


0150-07582-0002

TRANSMITTAL

TO David H. Wright, General Manager Department of Water and Power	DATE NOV 23 2016	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

AMENDMENT 1 TO AGREEMENT 47235-4 WITH KPMG LLP TO PERFORM EXTERNAL AUDITS OF FINANCIAL STATEMENTS AND RELATED SERVICES

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


Ana Guerrero
MAYOR

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 21, 2016

CAO File No. 0150-07582-0002
Council File No.
Council District:

To: The Mayor

From: Miguel A. Santana, City Administrative Officer 

Reference: Communication from the Department of Water and Power dated September 13, 2016; referred by the Mayor for report on September 20, 2016

Subject: **AMENDMENT 1 TO AGREEMENT 47235-4 WITH KPMG LLP TO PERFORM EXTERNAL AUDITS OF FINANCIAL STATEMENTS AND RELATED SERVICES**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution to authorize the Department of Water and Power to execute Amendment 1 to Agreement 47235-4 with KPMG LLP to (i) extend the contractual term by two years with an optional one year extension resulting in a total term of six years expiring in April 2020 and (ii) increase the expenditure authority by \$7.2 million resulting in a total expenditure authority of \$11.9 million; and,
2. Return the proposed resolution to the Department for further processing, including City Council consideration.

SUMMARY

Approval of the proposed resolution will authorize the DWP Board of Commissioners (Board) to amend a current agreement with KPMG LLP (KPMG) in order to extend the current term by two years with an optional one year extension resulting in a total contractual term of six years beginning April 2014 and expiring in April 2020. KPMG has also provided the DWP with auditing services under four prior agreements during the previous nine consecutive years from March 2005 through February 2014. The combined term of the proposed amendment and the prior agreements results in a total term of 15 consecutive years.

Pursuant to DWP Resolution 005028 (Attachment 1), approved July 20, 2004, the DWP Board "set a policy limit of 12 consecutive years that an independent audit firm can be engaged to conduct annual audits and quarterly reviews of the Department's books and accounts." The policy objective is to enhance the independence and objectivity of the annual audits and quarterly reviews. As a result of the proposed Agreement term exceeding the limit of 12 consecutive years, the proposed Agreement does not comply with the policy of the DWP Board.

Nevertheless, the DWP management advises that waiving this policy will benefit the Department due to the ongoing audit requirements included in proposed settlement agreements relating to litigation involving the Customer Care and Billing system implementation. The DWP also asserts the policy objectives can be achieved through management rotations within KPMG.

A separate resolution is being developed for consideration by the DWP Board to waive the financial policy affecting this proposed Agreement. This Office has not reviewed the separate resolution as it was not available during the writing of this report.

Approval of the proposed resolution will also increase the current \$4.7 million expenditure authority by \$7.2 million resulting in a total of \$11.9 million. DWP states that current expenditures total approximately \$4.5 million.

City Council approval is required pursuant to Charter Section 373. In accordance with the Los Angeles Administrative Code Section 10.5, unless the Council takes action disapproving the proposed Agreement within 60 days after submission to the City Council, the Agreement will be deemed approved. The City Attorney has approved the proposed resolution as to form and legality.

FISCAL IMPACT STATEMENT

Approval of the proposed resolution will increase the existing expenditure authority by \$7.2 million affecting the DWP Power Revenue Fund and the DWP Water Revenue Fund. There is no fiscal impact to the City General Fund.

MAS:RR:10170052

Attachment 1 (3 pages)

Attachment 1

RESOLUTION NO. 005 028

WHEREAS, it is necessary that the Department continue to have the books and accounts of the Power and Water Systems audited annually and reviewed quarterly by an independent firm of certified public accountants; and

WHEREAS, the current external audit firm has performed the audits of the books and accounts of the Power and Water Systems since establishment of the Department under the Charter adopted in January 1925; and

WHEREAS, the independence and objectivity of annual audits and quarterly reviews would be enhanced by placing a limit on the number of consecutive annual audits and quarterly reviews that could be performed by an independent firm of certified public accountants.


NOW, THEREFORE, BE IT RESOLVED, this Board establishes the policy that an independent firm of certified public accountants may not be engaged to conduct annual audits and quarterly reviews for more than twelve (12) consecutive years.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held **JUL 2 0 2004**


Secretary



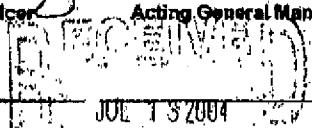
APPROVED AS TO FORM AND MERIT BY
ROGER J. CALABALLO, CITY ATTORNEY

JUL 07 2004


ROGER J. CALABALLO
CITY ATTORNEY

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LADWP BOARD LETTER FOR APPROVAL

TO: BOARD OF WATER AND POWER COMMISSIONERS		DATE: July 20, 2004
SUBMITTED BY:		SUBJECT:
 RONALD O. VAZQUEZ Chief Financial Officer		Limit Number of Consecutive Annual Audits by an Audit Firm
 FRANK SALAS Acting General Manager		
		FOR COMMISSION OFFICE USE:
BOARD COMMITTEE APPROVALS		RES. No. 005 028 JUL 20 2004 1 COPY RES. TO Chief Financial Officer R - 7/20/04
CITY COUNCIL APPROVAL REQUIRED: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	IF YES, BY WHICH CITY CHARTER SECTION:	

PURPOSE:

Transmitted herewith for your consideration and approval is a Resolution, approved as to form and legality by the City Attorney's Office which would set a limit of twelve (12) consecutive years that an independent audit firm can be engaged to conduct annual audits and quarterly reviews of the Department's books and accounts.

BACKGROUND:

It is necessary that the books, records, and financial statements of the Water System and the Power System be reviewed quarterly and audited annually by an independent firm of certified public accountants. Since the establishment of the Department, these audits and reviews have been conducted by a single audit firm.

In the wake of several corporate accounting scandals, corporations and accounting regulatory bodies are placing greater emphasis on transparency of financial reporting, objectivity, independence and other internal accounting controls. Consistent with this trend, limiting the engagement of an independent audit firm to twelve (12) consecutive years would enhance the independence and objectivity of the annual audits and quarterly reviews.

Board of Water and Power
Commissioners

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FISCAL IMPACT STATEMENT:

There is no financial impact to the Department from this action.

It is recommended that your Honorable Board adopt the resolution.

WHR:rb

Attachments

c/att: Frank Salas, Acting GM
Frank Salas, CAO
Mahmud A. Chaudhry
Gerald A. Gewe

Richard Helgeson
Thomas C. Hokinson
Hal D. Lindsey
Lillian Y. Kawasaki

Enrique Martinez
Pamela T. Porter
Cecilia K.T. Weldon
Ronald O. Vazquez