



LOCAL AND REGIONAL GOVERNMENT
SERVICES AUTHORITIES

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RGS FINANCE COMMITTEE AGENDA

Agenda materials may be viewed on the Agency's web site or by contacting the Executive Director prior to the meeting.

REGULAR MEETING
Via Teleconference

November 6, 2012
10:00 a.m.

Dublin Civic Center, City Manager's Office, 100 Civic Plaza, Dublin, CA 94568
Walnut Creek City Hall, City Manager's Office, 1666 North Main Street, Walnut Creek, CA 94596

1. ROLL CALL

2. APPROVAL OF CONSENT AGENDA

Consent agenda items are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Finance Committee, staff or public request specific items to be removed for separate action.

A. Approval of **July 30th 2012** Minutes

Action

3. OLD BUSINESS - None

4. NEW BUSINESS

A. Review and Approve Administrative Cost Allocation Policy and Amendment of Auditor Rotation Policy

Action

B. Approval of Auditor RFP and Authorization to Issue RFP

Action

C. Review of Preliminary FY2012 Financial Statements

Information

D. Approval of Recommendation to RGS and LGS Boards to Make Additional RGS and LGS Insurance Pool Contributions to MSA

Action

5. PUBLIC COMMENT

Each speaker is limited to two minutes. If you are addressing the Executive Committee (EC) on a non-agenda item, the EC may briefly respond to statements made or questions posed as allowed by the Brown Act (Government Code Section 54954.2). However, the EC's general policy is to refer items to staff for attention, or have a matter placed on a future EC agenda for a more comprehensive action or report.

6. ADJOURN TO NEXT MEETING: TBA

Americans with Disabilities Act

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Richard Averett at (650) 587-7301. Notification in advance of the meeting will enable Agency to make reasonable arrangements to ensure accessibility.

Administrative Offices:
Human Resources:

P.O. Box 1350 · Carmel Valley, CA 93924
P.O. Box 1077 · Camarillo, CA 93011

ph: 831/308-1508
ph: 650/587-7316

fax: 831/308-1509
fax: 650/587-7317

**REGIONAL GOVERNMENT SERVICES
JOINT POWERS AUTHORITY
FINANCE COMMITTEE MINUTES
JULY 30, 2012**

The Finance Committee of the Regional Government Services Joint Powers Authority held a special meeting of the Finance Committee via a teleconference. The meeting was called to order at 3:11 p.m.

1. ROLL CALL

Members Present: Ken Nordhoff and Joni Pattillo

Members Absent: None

Other Attendees: Richard Averett, Executive Director/CFO
Glen Lazof, RGS Project Manager
Sherry Kelly, Authority Clerk

2. SELECTION OF CHAIR AND VICE CHAIR

Action: By affirmation, Member Nordhoff was selected as Chair and Member Pattillo was selected as Vice Chair.

3. APPROVAL OF CONSENT AGENDA - None

4. OLD BUSINESS - None

5. NEW BUSINESS

A. Review and Approve Auditor Engagement Letters

Action: Moved, seconded (Pattillo/Nordhoff) and carried unanimously to approve Auditor Engagement Letters with further direction for staff to look at amending the audit rotation policy for issuing RFPs for auditor services to provide an exception that after five years the current auditor could be considered upon approval of the Board.

6. PUBLIC COMMENT – None

7. ADJOURNMENT

The meeting adjourned at 3:23 p.m.



LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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P.O. Box 1350 · Carmel Valley, CA 93924 · 831.308.1508

TO: FINANCE COMMITTEE **FC Meeting: 11-06-12**
FROM: RICHARD AVERETT, Executive Director **Item: 4A**
SUBJECT: FINANCIAL POLICIES - ADMINISTRATIVE COST ALLOCATION and
AUDITOR ROTATION

RECOMMENDATIONS

- 1) Review and approve the Administrative Cost Allocation Policy; and
- 2) Review and approve amendment to Auditor Rotation Policy.

BACKGROUND

The JPAs' auditors requested that the JPAs formally document the administrative expense allocation method used by the JPAs. The allocation method described in the proposed policy has been the long-standing practice of the JPAs, but until this point, never formally documented. The other policies included in the Financial Policies document have already been approved by the Board of Directors, but are for the first time being collected in one policy document. Proposed additions and amendments to the Policies will be presented to the Committee throughout the year and Committee-approved updates will be presented to the Board for approval at the last regular meeting of each fiscal year.

The Finance Committee directed staff to amend the Auditor Rotation Policy so that an exception to the maximum term of five years of continuous service by an audit firm could be approved only by the Board of Directors. The proposed amendment implements this direction.

FISCAL IMPACT

Approval of the proposed administrative cost allocation methodology will not impact combined fiscal performance, but serves to proportionally allocate administrative expenses consistent with already established practices. This method of allocation of administrative costs among the JPAs serves to reasonably apportion administrative cost to each agency and client in relation to the benefit each derives from the expenditure.

There is no fiscal impact from adopting this amendment to the Auditor Rotation Policy.



Business: 650/587-7300
Fax: 650/587-7311
www.rgs.ca.gov
www.lgs.ca.gov

P.O. Box 1350
Carmel Valley, CA 93924

Local Government Services, Regional Government Services and Municipal Services Authorities

Financial Policies

**Created
November 15, 2012**



Local Government Services Authority (LGS)
Regional Government Services Authority (RGS)
and
Municipal Services Authority (MSA)

Financial Policies

WHEREAS, the Finance Committee for Local Government Services and Regional Government Services (The JPAs) are authorized to adopt rules and regulations for the regulation of financial policies of the JPAs; and

WHEREAS, the objectives of these Financial Policies are to facilitate efficient and economical services to the government agency community; and

WHEREAS, these Financial Policies ensure adherence to generally agreed to accounting principles; and

WHEREAS, at the same time, within the limits of administrative feasibility, considerable latitude shall be given to Executive Director and designee in the interpretation of these rules; now, therefore, be it

RESOLVED, that the Finance Committee of the JPAs does hereby adopt the following Financial Policies.

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Section 1 Introduction

- 1.1 **JPAs:** Local Government Services and/or Regional Government Services, herein after, the JPAs, provide services to a variety of clients with employees assigned to perform those services. Employees are the JPA's representatives when performing services.
- 1.2 **Board of Directors and Executive Committee:** The Boards of Directors for Local Government Services, Regional Government Services and Municipal Services are each comprised of one representative from each member organization. Finance Committee Members are appointed by the LGS and RGS Boards.
- 1.3 **Name:** These Financial Policies (hereafter "Policies") generally describe the financial rules and procedures approved by the Committee, Board or Executive Director, in the case of administrative policies. These Policies attempt to reflect and encourage best practices for public agencies. These Policies apply to LGS, RGS and MSA, except where otherwise indicated in these Policies.
- 1.4 **Conflicting Policies:** These Policies were established to conform and be complementary to JPA procedures. In cases where there is deemed to be a conflict between a Policy and a procedure, the Policy shall prevail.
- 1.5 **Additional Policies:** The Executive Director is the executive leader of the JPAs and may issue additional rules or policies as deemed necessary for the efficient administration of the agencies. However, such administrative rules or policies shall not conflict with these Policies. In cases where there is deemed to be a conflict between an Administrative rule and these Policies, these Policies shall prevail.
- 1.6 **Amendments:** These Policies may be amended from time to time and approved by the Finance Committee and the JPA Governing Board.
- 1.7 **Accessing Policies:** These Policies are available to all employees and are posted on both JPAs' websites. Employees are responsible for reading and complying with them.
- 1.8 **Violation of Policies:** Violations of the provisions of these Policies shall result in disciplinary action, up to and including dismissal, to be taken in accordance with the Personnel Rules and Regulations.
- 1.9 **Discrepancies:** In the event there is a discrepancy between the language in these Policies and state or federal law, federal or state law shall prevail over these Policies.
- 1.10 **Severability:** If any part of these Policies is determined to be unconstitutional or illegal, such part shall be severed from these Policies and the remaining Policies shall be given full force and effect.
- 1.11 **Word Usage:** The term Agency, JPA or JPAs as used in these Policies refers to Local Government Services and/or Regional Government Services and/or Municipal Services Authority. Responsibilities and rights of the JPAs under these Policies are exercised by the Executive Director, and may be delegated by the Director in his/her discretion.
- 1.12 **Executive Director:** The term Executive Director refers to Local Government Services and/or Regional Government Services Executive Director. The Executive

Director may designate authority to the administration or human resources manager, as appropriate. When interpreting these Policies, anytime the Executive Director is listed, it should also be interpreted to mean the Executive Director or his/her designee.

Section 2 Allocation of JPA Administrative Expenses

- 2.1 Time Frame:** Expenses shall be directly charged to the benefiting JPA when appropriate or shall be allocated monthly as indirect costs to two or more JPAs when more than one JPA benefits from the expenditure.
- 2.2 JPA Allocation:** Administrative expenditures that benefit two or all JPAs are shared amongst those JPAs that benefit based on the perceived benefit derived by the expenditures. Where appropriate, proportionality is determined by relative client revenues to the agency. Within the agency, these expenses are further allocated by client or project revenue as a percent of the agency revenue. Thus, the allocation between RGS and LGS shall be based on the relative share of revenue earned by each.
- 2.3 Documentation:** The work papers used to determine these allocations shall be filed in the Authorities' network until such time as software allows filing as an attachment to the Journal Entry within the Financial System.

Section 3 Investment Policy

- 3.1 Introduction:** This statement will identify various policies and procedures that will foster a prudent and systematic investment program as well as organize and formalize investment related activities. The related activities which comprise good cash management include:
- Accurate cash projections;
 - Timely collection of revenues;
 - Control of disbursements;
 - Cost-effective banking and financial services; and
 - Adherence to a system of internal controls.
- 3.1.1 Investing Responsibility:** In accordance with the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES Joint Powers Agreements as Amended and under authority granted by the Agencies' Board of Directors, the Agency Treasurer is responsible for investing the unexpended cash.
- 3.1.2 Investment Goals:** The investment of the funds of the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES, and MUNICIPAL SERVICES AUTHORITY, is directed to the goals of safety, liquidity and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

3.2 **Scope:** This policy applies to all financial assets and investment activities of the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES and MUNICIPAL SERVICES AUTHORITY.

3.3 **Objectives:**

3.3.1 **Safety of Principal:** The primary objective of this policy is to protect, preserve and maintain the cash and investments of the Authorities. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The Agencies shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

3.3.1.1 **Credit Risk:** Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the Agencies' capital base and cash flow.

3.3.1.2 **Market Risk:** Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the Agencies' investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The Agencies' portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and Agency policy. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

3.3.2 **Liquidity:** An adequate amount of the portfolio will be maintained in liquid short-term securities which can be converted to cash, as necessary, to meet disbursement requirements. This amount will be determined from projected cash flow trends and disbursement requirements. Investments will be made in securities with active secondary or resale markets. Securities with low market risk will be emphasized. The Agencies' investment portfolio will remain sufficiently liquid to enable the Agencies to meet all reasonably anticipated operating requirements.

- 3.3.3 **Yield:** Within the constraints of safety and liquidity, the highest and best return will be sought. Because the portfolio is too small to allow investments in significant long-term purchases, the objective will be to maximize yield, taking into account risk constraints of the Authorities, cash flow characteristics of the portfolio and compliance with state and federal regulations.
- 3.3.4 **Prudence:** The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agencies, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agencies. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law. (Government Code Section 53600.3)
- 3.3.4.1 **Holding of Investments:** It is the Agencies' full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.
- 3.3.4.2 **Responsibility of Treasurer:** The Agencies Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.
- 3.4 **Investment Instruments and Maturities**
- 3.4.1 **Permitted Investments:** Investments will be within statutory limits imposed by Government Code Section 53601, as further limited herein.
- 3.4.1.1 **Local Agencies Investment Fund (LAIF)** which is a State of California managed investment pool, Investment Trust of California (the CalTRUST JPA pool) which is a joint powers authority under

the provision of Title 1, Division 7, Chapter 5 of the California Government Code, and California county investment pools, may be used up to the maximum permitted by California State Law.

- 3.4.1.2 **Time deposits**, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.
- 3.4.1.3 **Various daily money market or sweep account funds** administered for or by trustees, paying agents and custodian banks contracted by the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government Agency obligations can be utilized.
- 3.4.1.4 **Direct obligations of the United States Treasury** or any other obligation guaranteed as to principal and interest by the United States government, per CA Code 53601.7 e(1).
- 3.4.1.5 **Bonds, notes, warrants, or other indebtedness** of the local agency, or any local agencies within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agencies, or by a department, board, Agencies, or authority of the local Agencies, per CA Code 53601.7 e(4).
- 3.4.1.6 **Local and Regional Government Services Authorities receivables.**
- 3.4.1.7 **Customized investments** in or with other local governments, specifically and individually approved by the Board.
- 3.4.2 **Percentage Limits:** The following summary of maximum percentage limits, by instrument, is established for the Agencies' total portfolio. Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings.

<u>Investment Type</u>	<u>Percentage/Amount</u>
Local Agencies Investment Fund	\$0 to \$40,000,000 per account
CalTrust and County Pools	0% to 100%
Time Certificates of Deposit	0% to 25%
Sweep Accounts – not applicable	0% to 100%
U.S. Government Obligations	0% to 25%
California Agencies' Indebtedness	0% to 75%, limited to one year maturity
JPA Receivables	0% to 75%, limited to one year maturity

- 3.4.3 **Excluded Investments:** Ineligible investments are those that are not described herein, including but not limited to: common stocks; long term (over five years in maturity) notes and bonds; Reverse Repurchase Agreements; financial futures and financial options, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages; any derivative security that could result in a zero interest accrual if held to maturity; and Guaranteed Small Business Administration (SBA) notes.
- 3.5 **Performance Evaluation:** The Agencies' investment portfolio is designed to attain safety and liquidity, with the rate of return being maximized while taking into account risk constraints of the Authorities, cash flow characteristics of the portfolio and compliance with state and federal regulations. Therefore, the Agencies are not establishing a benchmark because to do so would be impractical given the limited excess funds available for investment in longer-term, higher-yielding securities and the Authorities' liquidity needs.
- 3.5.1 **Evaluation:** Investment performance is monitored and evaluated by the Agencies' Executive Committees. Performance statistics and activity reports are generated on a quarterly basis for presentation to the Agencies' Executive Committees at their regularly scheduled meetings. Annually, a statement of investment policy, and any proposed changes to the policy, will be rendered to the Agencies' Boards of Directors for Board consideration at a public meeting.
- 3.6 **Authority to Invest Monies:** Government Code sections 53600 through 53601.6 provide legal authorization for investment of the funds of local agencies. All investments of the authority shall conform to the restrictions of those laws. LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES' Boards of Directors hereby assign responsibility for investing unexpended cash to the Agencies' Treasurer, who shall establish procedures for the operation consistent with this investment policy.
- 3.7 **Ethics and Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally the Treasurer/CFO and other Agency officials authorized to approve investment transactions are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).
- 3.8 **Internal Control:** A system of internal controls shall be established and maintained in written form. These controls shall be designed to prevent losses of public funds arising from fraud, error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employee/offers of the Authority. The most important controls are: control of collusion, separation of duties, separation of transaction authority from accounting and bookkeeping, custodial safekeeping, delegation of authority, limitations regarding securities losses and remedial action, written confirmation of telephone

transactions, minimization of the number of authorized investment officials, documentation of transactions and strategies, and annual review of controls by the Treasurer.

- 3.8.1 Agencies' Priorities:** In recognition of the Agencies' current limited investment staffing (one primary person performing daily cash management, and one primary approver plus one backup staff approver) and limited funds to invest (approximately four million dollars), the Agencies rely more heavily on: separation of wire transfer preparation and approval of funds duties between the Agencies' outside Accountant, staff cash manager and the Agencies' staff Treasurer; Executive Committee quarterly reviews of investments; annual independent audit of investments and investment transactions; and on an extremely conservative investment strategy that reduces risks associated with frequent investment transaction, negotiated investments, and with complex transactions. The Authority's investment products will be limited by this policy until such time that funds available to invest are sufficient to enable longer-term commitments. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.
- 3.8.2 Audit:** The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Agencies' contract Accountant on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies and procedures.
- 3.9 Reporting:** The Agencies' Treasurer shall render quarterly reports to the Agencies Executive Committee. These reports shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities. At the annual Boards of Directors meeting, the investment policy shall be submitted to the Boards for review and adoption.
- 3.10 Banks and Securities Dealers:** In selecting financial institutions for the deposit or investment of Authority funds, the Treasurer shall consider their credit worthiness. The Treasurer shall continue to monitor their credit characteristics and financial history throughout the period in which Authority funds are deposited or invested. A commercial rating or bank watch service may be used to accomplish this objective.
- 3.10.1 Certification Form:** Financial institutions/investment managers shall annually sign a certification form attesting that the individual responsible for the Authority's account with that firm has reviewed and understands the investment policy and intends to present only those investment transactions appropriate under the policy.
- 3.11 Legislative Changes:** Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be

- incorporated into the LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES' Investment Policy and supersedes any and all previous applicable language.
- 3.12 **Limiting Market Value Erosion:** The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the Agencies to limit the potential effects from erosion in market values by adhering to the following guidelines:
- All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.
 - Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.
 - All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the Agencies' best interest to sell or trade a security prior to maturity.
- 3.13 **Portfolio Management Activity:** The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:
- 3.13.1 **Active Portfolio Management:** Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.
- 3.13.2 **Portfolio Maturity Management:** When structuring the maturity composition of the portfolio, the Agencies shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.
- 3.14 **Policy Review:** The LOCAL & REGIONAL GOVERNMENT SERVICES AUTHORTIES' investment policy shall be adopted by the Agencies' Boards of Directors on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to Agencies Boards of Directors for approval.
- 3.15 **Glossary of Terms**
- 3.15.1 **Accrued Interest-** Interest earned but not yet received.
- 3.15.2 **Active Deposits-** Funds which are immediately required for disbursement.

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- 3.15.3 **Amortization**- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.
- 3.15.4 **Asked Price**- The price a broker dealer offers to sell securities.
- 3.15.5 **Basis Point**- One basis point is one hundredth of one percent (.01).
- 3.15.6 **Bid Price**- The price a broker dealer offers to purchase securities.
- 3.15.7 **Bond**- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.
- 3.15.8 **Bond Swap** – Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.
- 3.15.9 **Book Entry Securities** – Securities, such stocks held in “street name,” that are recorded in a customer’s account, but are not accompanied by a certificate. The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors’ concerns about the certificates themselves. All the large New York Agencies banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the “book-entry” custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and Agencies securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now affected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.
- 3.15.10 **Bearer and Registered Bonds** - In the past, bearer and registered bonds were issued in paper form. Those still outstanding may be exchanged at any Federal Reserve Bank or branch for an equal amount of any authorized denomination of the same issue. Outstanding bearer bonds are interchangeable with registered bonds and bonds in “book-entry” form. That is, the latter exist as computer entries only and no paper securities are issued. New bearer and registered bonds are no longer being issued. Since August 1986, the Treasury’s new issues of marketable notes and bonds are available in book-entry form only. All Treasury bills and more than 90% of all other marketable securities are now in book-entry form. Book-entry obligations are transferable only pursuant to regulations prescribed by the Secretary of the Treasury.

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- 3.15.11 **Book Value**- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.
- 3.15.12 **Broker** – In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.
- 3.15.13 **Certificate of Deposit**- A deposit insured up to \$100,000 by the FDIC at a set rate for a specified period of time.
- 3.15.14 **Collateral- Securities**, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.
- 3.15.15 **Comprehensive Annual Financial Report (CAFR)** - The annual financial report for multi-fund municipal agencies. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).
- 3.15.16 **Constant Maturity Treasury (CMT)** - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.
- 3.15.17 **Coupon**- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.
- 3.15.18 **Credit Analysis**- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.
- 3.15.19 **Current Yield**- The interest paid on an investment expressed as a percentage of the current price of the security.
- 3.15.20 **Custody**- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.
- 3.15.21 **Delivery vs. Payment (DVP)** - Delivery of securities with a simultaneous exchange of money for the securities.
- 3.15.22 **Discount**- The difference between the cost of a security and its value at maturity when quoted at lower than face value.
- 3.15.23 **Diversification**- Dividing investment funds among a variety of securities offering independent returns and risk profiles.
- 3.15.24 **Duration**- The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

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- 3.15.25 **Fannie Mae**- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.
- 3.15.26 **Federal Reserve System**- The central bank of the U.S. that consists of a seven member Board of Governors, 12 local banks and 5,700 commercial banks that are members.
- 3.15.27 **Federal Deposit Insurance Corporation (FDIC)** - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$100,000) per account.
- 3.15.28 **Fed Wire**- A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.
- 3.15.29 **Freddie Mac**- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.
- 3.15.30 **Ginnie Mae**- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.
- 3.15.31 **Inactive Deposits**- Funds not immediately needed for disbursement.
- 3.15.32 **Interest Rate**- The annual yield earned on an investment, expressed as a percentage.
- 3.15.33 **Investment Agreements**- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.
- 3.15.34 **Liquidity**- Refers to the ability to rapidly convert an investment into cash.
- 3.15.35 **Market Value**- The price at which a security is trading and could presumably be purchased or sold.
- 3.15.36 **Maturity**- The date upon which the principal or stated value of an investment becomes due and payable.
- 3.15.37 **Negotiable CD**- An uncollateralized CD issued by a large banking institution which trades in the secondary market. Minimum size is \$1 million, but most are much larger.
- 3.15.38 **New Issue**- Term used when a security is originally "brought" to market.
- 3.15.39 **Perfected Delivery**- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.
- 3.15.40 **Portfolio**- Collection of securities held by an investor.
- 3.15.41 **Primary Dealer**- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.
- 3.15.42 **Purchase Date**- The date in which a security is purchased for settlement on that or a later date.
- 3.15.43 **Rate of Return**- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

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- 3.15.44 **Repurchase Agreement (REPO)** - A transaction where the seller (bank) agrees to buy back from the buyer (Agencies) the securities at an agreed upon price after a stated period of time.
- 3.15.45 **Reverse Repurchase Agreement (REVERSE REPO)** - A transaction where the seller (Agencies) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.
- 3.15.46 **Risk**- Degree of uncertainty of return on an asset.
- 3.15.47 **Safekeeping**- see custody.
- 3.15.48 **Sallie Mae**- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.
- 3.15.49 **Secondary Market**- A market made for the purchase and sale of outstanding issues following the initial distribution.
- 3.15.50 **Settlement Date**- The date on which a trade is cleared by delivery of securities against funds.
- 3.15.51 **Time Deposit** – A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.
- 3.15.52 **Treasury Bills**- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.
- 3.15.53 **U.S. Government Agencies**- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular Agencies.
- 3.15.54 **Yield**- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.
- 3.15.55 **Yield to Maturity**- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.
- 3.15.56 **Yield Curve**- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

Section 4 Audit Rotation Policy

- 4.1 **Purpose:** The purpose of this policy is to provide for the periodic rotation of independent auditing firms or audit staff who perform the annual examination of the Joint Powers Authorities financial statements and render an opinion thereon. The audit is dependent on the individual auditor's assessment of risk in the

- Authority's control procedures and financial statement disclosures and is designed to provide reasonable, but not absolute, disclosure of such risk. Periodically changing independent auditing firms or the audit manager provides the Authority with a different risk assessment and, therefore, a different approach to testing risk in the Authority's control procedures and financial statement disclosures.
- 4.2 **Selection Process:** The Finance Committee is responsible for overseeing the solicitation and selection process and may also conduct final interviews prior to recommending a firm to the JPA Board of Directors.
- 4.2.1 **Selection Frequency:** A competitive process will be held at least every five years for the selection of the independent auditing firm. The Executive Director shall, on behalf of the Committee, solicit proposals for independent auditors as soon as feasible following the completion of the fifth year audit, but at least by April 1 of what would otherwise be year six.
- 4.2.2 **Extension of a Term:** The current auditing firm may be considered to serve beyond a five year consecutive period, provided that they will assign a new audit manager to the Authorities. Otherwise qualified firms may serve more than a five-year period provided that there is a minimum three-year break in their service to the Authorities.
- 4.3 **Term of Contract:** The initial contract term will be for three years. Providing services are satisfactory, the contract may be extended for an additional two years, subject to Board approval.
- 4.4 **Scope of Services:** The firm will perform the annual audit review of the Authorities' Financial Statements for the proceeding year and express an opinion about whether those statements are fairly presented in all material respects, in conformity with generally accepted accounting principles. Vendor shall conduct the audit in accordance with auditing standards as in general use in the United States; the standards contained in Government Auditing Standards issued by the General Comptroller of the United States; and otherwise assist staff in analyzing/implementing accounting pronouncements including those of the Government Accounting Standards Board (GASB).
- 4.5 **Amendments or Exceptions:** Amendment of or exceptions to this policy may be made by action of the JPA Board of Directors-, including the exclusive authority to extend an auditor's engagement beyond the five-year maximum continuous service period.

Section 5 Financial Reserves Designation Policy

- 5.1 **Background:** The Board of Directors and the Executive Committee have both expressed interest in establishing a prudent reserve for contingencies. This was presented and approved by the Executive Committee at their February 11, 2010 meeting. The Agency has coverage for Workers' Compensation and General Liability through the ~~California Joint Powers Insurance Authority~~ Municipal

~~Services Authority, as well as Crime and Errors and Omission insurance through CJPIA sub programs.~~ Reserves would enable the Agency to pay deductibles and other claims expenses not covered by the Agency's policies without disrupting cash needs for normal operations. A reserve could also better enable the agency to smoothly transition to significant and rapid increases or decreases in client workload, and for use as an opportunity fund enabling the agency to take advantage of unique circumstances that have a high likelihood of resulting in increased reimbursement revenue.

- 5.2 **Reserve Amount:** The JPAs are unique public sector providers of staffing and consulting services to public agencies, many with defined benefit pension plans. Considerable time and effort has been expended over the last nine years to establish the platform, client and employee contracts and operating procedures necessary to minimize risks of an employer-of-record status adverse ruling. However, it still is prudent that the Agency establish a reserve amount that is sufficient to meet the three objects noted above: adverse determinations, normal business risks (e.g. significant and rapid loss of revenue) and business opportunities. Long term, a reserve amount equaling fifty percent of the Agency's annual budget should be sufficient. LGS's FY2011 budget is \$6.3 million and RGS's budget is \$2.3 million. Therefore, long-term target reserves would be roughly \$3.2 million and \$1.2 million. Cumulative retained earnings of the agency are now sufficient to begin funding the reserves by designating one-half of existing retained earnings, which are projected to be \$1,042,000 and \$295,000 respectively, by fiscal year end. Staff will annually present recommended amounts for each agency, for the year concluding, with the proposed next fiscal year budget. The designation will then appear on the Agency's audited financial statements.



LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

Providing Solutions to California Public Agencies

P.O. Box 1350 · Carmel Valley, CA 93924 · 831.308.1508

TO: FINANCE COMMITTEE **FC Meeting: 11-06-12**
FROM: GLENN LAZOF, Project Manager **Item: 4B**
SUBJECT: REQUEST FOR PROPOSALS – INDEPENDENT AUDIT SERVICES

RECOMMENDATION

Approve the RFP for independent audit services and authorize staff to issue the RFP.

BACKGROUND

The independent audit relies on the auditor's assessment of the Authority's control procedures and financial statement disclosures. The Board approved an Auditor Rotation Policy May 17, 2012, recognizing that changing the independent auditing firm periodically provides the Authority with a fresh approach to testing risk. The Finance Committee, July 30, 2012, directed staff to look at amending the Audit Rotation Policy to allow an auditor to be considered for engagement beyond the maximum five consecutive years only upon approval of the Board.

The Audit Rotation Policy requires a competitive process for the selection of the Authorities' auditors. In accordance with the policy, staff is submitting the following RFP for committee review and approval. Staff reviewed over a dozen municipal RFPs for audit services for guidance, selecting as a template the City of Morgan Hill's most recent Request for Proposals for Professional Auditing Services.

The contract period is three years with the option to extend two additional years. The RFP will be issued December 3, 2012 with a deadline for submission on January 25, 2013. It is anticipated that the Finance Committee will select an audit firm by February 21, 2013. The successful proposer will conduct the 2012-2013 Audit.

FISCAL IMPACT

There is no fiscal impact of approving and authorizing staff to release the RFP for audit services. Funds for the annual audits were included in the RGS annual budget. Total fees for the FY2012 RGS and LGS audits were \$17,600 combined.

**Regional Government Services Authority
Local Government Services Authority
Municipal Services Authority**

REQUEST FOR PROPOSALS FOR PROFESSIONAL AUDITING SERVICES

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Regional Government Services (RGS), Local Government Services (LGS), and Municipal Services Authority (MSA), Joint Powers Authorities

REQUEST FOR PROPOSALS
FOR PROFESSIONAL AUDITING SERVICES

I. INTRODUCTION

A. General Information

The Regional Government Services Authority (RGS), Local Government Services Authority (LGS), and Municipal Services Authority (MSA), three Joint Powers Authorities - aka “the Authorities” - are requesting proposals from qualified firms of certified public accountants to audit their annual financial statements for the fiscal years ending June 30, 2013 through June 30, 2015, with the option for the Authorities’ Boards of Directors to extend the agreement for up to two additional fiscal years, through the year ending June 2017.

These audits are to be performed in accordance with generally accepted auditing standards and the standards set for financial audits contained in Governmental Auditing Standards (1994) issued by the Comptroller General of the United States, the provisions of the Federal Single Audit Act as amended in 1996, and U.S. Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.

There is no express or implied obligation for the Authorities to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

For a firm to be considered, the Authorities must receive their proposal in PDF format, via e-mail by **Noon Friday, January 25, 2013** at glazof@rgs.ca.gov. Subject Line: Proposal for Professional Audit Services.

The Authorities reserve the right to reject any and all proposals submitted.

Proposals will be initially reviewed by staff, and all responsive proposals will be forwarded to the Finance Committee, which includes two members of the Authorities’ Boards of Directors.

During this process, the Finance Committee and the Authorities reserve the right to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of the Finance Committee, firms submitting proposals may be requested to make an oral presentation as part of the evaluation process—this would most likely be via teleconference or web meeting.

The Authorities reserve the right to retain all proposals submitted, and to use any ideas in a

proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the agreement between the Authorities and the firm selected.

It is anticipated the selection of a firm and approval by the Authorities will be completed prior to February 21 of 2013. Following notification of the selected firm, it is expected a contract shall be executed between both parties within 15 working days.

B. Terms of Engagement

A three-year contract is contemplated: with the option to extend for two (2) subsequent years, subject to annual review and recommendation of the Finance Committee, satisfactory negotiation of terms (including a price mutually acceptable to the Authorities and the selected firm).

II. NATURE OF SERVICES REQUIRED

A. Scope of Work to be Performed

The Authorities desire the auditor to express an opinion on the fair presentation of its general purpose financial statements in conformity with generally accepted accounting principles.

B. Auditing Standards to be Followed

To meet requirements of this request for proposal, the audit shall be performed in accordance with generally accepted auditing standards and the standards set for financial audits contained in Governmental Auditing Standards (1994) issued by the Comptroller General of the United States, the provisions of the Federal Single Audit Act as amended in 1996, and U.S. Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.

C. Reports to be Issued

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue:

- i. A report on the fair presentation of the financial statements of the Authorities in conformity with generally accepted accounting principles;
- ii. A report on the internal control structure based on the auditor's understanding of the control structure and assessment of control risk;
- iii. A report on compliance with applicable laws and regulations;
- iv. An "in-relation-to" report on the schedule of federal financial assistance, if applicable;
- v. A report on the internal control structure used in administering federal financial

- assistance programs, if applicable;
- vi. A report on compliance with general and specific requirements related to major and non major federal financial assistance programs, if applicable; and
 - vii. Draft financial statements for each fiscal year will be presented to Authority Staff by the end of the following September. Draft Audit Reports are to be received by the Finance Committee, with management responses, by the beginning of the fourth week of October. The Final Report to the Board and Management shall be received by the end of the second week of November.

In the required reports on internal controls, the auditor shall communicate any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions that are also material weaknesses shall be identified as such in the report.

Non-reportable conditions discovered by the auditors shall be reported in a separate letter to management, which shall be referred to in the reports on internal controls.

The reports on compliance shall include all instances of noncompliance.

Irregularities and illegal acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts of which they become aware to the following parties:

Board Chair, ' Dan Schwarz
Finance Committee Chair, Ken Nordhoff
Executive Director, Richard Averett

The auditor shall print and bind (6) copies of the financial statements including supplementary information, for each JPA. In addition, they shall provide one unbound copy of the financial statements including supplementary information and one electronic copy of same.

D. Special Considerations

1. Schedules of federal financial assistance and related auditor's reports, as well as the reports on compliance and internal controls, are not to be included in the annual financial report, but are to be issued separately. Note that no direct federal financial assistance has been or is contemplated to be received by the Authorities.

E. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of

three (3) years, unless the firm is notified in writing by the Authorities of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the following parties or their designee:

Member and Client Agencies of the Authorities
Auditors of Grants or Assistance programs for which the Authorities may meet the
criteria of a subrecipient
State of California, Office of the State Controller

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. DESCRIPTION OF GOVERNMENT

A. Contact Persons/Organizational Chart

The auditor's principal management contact with the Authorities shall be Richard Averett, Executive Director, RAverett@rgs.ca.gov or a designated representative, who will coordinate the assistance provided by the Authorities to the auditor. The auditor's principal governing body contact with the Authorities shall be the Chair of the Finance Committee, Ken Nordhoff, Nordhoff@walnut-creek.org.

Questions about this RFP shall be submitted, in writing, to Glenn Lazof, Project Manager, at glazof@rgs.ca.gov prior to Noon Friday, January 11, 2013. Questions will be answered via e-mail within 5 business days. Additionally, a summary of questions and answers will be provided to each firm who submits a written request prior to Noon Friday January 11. The written summary will be sent to the e-mail address as provided in the proposer's request, no later than close of business Friday January 18, 2013.

Organizational charts are attached (Appendix A)

B. Background Information

RGS, LGS and MSA are Joint Powers Authorities. Policies are set by the five-Member Boards of Directors of RGS and LGS, and by the two-Member Board of Directors of MSA, and implemented by the Executive Director. The JPAs' mission is to provide services to California Public Agencies. Currently, the Authorities serve 35 California public agencies, with administrative offices in Carmel Valley. The Authorities currently have 82 employees with a total projected 2012-2013 Payroll and Benefits expense of approximately \$10 million. Total expenditures for all funds are budgeted at approximately \$11.4 million for the 2013 fiscal year. The last Audit report issued is for the 2009-2010 and 2010-2011 fiscal years. The 2011-2012 report will be completed on or before November 30, 2012. The MSA was formed during FY202012 and became operational July 1, 2012. It will be reflected in subsequent

reports.

C. Services Provided

The Authorities provide the following services to public agencies:

Staffing (Interim, Project, and Long Term Staffing)
Consulting
Payroll and Human Resource Expertise
Insurance

D. Accounting and Fund Information

The Authorities use the following fund types and account groups in their financial reporting:

<u>Fund type/Account Group</u>	Enterprise (Proprietary Fund Type)
<u>Number of Funds</u>	1 per agency

E. Federal and State Financial Assistance

The Authorities are fully funded on a fee for service basis and receive no direct Federal or State Assistance. Some client agencies may receive Federal and State Assistance which may fully or partially fund the Authorities activities. The auditor may examine whether the Authorities meet the criteria of subrecipient through our activities and report accordingly.

F. Pension Plans

Local Government Services participates in the Public Employees' Retirement System of the State of California (CalPERS). The fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various state and local governmental agencies within the State of California. The fund provides retirement, disability and death benefits based on an employee's years of service, age and final compensation.

Regional Government Services participates in a defined contribution qualified retirement plan, with the employer contributing 10 percent of regular, on-going salary to the employee's 401(a) account. Individual employment agreements may stipulate additional matching contributions.

Municipal Services Authority has not established a retirement plan, as it has no employees.

G. Component Units

There are no component units in any of the three JPA's.

H. Finance Operations

Currently, financial operations are headed by the Executive Director/Chief Financial Officer of the Authorities. JPA staff, a Project Manager and Project Consultant oversee payroll and financial services provided by a private CPA firm contracted for this purpose. All normative functions are performed by an outside accounting firm, MacGilloway, Ray, Brown, and Kaufman (MRBK), with Offices in Monterey, California. MRBK resources this contract with approximately 2 FTE's. A review is in progress to determine if finance functions for the Authorities should become the responsibility of an internal department in 2013.

Functions performed by MRBK include: client agency billing and collection, accounts receivable/payable, payroll (ADP), general ledger, and financial reporting.

The Authorities accounting system is maintained on QuickBooks accounting software. The bulk of transactions take place within the RGS entity. Most of the non-payroll activity in LGS is by Journal Entry. There is no payroll activity in the MSA.

I. Availability of Prior Audit Reports

Prior years' audit reports are available at <http://rgs-lgs.org/index.html> or by contacting Glenn Lazof, Project Manager, at glazof@rgs.ca.gov or (650) 587-7302.

IV. TIME REQUIREMENTS

The Authorities will use the following schedule:

The deadline to submit proposals is Friday, January 25, 2013 by Noon.

Issue RFP	On or Before: Friday, December 3, 2012
Submission of Written RFP Questions	Noon Friday, January 11, 2013
Release of Summary of Questions/Answers	Noon Friday January 18
Proposals due	Noon Friday, January 25
Finance Committee Selection of Proposal	On or Before February 21
Formal Notification to Proposers	On or Before March 1, 2013

Following is the anticipated audit schedule for FY2013, and is reflective of the approximate schedules for 2014 and 2015.

Commencement of field work	Monday August 19, 2013
Authorities submit to auditors the final trial balance	Friday, September 6
Auditors submit to Authority the Preliminary Financial Statement	Monday, September 30
Authorities submit to Auditors the draft management letter and Audit Report	Friday, November 15

Upon completion of the audit examination and prior to issuing any audit reports or the management letter, the auditor will participate in an exit conference with the Executive Director, Members of the Finance Committee, and other staff designated TBA to discuss observations and findings. During the course of the engagement, the auditor shall meet with and provide periodic status reports to the Executive Director on a regular basis. The auditor shall also be available to meet with the Executive Director and Finance Committee as needed, to provide consultation on various accounting and auditing matters.

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

A. Finance Department and Clerical Assistance

Accounting staff, including key outside contractors, and responsible management personnel will be available during the audit to assist the auditor by providing information, documentation and explanations.

B. Work Area, Telephones, Photocopying and Fax

The auditor will be provided with reasonable work space, access to telephones, photocopying and fax machines, as necessary in connection with work as described in this request for proposals. It should be noted that owing to the largely virtual nature of the Authority's administration, our central office has modest work space and equipment. The proposer will have access to documents and information in a manner similar to that available for our staff who generally access this information remotely.

C. Report Preparation

The Authorities' Finance staff will also be responsible for the posting of any auditor adjusting entries or changes to the financial statements.

VI. PROPOSAL REQUIREMENTS

A. Submission of Proposal

The following material is required to be received by **Noon on Friday, January 25, 2013** for a firm to be considered:

a. The Technical Proposal, to include the following:

i. Title Page

Title page showing the request for proposal's subject, the firm's name,

address and telephone number of the contact person and the date of the proposal.

ii. Table of Contents

iii. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement as to why the firm believes itself to be best qualified to perform the engagement and a statement that the proposal is a firm and irrevocable offer for ninety (90) days.

iv. Detailed Proposal

The detailed proposal shall follow the order set forth below in **Section VI B** of this request.

a. The proposer shall submit a PDF of a Dollar Cost Bid as set forth in **Section VI C**.

b. Proposers shall send the completed proposal, consisting of a PDF, containing the Dollar Cost Bid per part "a." above, and the remainder of the proposal.

The PDF shall be e-mailed to: glazof@rgs.ca.gov

All proposals must be clearly titled in the subject line, as follows: "*Proposal-Audit Services.*" All proposals must be received by the date specified above.

B. Technical Proposal

1. General Requirements

The purpose of the Technical Proposal is to demonstrate the qualifications, competency, and capacity of the firm seeking to undertake an independent audit of the Authorities in conformity with the requirements of the request. As such, the substance of the proposal will carry more weight than their form or manner of presentation. The Technical Proposal shall demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It shall also specify an audit approach that will meet the request for proposal requirements.

There shall be no dollar units or total costs included in the Technical Proposal Document.

The Technical Proposal shall address all the points outlined in the request for proposals. The proposal shall be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the request for proposals. While additional data may be presented, the following subjects, items 2 through 9, must be included. They

represent the criteria against which the proposal will be judged.

2. Independence

The firm shall provide an affirmative statement that it is independent of RGS, LGS and MSA, as defined by generally accepted auditing standards and the U.S. Government Accountability Office's *Government Auditing standards* (July 2007 revision).

3. License to Practice in California

An affirmative statement shall be included stating the firm and all assigned key professional staff are properly licensed to practice as certified public accountants in California.

4. Firm Qualifications and Experience

The proposal shall state the size of the firm; the size of the firm's governmental audit staff; the location of the office from which this engagement is to be performed; the number and nature of the professional staff to be employed in this engagement on a full-time basis; and the number and nature of the staff to be so employed on a part-time basis.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium shall be separately identified and the firm that is to serve as the principal auditor shall be noted, if applicable.

The firm shall submit a copy of the report of its most recent external quality control review, with a statement as to whether that quality control review included a review of specific governmental audit engagements.

The firm shall also provide information on the results of any Federal or State of California desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years by state regulatory bodies or professional organizations.

5. Partner, Supervisory and Staff Qualifications and Experience

The firm shall identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement and indicate whether each such person is (registered/licensed) to practice in the field and provide information on the government auditing experience of each person, including information

on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

The firm shall provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. The firm also shall indicate how the quality and continuity of staff assigned over the term of the agreement will be assured.

Consultants and firm specialists mentioned in response to this request for proposals can only be changed with the express prior written permission of the Authorities, which retains the right to approve or reject replacement.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially equal or better qualifications or experience.

6. Similar Engagements with Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum of 5) performed in the last five years that are similar to the engagement described in this request for proposals. These engagements shall be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

7. Specific Audit Approach

The proposal shall set forth a work plan, including an explanation of the audit methodology they shall follow to perform the services required in **Section II** of this request for proposals. In developing the work plan, reference shall be made to such sources of information as the Authorities' budget and related materials, organizational charts, manuals and programs, and financial and other management information systems.

Proposers are expected to provide the following information on their audit approach:

- a. Level of staff and number of hours to be assigned to each proposed segment of the engagement;
- b. Sample sizes and the extent to which statistical sampling is to be used in the engagement;
- c. Approach to be taken to gain and document an understanding of the Authorities' internal control structure;

- d. Approach to be taken in determining laws and regulations that will be subject to audit test work;
- e. Approach to be taken in drawing audit samples for purposes of tests of compliance.

8. Identification of Anticipated Potential Audit Problems

The proposal shall identify and describe anticipated potential audit problems, if any, the firm's approach to resolving these problems and any special assistance that will be requested from the Authorities.

9. Report Format

The proposal shall include sample formats for required reports.

C. Dollar Cost Bid

1. Total All-inclusive Maximum Price.

The dollar cost bid shall contain all pricing information relative to performing the audit engagement as described in this request for proposals. The total all-inclusive maximum price to be bid is to contain all direct and indirect costs, including all out-of-pocket expenses (Appendix B).

The Authorities will not be responsible for the expenses incurred in preparing and submitting the technical proposal or the dollar cost bid. Such costs shall not be included in the proposal.

The first page (Appendix B) of the dollar cost bid shall include the following information:

- a. Name of Firm;
- b. Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid and authorized to sign a contract with the Authorities;
- c. A Total All-inclusive Maximum Price for the each fiscal year of the engagement.

2. Rates by Partner, Specialist, Supervisory and Staff; Times the Hours Anticipated for Each.

The second page (Appendix C) of the dollar cost bid shall include a schedule of professional fees and expenses, presented in the format provided in the attachment, that supports the Total All-inclusive Maximum Price.

3. Rates for Additional Professional Services

If it should become necessary for the Authorities to request the auditor to render any additional services, either to supplement the services requested in this request for proposals or to perform additional work, then such additional work shall be performed only if set forth in an addendum to the contract between Authorities and the firm. Any such additional work agreed to between the Authorities and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the dollar cost bid.

4. Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement in accordance with the firm's dollar cost bid proposal. Interim billings shall cover a period of not less than a calendar month. Final payment will be made after delivery of the firm's final reports.

VII. EVALUATION PROCEDURES

A. Staff and Finance Committee Evaluation

Proposals will be reviewed and evaluated by the staff and the Finance Committee of the Authorities, which includes two Board members and is supported by the Executive Director.

B. Review of Proposals

The Evaluation Committee will use a point formula during the review process to score proposals. Every member will score each technical proposal matching the criteria described in Section VII C below. At this point, firms with an unacceptably low technical score will be eliminated from further consideration.

After the composite technical score for each firm has been established, additional points will be added to the technical score based on the price bid. The maximum score for price will be assigned to the firm offering the lowest total all-inclusive maximum price. Proportionate fractional scores will be assigned to other proposers.

The Authorities reserve the right to retain all proposals submitted and use any idea contained therein.

C. Evaluation Criteria

Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria which will be considered during the evaluation process.

1. Mandatory Elements

- a. The audit firm shall be independent and licensed to practice in California
- b. The audit firm's professional personnel shall have received adequate continuing professional education within the preceding two years
- c. The firm shall have no conflict of interest with regard to any other work performed by the firm for the Authorities
- d. The firm shall submit a copy of its most recent external quality control review report and the firm has a record of quality audit work
- e. The firm shall adhere to the instructions in this request for proposals on preparing and submitting the proposal

2. Technical Qualifications:

- a. Expertise and Experience
 - (1) The firm's past experience and performance on comparable government engagements
 - (2) The quality of the firm's professional personnel to be assigned to the engagement
- b. Audit Approach
 - (1) Adequacy of proposed staffing plan for various segments of the engagement
 - (2) Adequacy of sampling techniques
 - (3) Adequacy of analytical procedures

3. Price

THOUGH COST IS AN IMPORTANT FACTOR, IT IS NOT THE MOST IMPORTANT CONSIDERATION.

D. Possible Oral Presentations

During the review process, the Evaluation Committee may, at its discretion, request any one or all firms to make an oral presentation--most likely by telephone, less likely in person. Such a presentation will provide firms with an opportunity to answer any questions the Evaluation Committee may have about a firm's proposal. Not all firms may be asked to make such oral presentations.

E. Final Selection

The Finance Committee will select a firm based upon their evaluation of the proposals.

It is anticipated that a firm will be chosen on or before Thursday February 21, 2013. Following notification of the firm selected, it is expected a contract will be executed within 15 working days.

F. Right to Reject Proposals

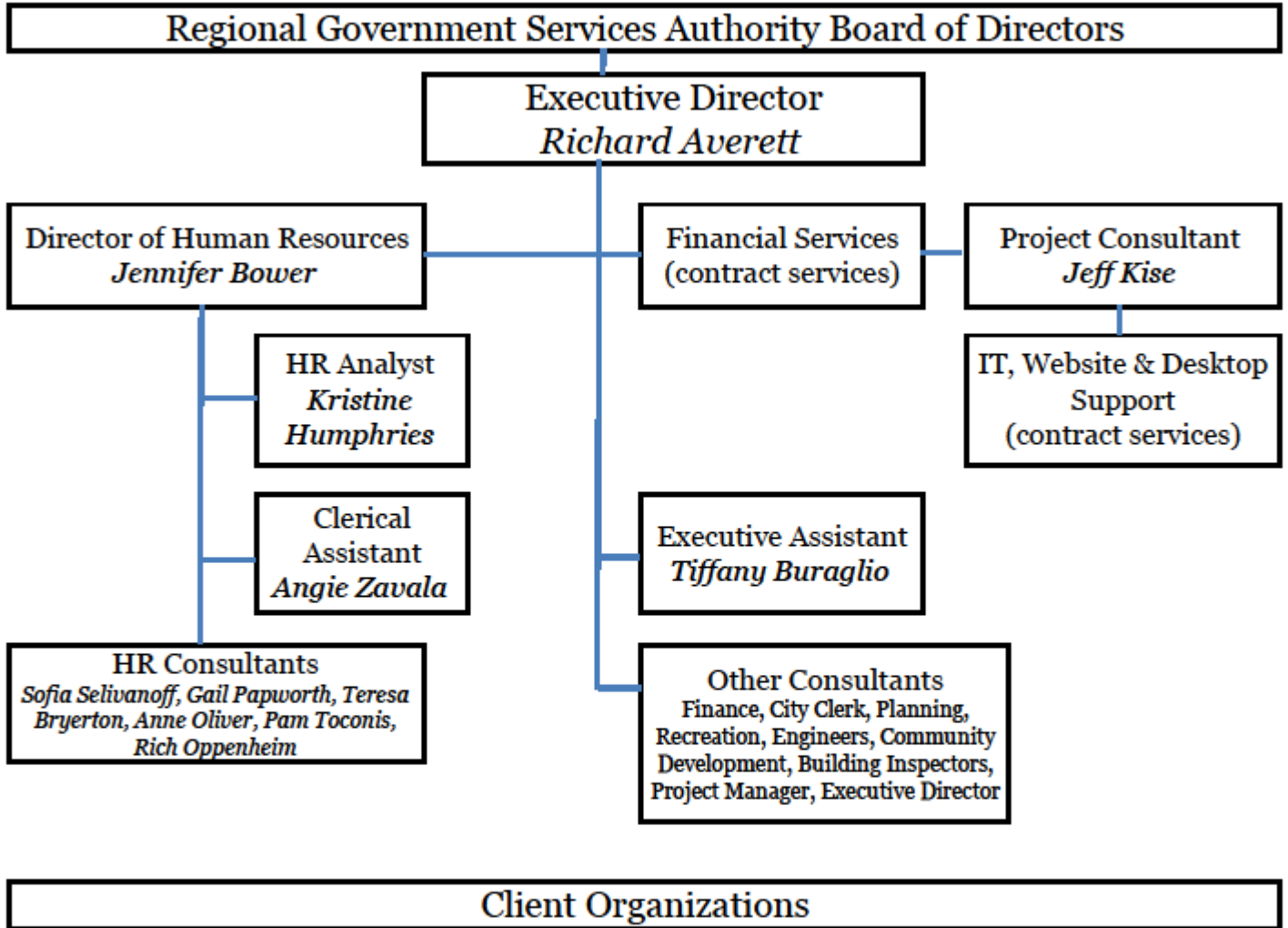
Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the Authorities and the firm selected.

VIII. OFFICERS of the AUTHORITIES

- A. Audit staff may expect to meet with the Chair of the Finance Committee and/or Chair of the Board of Directors during the audit field work. Meeting will most likely be via teleconference.

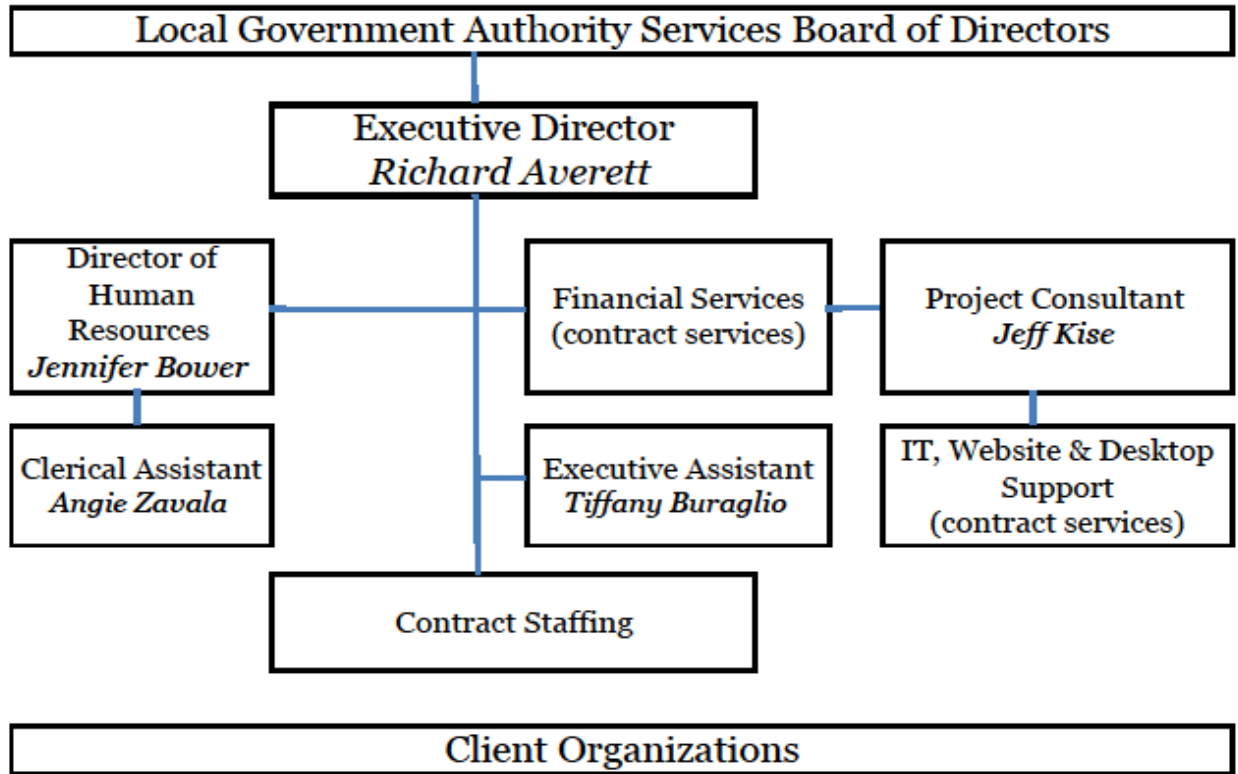
The Authorities reserve the right without prejudice to reject any or all proposals.

Appendix A 1



Jul-11

Appendix A 2



Appendix A 3

MSA Organizational Chart (to be completed after January 1, 2013)

Appendix B

DOLLAR COST BID

Name of Firm: _____

Address: _____

City, State, Zip: _____

Contact Name: _____

Contact Telephone Number(s): _____

Contact E-mail Address: _____

I, the undersigned, certify I am duly authorized to represent the above named firm and am empowered to submit this bid. In addition, I certify I am authorized to contract with Regional Government Services, Local Government Services and Municipal Services Authority on behalf of the above named firm.

Signature Title Date

Name (print)

Total All-inclusive Maximum Price for 2012-2013 Audit \$ _____

Total All-inclusive Maximum Price for 2013-2014 Audit \$ _____

Total All-inclusive Maximum Price for 2014-2015 Audit \$ _____

Appendix C

**SCHEDULE OF PROFESSIONAL FEES AND EXPENSES FOR THE AUDIT OF THE FY2013
FINANCIAL STATEMENTS**

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly Rates</u>	<u>Total</u>
Partners				
Managers				
Supervisory staff				
Staff				
Other (specify):				
<i>Subtotal</i>				
Out-of-pocket expenses:				
Meals & Lodging				
Transportation				
Other (specify):				
Total for services described in Section II of the RFP				
TOTAL ALL-INCLUSIVE MAXIMUM PRICE FOR 2012-13 AUDIT				\$

Note: The rate quoted should *not* be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price.



LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

Providing Solutions to California Public Agencies

P.O. Box 1350 · Carmel Valley, CA 93924 · 831.308.1508

TO: FINANCE COMMITTEE **FC Meeting: 11-06-12**
FROM: GLENN LAZOF, Project Manager **Item: 4C**
**SUBJECT: REVIEW OF PRELIMINARY AUDIT REPORTS FOR FISCAL YEAR ENDING
JUNE 30, 2012**

RECOMMENDATION

Review the independent audit reports for fiscal year 2012.

BACKGROUND

The outside audit firm of Mayer Hoffman McCann, P.C. was retained to complete the FY2007, FY2008, FY2009, FY2012 and FY2011 audits of both Local and Regional Government Services Authorities. Mayer Hoffman is in the process of completing the FY2012 audits.

PRELIMINARY AUDIT RESULTS

Preliminary summaries of LGS and RGS audit results are below, with more information and analysis to follow in the Management Discussion and Analysis section of each audit report when audit reports are finalized. Overall, the FY2012 audit results indicate continuation of very positive financial results based on a sound business model. These financial results better enable the JPAs to provide quality services to our clients and employees.

PRELIMINARY FINANCIAL STATEMENT HIGHLIGHTS

- LGS change in net assets equals \$277,660 for the fiscal-year-end (FYE). Net assets at the end of the fiscal year equal \$1,501,881.
- RGS change in net assets equals \$650,070 for the FYE. Net assets at the end of the fiscal year equal \$1,229,169.
- Combined LGS/RGS change in net assets equals \$927,730 for the 2012 FYE. Combined LGS/RGS total net assets at the end of the fiscal year equal \$2,731,050.

LOCAL GOVERNMENT SERVICES AUTHORITY

Statements of Net Assets

June 30, 2012

(with comparative information for the prior year)

	<u>2012</u>
<u>Assets</u>	
Current assets:	
Cash and investments (note 2)	\$ 2,012,120
Accounts receivable	473,153
Due from other governments	-
Prepays	30,907
Deposits	<u>44,061</u>
Total current assets	<u>2,560,241</u>
Total assets	<u>2,560,241</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	166,082
Deferred revenue	179,500
Client deposits	240,403
Compensated absences - current portion (note 3)	<u>55,311</u>
Total current liabilities	<u>641,296</u>
Noncurrent liabilities:	
Compensated absences - long term (note 3)	129,060
Claims payable - long term (note 3 and 7)	-
OPEB liability - long term (note 3 and 8)	<u>288,004</u>
Total noncurrent liabilities	<u>417,064</u>
Total liabilities	<u>1,058,360</u>
<u>Net Assets</u>	
Net assets:	
Unrestricted (note 4)	<u>1,501,881</u>
Total net assets	<u>\$ 1,501,881</u>

See accompanying notes to the basic financial statements.

LOCAL GOVERNMENT SERVICES AUTHORITY
 Statements of Revenues, Expenses and Changes in Net Assets
 Year ended June 30, 2012
 (with comparative information for the prior year)

	<u>2012</u>
Operating revenues:	
Charges for services	\$ <u>6,892,026</u>
Total operating revenues	<u>6,892,026</u>
Operating expenses:	
Salaries & benefits	5,645,615
Professional services	2,756
Administration	<u>965,995</u>
Total operating expenses	<u>6,614,366</u>
Change in net assets	277,660
Net assets at beginning of year, as restated (note 9)	<u>1,224,221</u>
Net assets at end of year	<u>\$ 1,501,881</u>

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY

Statements of Net Assets

June 30, 2012

(with comparative information for the prior year)

	<u>2012</u>
<u>Assets</u>	
Current assets:	
Cash and investments (note 2)	\$ 1,664,970
Accounts receivable	723,948
Prepaid expenses	36,490
Deposits	<u>2,677</u>
Total current assets	<u>2,428,085</u>
Total assets	<u>2,428,085</u>
 <u>Liabilities</u>	
Current liabilities:	
Accounts payable	330,177
Due to other governments	-
Deferred revenue	387,000
Compensated absences - current portion (note 3)	<u>57,449</u>
Total current liabilities	<u>774,626</u>
Noncurrent liabilities:	
Compensated absences - long term (note 3)	172,346
Claims payable - long term (note 3 and 6)	58,940
OPEB liability - long term (note 3 and 7)	<u>193,004</u>
Total noncurrent liabilities	<u>424,290</u>
Total liabilities	<u>1,198,916</u>
 <u>Net Assets</u>	
Net assets:	
Unrestricted (note 4)	<u>1,229,169</u>
Total net assets	<u>\$ 1,229,169</u>

See accompanying notes to the basic financial statements.

REGIONAL GOVERNMENT SERVICES AUTHORITY
 Statements of Revenues, Expenses and Changes in Net Assets
 Year ended June 30, 2012
 (with comparative information for the prior year)

	<u>2012</u>
Operating revenues:	
Charges for services	\$ <u>8,705,763</u>
Total operating revenues	<u>8,705,763</u>
Operating expenses:	
Salaries & benefits	7,388,026
Professional services	263,052
Administration	<u>404,615</u>
Total operating expenses	<u>8,055,693</u>
Change in net assets	650,070
Net assets at beginning of year, as restated (note 8)	<u>579,099</u>
Net assets at end of year	<u><u>\$ 1,229,169</u></u>

See accompanying notes to the basic financial statements.



LOCAL AND REGIONAL GOVERNMENT SERVICES AUTHORITIES

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TO: FINANCE COMMITTEE **FC Meeting: 11-06-12**
FROM: GLENN LAZOF, Project Manager **Item: 4D**
SUBJECT: ADDITIONAL RGS AND LGS CONTRIBUTIONS TO MSA INSURANCE POOL

RECOMMENDATION

Approve recommending to the RGS and LGS Boards of Directors that the two agencies approve additional RGS and LGS insurance pool contributions to Municipal Services Authority.

BACKGROUND

The FY12 MSA Budget allowed for a \$100,000 contribution to the insurance JPA reserves. When carrier proposals were accepted, the savings from budgeted amounts resulted in an additional \$46,000 being available for claims reserves. However, the Workers' Compensation per occurrence deductible of \$1 million with \$200,000 cash protection, created more exposure for MSA than what was desired at this early phase of the pool's build-up of reserves. (Property and casualty coverage has a \$50,000 per occurrence deductible.)

Preliminary fiscal year 2012 financial results show an unexpected large net income for the year; much of that growth attributable to a former client from whom we have exposure to potentially substantial claims costs. Therefore, staff is recommending use of net equity from both JPAs to increase MSA funding by \$800,000. Note that RGS and LGS general reserves (\$627,000 at the end of fiscal year 2011) have remained intact, as they have not been used to fund MSA's claims reserve. In accordance with the JPAs' reserve policy, another \$463,500 (one-half of net income) will be added to JPA reserves.

FISCAL IMPACT

The recommended contribution amounts from RGS and LGS are \$300,000 and \$500,000, respectively. The impact of this recommendation, if approved by the RGS and LGS Boards of Directors, would be a reduction in net equity of the two agencies by \$300,000 and \$500,000. Both agencies would be left with roughly equal net equity - \$900,000 to \$1 million. MSA's reserves would be increased to \$946,000 which would preemptively fund claims expectations of the three cases being managed by our prior pooled program (and which will be passed through to the JPAs per prior agreements). The actual cost of the pending claims will likely be less than the maximum exposure which is reflected in the increased reserve, leaving enhanced reserves for future exposures.