD has extensive experience in providing audits and other services to local governments. The team organized to serve the District has direct experience on similar engagements for other municipal and special purpose governments. The team has experience in the following:

- The GFOA CAFR requirements are exceptionally technical and require specialized knowledge for successful implementation. Many of our clients are participants in the GFOA program. We have extensive experience reviewing and preparing financial statements that comply with the GFOA requirements for the certificate of excellence in financial reporting.
- Offering training to local governments including updates on GASB pronouncements, changes to certain reporting requirements stipulated by the State Controller’s and other compliance requirements applicable to local governments.
- Performing audits for programs funded by the various federal granting agencies. Due to the size of the federal programs funded, we are frequently reviewed by the Office of Inspector General.
- The team assigned to your engagement has performed various municipal audit services for a number of special districts including Alameda County Transportation Commission, Monterey Regional Water Pollution Control Agency and the Santa Clara Valley Water District. More information regarding our professional experience is provided later in this proposal.



Section 1 – Firm’s Qualifications and Experience

A summary of governmental clients that we have served include:

TRANSIT AGENCIES

Alameda County Transportation Commission	Peninsula Corridor Joint Powers (Caltrain)
Capital Southeast Connector JPA	Sacramento County Airport System
Golden Gate Bridge Transportation District	San Mateo County Transportation Authority
High Desert Connector JPA	
Marin Transportation Authority	
Monterey-Salinas Transit District	
Omnitrans	
Orange County Transportation Authority	
San Bernardino County Associated Governments	
San Joaquin Regional Rail Commission	
San Mateo County Transit District	
Santa Clara Valley Transportation Authority	
Solano County Transportation Authority	
SR 91 Express lanes	
Tahoe Area Regional Transit	
Transbay Joint Powers Authority	
Ventura County Transportation Commission	
Victor Valley Transit Authority	

COUNTY GOVERNMENTS

County of Orange
County of Placer
County of Riverside
County of Sacramento
County of San Bernardino
County of San Diego
County of Sonoma
County of Ventura
County of Yolo

OTHER AGENCIES

Alameda Municipal Power
Glendale Water and Power
Marin Energy Authority
Yolo County Habitat JPA

SEWER, SANITATION AND FLOOD AGENCIES

Alameda County Waste Management Authority	Elsinore Valley Municipal Water District
Bayshore Sanitary District	Montara Water and Sanitary District
Central Contra Costa Sanitary District	Monterey Regional Pollution Control
Central Marin Sanitation Agency	Municipal Water District of Orange County
Cupertino Sanitary District	Reclamation District #2035
Delta Diablo Sanitation District	Sacramento Central Groundwater Authority
East Bay Discharge Authority	Sacramento County Water Agency
Fairfield-Suisun Sanitary District	Sacramento Regional Sanitation District
Knights Landing Community Services District	Santa Clara Water District
Madison Community Services District	Suisun-Solano Water Authority
Orange County Waste and Recycling	Union Sanitary District
Oro Loma Sanitary District	Vallejo Sanitation & Flood Control District
Riverside County Waste Management	West Bay Sanitary District
Ross Valley Sanitation District	Woodland-Davis Clean Water Agency
Sacramento Area Sewer District	Yolo-Davis Clean Water JPA



Section 1 – Firm’s Qualifications and Experience

Continued from previous page:

CITIES

City of Arroyo Grande	City of Los Altos
City of Brentwood	City of Manhattan Beach
City of Chico	City of Monte Sereno
City of Concord	City of Palmdale
City of Dana Point	City of Paramount
City of Davis	City of Placentia
City of Desert Hot Springs	City of Pleasanton
City of Fairfield	City of Rancho Mirage
City of Folsom	City of Rohnert Park
City of Foster City	City of San Jacinto
City of Glendale	City of San Leandro
City of Gonzales	City of San Ramon
City of Grand Terrace	City of Santa Clara
City of Greenfield	City of Saratoga
City of Huntington Beach	City of South Gate
City of Huntington Park	City of South Lake Tahoe
City of La Palma	City of Suisun City
City of Laguna Beach	City of Temecula
City of Laguna Niguel	City of Walnut Creek
City of Lake Forest	

FIRST 5 COMMISSIONS

Contra Costa First 5 Commission
First 5 Sacramento
Fresno First 5 Commission
Los Angeles First 5 Commission
Orange County Childrens & Families
Riverside First 5 Commission
San Bernardino First 5 Commission
Sonoma First 5 Commission
Yolo First 5 Commission



Section 1 – Firm’s Qualifications and Experience

C. Our Experience – Client Services

VTD’s Government Practice Group has over 250 professionals that are fully devoted to audits similar to yours. As we have noted, VTD has significant experience auditing local governments. The key components to our success include consistency of properly trained staff, assignment of staff with experience, timely communication in all aspects of the audit, planning, and understanding how to structure each audit to ensure efficiencies are achieved.

Each of our professional staff selected to participate in your audit have worked with similar governmental agencies. The District will not train our audit team.

We understand the District desires an audit firm that provides consistency with staff. VTD’s philosophy is to staff each of our audits with consistent staff in order to provide the most effective and efficient audit for our clients. This commitment will continue for the District’s audit throughout the term of the audit contract.

VTD staff also attends State and national training sessions, such as the annual AICPA National Governmental Accounting and Auditing Update, so that all of the key staff assigned to the District’s audit understands both local as well as national trends and issues.

VTD also has partners who are members of the California Society of Certified Public Accountants State Governmental Audit and Accounting Committee and the California Society of Certified Public Accountants State Accounting Principles and Auditing Standards Committee.

Our commitment to client service

VTD will not add clients that cannot be properly served. We have managed our growth to ensure that new clients receive experienced staff and quality audits and to ensure that existing clients do not experience a decline in service when new clients are added. To accomplish this, VTD will only propose on clients when key staff has been trained, possess on the job experience to act as the in-charge auditor, and when staffing levels allow for the addition of the new work. We are extremely confident that all of our references will note that their service level has not diminished over the life of the contract.



Section 1 – Firm’s Qualifications and Experience

D. Assisting local governmental units in obtaining the Government Finance Officers Association (GFOA) "Certificate of Achievement for Excellence in Financial Reporting."

Many our clients participate in the Government Finance Officers Association (GFOA) "Certificate of Achievement for Excellence in Financial Reporting" program. VTD has demonstrated that we can meet our client's expectations in regards to a quality product within GFOA requirements, and we have also proven that we can meet or exceed all timelines established by our clients.

E. Commitment to Diversity

Vavrinek, Trine, Day & Co., LLP is an equal opportunity employer. Our staff represents a range of cultural and ethnic backgrounds that provide for a world-view. The diversity of our workforce helps to improve our employee satisfaction, productivity, and the retention of our staff. Our firm provides opportunities for advancement to all staff demonstrating the skill, ability, and desire to succeed and advance their professional career with us.

F. Regulatory Reviews

Vavrinek, Trine, Day & Co., LLP places within the largest CPA firms nationwide auditing federal compliance. Therefore, we have been reviewed by the Office of Inspection General (OIG) for the past three years. OIG concluded that the audits met the standard. We have not had disciplinary actions imposed on us by State or Federal governments for our audits.



Section 2 – Specific Audit Approach

A. Complete Work Plan/Project Description

Overview of the Audits

As required by the Request for Proposal our audit plan covers the engagements for:

- Issuance of an opinion on the fair presentation of the District's Annual Financial Report.
- Issuance of an opinion on the District's compliance with the laws and regulations

Our audits will be conducted in accordance with generally accepted auditing standards and generally accepted governmental auditing standards (the yellow book) and agreed upon procedures will be conducted in accordance with Statements on Standards of Attestation Engagements (SSAE) published by the AICPA.

B. Our Proposed Audit Plan

Our engagement approach for the District audit has well-detailed goals by which the engagement partner can measure progress. Our audit plan includes frequent contact between the partner and the engagement team to assure that objectives are attained according to the audit schedules and problems that are communicated and dealt with on a timely basis. Our engagement approach benefits from our long-accumulated experience during which our firm has identified key areas of financial and accounting concern in the audit process. More importantly, the approach supports a complete reassessment of the management and control environment in each year's audit and thus is capable of responding to changes and will ensure that deadlines are met in issuing the annual financial statements.



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

The key characteristics of our engagement approach are:

- *Knowledge of the District and similar entities.* We have extensive experience auditing governmental entities similar to the District. This experience enables us to perform a more efficient audit and identify key audit risks.
- *Cost-effectiveness.* Our experienced auditors low percentage of turnover reduce your cost.
- *Timeliness.* We take deadlines, both yours and ours, seriously.
- *Partner-manager involvement.* Deciding on audit strategies requires seasoned judgment. Our partners and managers have been heavily and continuously involved in governmental audits. Furthermore, you will be able to consult with senior team members whenever needed throughout the year. We are available during the year for any additional consultation that may arise and specified in the request for proposal.

Project Management – Overall Audits

As noted in the Team Identification section of our proposal, the audit team consists of six or more: (2) partners, (2) managers, (1) supervisor. Staff auditors will be assigned to various elements of the audit throughout the fieldwork stages. Our staff auditors work 100% on governmental audits. The management of the audits will be undertaken by these personnel who each have worked on similar audits.

Our audit plan for each of the fiscal years involves six (6) stages for each audit. These stages are:

- Stage 1, Planning
- Stage 2, Risk Assessment
- Stage 3, Preparation of the Overall Audit Plan
- Stage 4, Conducting the Interim Audit
- Stage 5, Conducting the Final Audit
- Stage 6, Reporting



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Stage 1, Planning

VTD will meet with key staff to plan the audit services for the year. These meetings will discuss all audit issues and the proposed interim work plan. During this phase, we will accomplish:

- Identifying the key personnel and contacts in the Finance Department and other departments.
- Identify the District's significant classes of transactions and business processes.
- Obtain an understanding of audit risk areas.
- Developing an understanding of unusual transactions or events that have occurred during the fiscal year.
- Formalizing logistics.
- Finalizing the timeframes for interim fieldwork.

Stage 2, Risk Assessment

Based upon the information obtained in the planning meetings VTD will perform a risk assessment as required by Statements on Auditing Standards (SAS) to be used in the preparation of the overall audit plan. As part of this risk assessment we will perform the following:

1. Obtain an understanding of the entity and its environment and its risks and material compliance requirements. VTD will refer to the District's prior year Comprehensive Annual Financial Report, annual budget document, municipal code and other relevant documentation to assist with our understanding of the District's business environment and risks. VTD will also conduct inquiry with key individuals within the District who are responsible for executing the strategic plan.
2. Obtain an understanding of the entity's internal controls. VTD will refer to the District's organizational charts, budget, written policies and procedures, financial accounting systems to assist with our understanding of internal controls. VTD will also perform inquiry, observation, inspection, and walk-throughs of key internal controls to ensure these key controls are properly designed and implemented.
3. Preliminary analytical review, determination of preliminary materiality levels.
4. Consideration of risk of material misstatement at the individual account balance, class of transactions and disclosure level.





Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Stage 2. Risk Assessment, (continued):

5. Assessing the risks of material misstatement at both the financial statement and relevant assertion levels.
6. Assess the risk of material noncompliance with laws and regulations that have a direct and material effect on the financial statements.
7. Evaluation of the District's information technology and general information technology controls.

Stage 3. Preparation of the Overall Audit Plan

Once the planning and risk assessment process are complete an overall audit plan will be prepared. The plan will specify each audit task, staffing assignments, timelines, and due dates. The plan will also break down the work assignments between interim and final audit timelines. The audit plan will include the transaction cycles which have been selected for internal control testing and those for which only the detailed walk through will be performed.

Once the audit plan has been completed the prepared by client (PBC) requirements and the responsibilities of the auditor document will be prepared. The document listing will be detailed by specific task and will include the due dates and names of the persons responsible for each task.

We will also prepare:

The preliminary materiality guidelines, the audit programs, including consideration of:

- Identification of areas where special audit considerations are necessary.
- Design of further audit procedures to reduce risk if considered necessary.
- The development of expectations for analytical procedures, timelines, and assignment of all audit responsibilities.

Once these tasks have been completed we will meet with the District to ensure that all dates and requirements have been met and to schedule the interim and final work with the various departments of the District.



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Stage 4, the Interim Audit

Our interim fieldwork dates will normally occur during the April/May timeframe. The specific weeks will be determined during the planning meeting and preparation of the audit plan process.

We will obtain an understanding of the District's internal control structure starting with:

1. Defining the objectives and strategies and related business risks.
2. Obtaining an understanding of internal control environment (tone at the top):
 - Communication and enforcement of integrity and ethical values
 - Commitment to competence
 - Participation of those charged with governance
 - Management's philosophy and operation style
 - Organizational structure
 - Assignment of the District and responsibility
 - Human resource policies and practices
3. The District' risk assessment process.
4. Internal control communication process.
5. Internal control monitoring process.
6. Any industry, regulatory or other factors.

This understanding will be accomplished through the use of:

- A. Inquiry of management and others within the District.
- B. Observation and inspection.
- C. Review of external information from rating the District, and other external sources.



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Stage 4, the Interim Audit, (continued):

We will also obtain an understanding of the design and implementation of the financial reporting system to understand the flow of information for:

1. Each class of transactions that is significant to the financial statements.
2. The procedures within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, and reported in the financial statements.
3. The related accounting records, whether in electronic or manual supporting information, and specific accounts in the financial statements involved in initiating, authorizing, recording, processing and reporting transactions.
4. How the information systems captures events and conditions other than classes of transactions that are significant to the financial statements.
5. The financial reporting process used to prepare the financial statements, including significant accounting estimates and disclosures.

Our focus will also involve:

- Understanding and documenting the financial reporting process.
- Documenting information systems and related computerized data processing controls.
- Identifying the flow of information and internal control involved in various key processes including, investment management, procurement, disbursements, payroll, treasury operations, debt/capital management, cash receipts, and fare revenues. To accomplish these tasks we will use client accounting manuals, inquiry, observation, checklists, and internal control questionnaires. During the interim timeframe each of the significant internal control systems will be evaluated to obtain sufficient knowledge of the design and implementation of key controls and to determine if a test of controls will result in audit efficiencies or reduce the risk of material misstatement.
- Providing the parameters required to commence analyzing financial fluctuations in the operating results of the District.



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Stage 4, the Interim Audit, (continued):

- Identifying laws and regulations that are applicable to the District. To accomplish these tasks we will use client documents, inquiry, observation, checklists, and internal control questionnaires.
- Formulating audit procedures and related audit programs that will be used during the final segment of the audit process.
- We will use statistical sampling to assist with our testing of the District's internal controls over financial reporting and compliance.
- Sample sizes can range between 25 and 60, contingent upon the risk of material misstatement for a particular audit area or objective. All sample sizes will be determined based on the AICPA Sampling Guide.
- Testing the effectiveness of internal controls will be accomplished for the significant internal controls systems for which we plan to place reliance to reduce the risk of material misstatement. To gain efficiencies our control testing will be structured so that it can be used for each of the audits we will perform, with exception to the single audits.
- Other areas to be completed at the interim audit include AU-C 240 fraud interviews and documentation.
- Discuss workable solutions for potential findings that have been identified and communicated to the District during the audit process.



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Stage 5, the Final Audit

We will commence our final fieldwork as soon as the District has sufficiently closed their accounting records. We expect final fieldwork to take place during October timeframe.

During this phase, we will perform substantive audit procedures on the year-end statement of net position and fund balances, revenue and expenditure/expense accounts. We will use a variety of audit procedures which may include outside confirmations, statistical sampling, and detailed testing of schedules, analytical review, inquiry, and observation.

Stage 6, the Reporting Phase

At the end of the audit process we will meet with key staff to cover the following:

- Discuss improvements for subsequent years audit plan,
- Meet with the Board to present the results of the audit,
- Communicate with those charged with Governance.
- We will prepare Draft Audit Reports with management letter comments to management prior to the agreed upon issuance date.
- We will prepare Final Draft Audit Reports and management letter comments for presentation to the District prior to the agreed upon issuance date.

Communication

We do not believe in surprises. Although the reporting phase involves a recap of the process we will be in constant communication regarding the each aspect of the audit throughout the entire process. You will not have any surprises at the end of the audit.

Management Letters

The results of our understanding of internal control serve as a basis for our recommendations to management. We also consider any weaknesses noted during our substantive testing and other audit procedures. Upon completion of the audit, the findings and recommendations we consider to be of value to you are summarized and presented as management comments.



Section 2 – Specific Audit Approach

B. Our Proposed Audit Plan, (continued):

Management Letters, (continued):

We will meet with management to discuss these comments prior to finalizing the letter to ensure that our management letter will contain no surprises. The purpose of our management comments is to direct your attention to:

- Significant deficiencies and material weaknesses (if any) identified during the course of the audit. AU-C 265 requires written communication to management and those charged with governance, of significant deficiencies or material weaknesses, identified during the audit.
- Other matters that we believe to be of potential benefit to the management of the District, such as recommendations for operational or administrative efficiency, or for improving existing internal controls.

In our view, management letters can serve the District on two distinct levels. The first is when we, the auditors, determine that there are material deficiencies in internal controls. These should be communicated at once to the highest level of management so that corrective action can be taken. The other level is the more routine operational improvement and control enhancement comments which are communicated to management on a timely basis such that appropriate action can be taken.

C. Preparation of the Annual Financial Report

We assist many of our local government clients with preparation of full disclosure GAAP financial statements, including the additional elements necessary for participation in the GFOA certificate program.

We begin drafting the report at conclusion of audit field-work and provide management with a draft shortly after. Included in the draft are the full financial statements, notes and supplementary schedules. We will update certain elements of the management's discussion and analysis section that are derived from the financial statements. Management is expected to review the draft report and accept responsibility for its form and content.

Fees related to preparation of the financial report are included in the schedule of professional fees and expenses section of this proposal on page 32.



Section 2 – Specific Audit Approach

D. Identification of Potential Audit Issues

We do not anticipate problems within the audit. However, if audit issues are encountered, our process would include meeting with management to develop the appropriate response, and identify any special assistance that will be requested from the District. Our experience is that completion of the audit is a collaborate process between management and the audit team.

We have a proactive team approach to the implementation of new accounting and auditing requirements, and work to begin the conversations regarding the changes and the potential impacts during the planning and interim phases of the audit. We also are available for technical guidance and assistance throughout the year as needed on complex accounting and auditing issues.

E. Use of Computer Assisted Auditing Techniques Software in the engagement

VTD will use IDEA audit software during the engagement to assist with data analysis, testing of populations and reports and for the selection of audit samples. We will also use CCH Knowledge Coach to assist with audit risk assessment.



Section 3 – Independence and License

A. Independent Standards of the GAO Affirmation

Vavrinek, Trine, Day & Co., LLP is independent of The Monterey Regional Waste Management District, as defined by auditing standards generally accepted in the United States of America and the U.S. General Accounting Office's *Governmental Auditing Standards*.

B. Licensed Certified Public Accountant Affirmation

Vavrinek, Trine, Day & Co., LLP is licensed to practice public accounting in the State of California and has complied with all applicable California State Board of Accountancy requirements. In addition, all of the key professional staff that will be assigned to the audit are also licensed to practice in the State of California and have complied with all applicable State Board of Accountancy standards.

A copy of our most recent peer review has been included in Appendix A of the proposal. This quality control review included a review of specific government engagements.

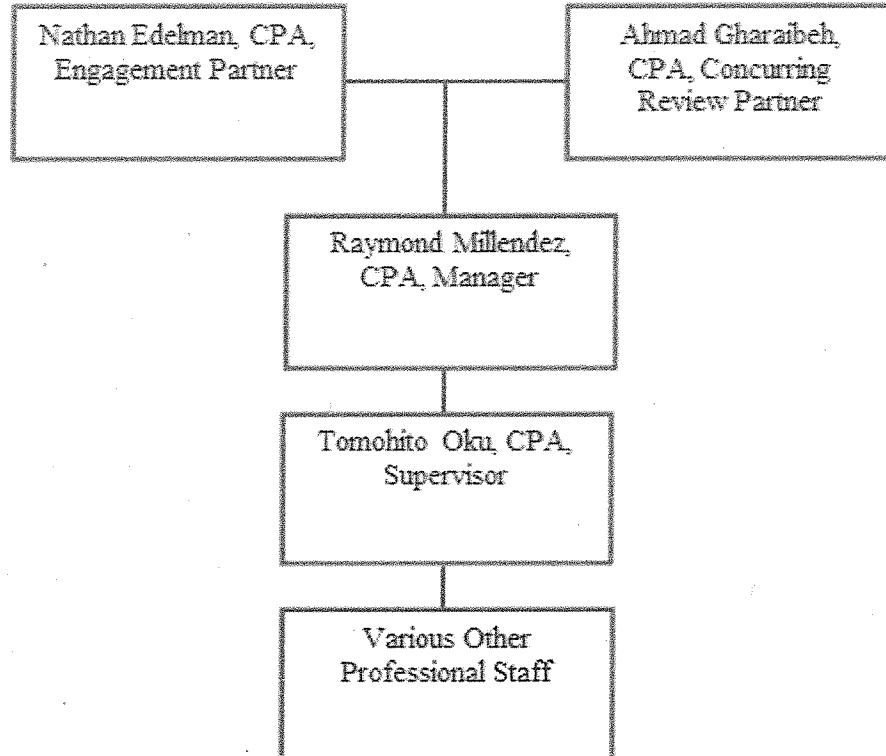
C. Insurance

VTD has the required insurance policies (Professional Liability, Workers' Compensation, Comprehensive General Liability, and Automobile Liability). Proof of insurance is available upon request.



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

A. Project Organizational Chart:





Section 4 – Partner, Supervisory and Staff Qualifications and Experience

B. Engagement Team

The following are key members of the engagement team and a summary of their roles:

- **Nathan Edelman, CPA, Engagement Partner** – Nathan will have the overall responsibility for the performance and completion of the audit. Nathan will lead the audit team to ensure that all requirements are fulfilled to the highest standard. The District should expect Nathan to be actively involved in the engagement, in whatever capacity is necessary, to ensure an efficient and effective audit.

As said previously, we believe open communication is key to success. As engagement partner, Nathan serves as a single point of contact between the District and the engagement team.

- **Ahmad Gharaibeh, CPA, Concurring Review Partner** – Ahmad will serve as concurring review partner for the audit engagement. Part of this responsibility includes a second partner review of the District's financial statements for quality control. Furthermore, Ahmad will offer counsel regarding any complex or highly specialized technical requirements that may arise during the audit.
- **Raymond Millendez, CPA, Audit Manager** – Raymond will serve as liaison between the audit team and management. Raymond is responsible for detailed operations, risk assessment, development and implementation of the audit plan. He will oversee field work including review of the audit working papers and your financial statements.
- **Tomohito Oku, CPA, Senior** – Tomohito will serve as the audit supervisor providing guidance to the audit team and interacting with agency staff during fieldwork. Tomohito will have primary responsibility for implementation of the audit plan.



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

C. Organization Resumes:

Engagement Partner: Nathan Edelman, CPA

Experience:

Nathan has been conducting audits of governmental agencies for over eight years. His experience includes a variety of local governments including special districts, municipalities, and school districts. Many of his clients exceed of \$100M of federal expenditures, and annual operating budgets near \$1B. The following are a summary of Nathan's client portfolio:

MUNICIPALITIES

City of San Bruno

City of Santa Cruz

TRANSIT AGENCIES

Golden Gate Bridge Highway and
Transportation District

Monterey-Salinas Transit

Orange County Transportation Authority

Peninsula Corridor Joint Powers Board

San Mateo County Transit District

SPECIAL DISTRICTS

Monterey Regional Water Pollution Control
Agency

Alameda County Transportation Commission

San Francisco County Transportation Authority

Santa Clara Valley Water District

Transbay Joint Powers Authority

Transportation Authority of Marin

SCHOOL DISTRICTS

Oakland Unified School District

San Francisco School District

San Jose Unified School District

Area of Specialization:

Governmental audits of transit districts, municipalities, special districts, and OMB Single Audits.

Professional Affiliations:

American Institute of Certified Public Accountants

California Society of Certified Public Accountants

Education:

B.A. Business Management Economics

University of California – Santa Cruz, California

Continuing Education:

- Audit Risk Assessment
- Other Post-Employment Benefits
- GASB 68, Pension Standards
- COSO
- OMB Updates
- Yellow Book Standards
- AU-C 240, Fraud Training
- AICPA National Update,
Governmental
- Accounting and Auditing Conference



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

C. Organization Resumes, (continued):

Concurring Review Partner: Mr. Ahmad Gharaibeh, CPA

Experience:

Mr. Gharaibeh has been conducting audits of governmental entities for over eighteen years. His experience includes counties, cities, redevelopment agencies, financing authorities, public utilities, transit authorities and the single audit. Mr. Gharaibeh has conducted audits of basic financial statements for several local governments whose assets exceed \$1 billion. Mr. Gharaibeh has overseen the audit of the BART extension and Transbay Terminal Center. Mr. Gharaibeh led the government practice for the Palo Alto Office including providing training on GASB related topics for the past 10 years.

Mr. Gharaibeh has provided audit services for various governmental clients conducting single audits and audits of comprehensive annual financial reports including:

TRANSIT AGENCIES

Alameda County Transportation Commission
Golden Gate Bridge Highway District
Marin Transportation Authority
Monterey Salinas Transit
Omnitrans
Orange County Transportation Authority
Sacramento Area Council of Governments
Samtrans
San Bernardino Associated Governments
San Joaquin Regional Rail Commission
Santa Clara Valley Transportation Authority
Solano Transportation Authority
Transbay Joint Powers Authority
Ventura County Transportation Commission
Victor Valley Transit Authority

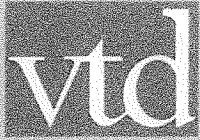
UTILITIES/JPA/SPECIAL DISTRICTS

County of Santa Clara
Measure B of Santa Clara
Midpeninsula Open Space District
Monterey Regional Water Pollution Agency
Peninsula Healthcare District
Santa Clara County Inmate Welfare Fund
Santa Clara Open Space Authority
Santa Clara Valley Water District
Sequoia Healthcare District
Ventura County Transportation Commission
Yucaipa Valley Water District

CITIES

City of Agoura Hills
City of Brisbane
City of East Palo Alto
City of Los Altos Hills
City of San Bruno
City of Santa Clara
City of Temecula
City of Whittier

Mr. Gharaibeh also acts as the quality control partner or concurring review partner for many of the firm's largest governmental clients. Each of these reviews includes the reporting requirements to obtain the GFOA Certificate.



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

C. Organization Resumes, (continued):

Concurring Review Partner: Mr. Ahmad Gharaibeh, CPA (continued):

Area of Specialization:

Governmental Audits of Special Districts, Cities, Water Agencies, Redevelopment Agencies, Financing Authorities, Public Utilities, and OMB Uniform Guidance.

Professional Affiliations:

American Institute of Certified Public Accountants
California Society of Certified Public Accountants
GFOA Certificate Program Special Review Committee
Association of Government Accountants

Education:

Masters of Accountancy
East Tennessee State University

Recent Training:

- Audit Risk Assessment
- COSO
- Auditing Municipal Debt
- Revised Yellow Book Standards
- Audit and Accounting Updates
- GASB 74/75
- Fraud in Local Governments
- OMB Uniform Guidance Updates
- AICPA National Update, Governmental Accounting and Auditing Conference
- Governmental Financial Reporting Standards and Practices



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

C. Organization Resumes, (continued):

Audit Manager: Mr. Raymond Millendez, CPA

Experience:

Mr. Millendez has been conducting audits of governmental agencies for over seven years. Mr. Millendez’s experience includes auditing local governments such as the City of Santa Cruz, City of San Bruno, San Mateo County Transit District, Santa Clara Valley Water District, Alameda County Transportation Commission and Monterey Regional Water Pollution Control Agency and other local governments including the following:

CITIES

City of San Bruno

TRANSIT AGENCIES

Alameda County Transportation Commission
Monterey-Salinas Transit Authority
Orange County Transportation Authority
Peninsula Corridor Joint Powers Board
Samtrans
San Mateo County Transportation Authority
Santa Clara Valley Transportation Authority
Solano County Transit Authority

OTHER AGENCIES

Monterey Regional Water Pollution Control Agency
Redwood Regional Medical Group
Santa Clara Valley Water District
Transbay Joint Powers Authority

SCHOOL DISTRICTS

Oakland Unified School District
San Francisco Unified School District
San Jose Unified School District

Area of Specialization:

Governmental Audits of Cities, Transit Districts, Enterprise Funds, Special Districts and OMB Uniform Guidance Single Audits.

Professional Affiliations:

American Institute of Certified Public Accountants
California Society of Certified Public Accountants

Education:

Bachelor’s of Science- Accounting and Information Systems from San Jose State University, San Jose California

Recent Training:

- Audit Risk Assessment
- OMB Uniform Guidance Updates
- Yellow Book Standards
- GASB 75, GASB 68



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

C. Organization Resumes, (continued):

Audit Supervisor: Mr. Tomohito Oku

Experience:

Mr. Oku has experience in corporate finance for three years. In recent years, Mr. Oku has been conducting audits of cities, large regional and special purpose governmental entities. Mr. Oku has provided audit services for various municipalities conducting single audits and audits of financial statements including, but not limited to:

CITY AND TRANSIT AGENCIES AND OTHER GOVERNMENTS

Alameda County Transportation Commission	San Francisco Unified School District
City of San Bruno	San Mateo County Transportation Authority
Community Human Services	San Mateo County Transit District
Golden Gate Bridge, Highway and Transportation District	Santa Clara Valley Water District
Monterey Salinas Transit	Trans Pacific National Bank
Peninsula Corridor Joint Power Board	Transportation Authority of Marin

Mr. Oku has also participated on several trainings for government audits of financial statements as well as single audits ensuring to retain the knowledge of new audit and accounting updates.

Area of Specialization:

Governmental Audits of Cities, Transit Agencies, School District, Non-profits and OMB Uniform Guidance Single Audits.

Professional Affiliations:

California Society of Certified Public Accountants

Education:

Bachelor of Science – Accounting
San Jose State University, San Jose, California

Recent Training:

- School District Audits
- OMB Uniform Guidance Updates
- Fraud in Local Governments
- Independence in Local Governments



Section 4 – Partner, Supervisory and Staff Qualifications and Experience

C. Commitment to Consistent and Quality Staff

VTD's philosophy is to staff each of our audits with consistent personnel in order to provide the most effective and efficient audit for our clients. Engagement personnel may be changed if those personnel leave the firm, are promoted or are assigned to a different office. We make every effort to minimize the burden of staff changes on the conduct of the audit, including a more active role of the engagement manager or partner, as necessary, to ensure continuity of knowledge over the duration of the contract.

VTD staff has also attended national training sessions, such as the annual AICPA National Governmental Accounting and Auditing Update, so that all of the key staff assigned to the Agencies' audit understands both local as well as national trends and issues.



Section 5 – Similar Engagements with Other Government Entities

A. References

VTD has provided audit services for several other jurisdictions similar to that which is requested by the District. We have provided a listing of governmental entities with the various types of services performed for each.

Monterey Salinas Transit (MST)

Ms. Andrea Williams
awilliams@mst.org
Accounting Manager
One Ryan Ranch Road
Monterey, CA 94105
(831) 393-8125

Hours:	Approximately 600
Most recent audit:	June 30, 2016
Length of contract:	June 30, 2001 to Present

Scope of Audit: The Monterey – Salinas Transit District (MST) is the provider for transit services within the entire County of Monterey. MST receives funding from the Federal Transit Administration as well as sales tax approved by the voters in Monterey County. The audit encompasses issuing opinions on the Comprehensive Annual financial Report, Uniform Guidance Compliance and agreed upon procedures with respect to Caltrans provided grants.

Santa Clara Valley Water District

Gloria Del Rosario
gdelrosario@valleywater.org
Financial Services Unit Manager
5750 Almaden Expy
San Jose, CA 95118
(408) 630-2225

Hours:	Approximately 1,500
Most recent audit:	June 30, 2016
Length of contract:	June 30, 2012 to Present

Scope of Audit: The Santa Clara Valley Water District (District) is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County's water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers and district-built reservoirs. The audit encompasses issuing opinions on the CAFR, OMB Compliance and other Agreed Upon Procedures.



Section 5 – Similar Engagements with Other Government Entities

A. References, (continued):

San Mateo County Transit District

Ms. Rima lobo

lobor@samtrans.com

Director of Finance

1250 San Carlos Avenue

San Carlos, CA 94070

(650) 508-6274

Hours:	Approximately 1600
Most recent audit:	June 30, 2016
Length of contract:	June 30, 2001 to 2009 to Present

Scope of Audit: The San Mateo County Transit District (District) is a multi-modal transportation agency serving San Mateo County. The District includes countywide bus and paratransit service, rail services as well as maintaining the highway system within the County of San Mateo. The audit encompasses issuing opinions on the CAFR, OMB A-133 Compliance, TDA compliance and agreed upon procedures with respect to the National Transportation Database (NTD).



Appendix A – Schedule of Professional Fees and Expenses

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES FOR THE AUDIT OF FINANCIAL STATEMENTS

Professional Staff	Number of Hours	Rate per Hour	Total
Partner	40	\$ 175	\$ 7,000
Manager	40	130	5,200
Supervisor	64	115	7,360
Associate	64	90	5,760
Clerical	8	75	600
Total All-Inclusive Maximun Price			\$ 25,920
Total All-Inclusive Maximun Price for FY 2016-17 Audit			\$ 25,920
Total All-Inclusive Maximun Price for FY 2017-18 Audit			\$ 26,438
Total All-Inclusive Maximun Price for FY 2018-19 Audit			\$ 26,967
Total All-Inclusive Maximun Price for FY 2019-20 Audit			\$ 27,507



Appendix B- Peer Review Report

YANARI WATSON MCGAUGHEY P.C.

DALE M. YANARI (1947-2804) ♦ RANDY S. WATSON ♦ G. LANCE MCGAUGHEY ♦ DON W. GRUENLER
FINANCIAL CONSULTANTS/CERTIFIED PUBLIC ACCOUNTANTS

System Review Report

May 22, 2015

To the Partners of
Vavrinek, Trine, Day & Co., LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Vavrinek, Trine, Day & Co., LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended December 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*: audits of employee benefit plans and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Vavrinek, Trine, Day & Co., LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended December 31, 2014, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Vavrinek, Trine, Day & Co., LLP has received a peer review rating of *pass*.

Yanari Watson McGaughey P.C.

Yanari Watson McGaughey P.C.

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