

Proposal for Professional Auditing Services

► **Fox Canyon Groundwater Management Agency**
Audit Proposal
For the Year Ending June 30, 2013 and 2014
With an option to extend for two additional audit years

August 29, 2014

Fechter & Company
Certified Public Accountants
1870 Avondale Avenue Suite 4
Sacramento, CA 95825

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August 5, 2014

Jeff Pratt, P.E.
FCGMA Executive Officer
County of Ventura
800 South Victoria Avenue
Ventura, CA 93009-1600



Dear Mr. Pratt:

Fechter & Company, Certified Public Accountants, is pleased to present our proposal to provide audit services to the Fox Canyon Groundwater Management Agency (the Agency). We believe our audit approach and the credentials within our teams' resumes will demonstrate our qualifications, competence, and capacity to perform the audit services requested in the time frame required by The Agency.

We understand the scope of what you are requesting and the timelines, as noted in the Request For Proposal. We understand that our Firm will be responsible for preparing the financial statements, state controller's report, and a management letter. We commit to providing the audit in a timely manner, otherwise we will voluntarily forfeit 25% of the proposed audit fee.

This proposal is a firm and irrevocable offer valid for 60 days after the date of the proposal. Craig R. Fechter, CPA, the Firm's President, will be the authorized representative for the Firm to sign for and obligate the Firm contractually to The Agency. Mr. Fechter is at 1870 Avondale Avenue Suite 4, Sacramento, CA 95825, and can be reached by telephone at 916-333-5360. Fechter & Company is in compliance with the registration and permit requirements to engage in the practice of public accounting in California.

We believe that you will find our Firm to be the one most qualified and prepared to serve The Agency, in the capacity of auditor, accounting and management advisors, and look forward to a long working relationship with you and your management team.

Very Truly Yours,

A handwritten signature in black ink that reads "Craig Fechter".

Craig R. Fechter, CPA
Fechter & Company, Certified Public Accountants

Firm Profile

The Fox Canyon Groundwater Management Agency (Agency) wishes the auditor to express an opinion on the fair presentation of its financial statements in accordance with accounting principles generally accepted in the United States of America.

Fechter & Company (Firm) is located in Sacramento, from where all staffing for the engagement are based. Our Firm is a small company with four highly qualified professionals. We consider our company size and professionalism to be our greatest strategic advantage. When working with our Firm you will receive a more personal experience, with easy access to competent, qualified professionals who can help to answer questions and ease the audit process.

We also believe and strive for long term client relationships, dramatically reducing the amount of time your staff spends familiarizing our professional staff with your business procedures. You will deal with the same experienced professional staff year after year, which will develop efficiencies in the audit process. Our professional audit processes are such that your assigned auditors will be performing ALL of the audit procedures – from the initial planning meetings through fieldwork, to financial statement preparation. As your agency works with our professionals and staff you will find that our wide and varied experiences can be applied to any issues that might arise, resulting in innovative solutions to your operational needs.

Approximately 70% of the Firm's annual revenues are derived from Governmental and non-profit audits under *Government Auditing Standards* as published by the U.S. General Accounting Office. Of our governmental accounting practice, we perform no other audits other than Special Districts. Special District auditing is a Firm specialty.

One of our Firm's approaches is to proactively inform our clients about the potential changes in relative accounting legislation and standards. Our Firm receives approximately a dozen monthly periodicals and newsletters from a variety of sources. This allows us to provide our clients with important and timely information, so they can immediately assess the impact on their organization and staff. In fact, we offer an annual "GASB and FASB" accounting update course to each of our clients, **at no additional charge**, should your accounting staff wish to be trained on the newer accounting & auditing standards being implemented. This is an approximately 2-3 hour class and is typically held in the spring and summer months.

Firm Profile (continued)

Fechter & Company leverages technology to allow us to focus on issues not insignificant mechanical tasks

We use up-to-date technology to perform and complete all audits in the most efficient manner possible. Some examples of our technology and how your organization benefits are:

- We have a standardized Microsoft Office platform, as the vast majority of our clients use “Office”, and this allows us to work collaboratively and efficiently on specific work documents.
- All audits are completed using CS Engagement process. This eliminates the need for paper and reduces clients’ costs, as all information can be transferred electronically to our Firm for processing.
- Our staff are equipped with 17” laptops protected with biometric access restrictions.
- Our staff back up all data to our local server daily through our secure VPN.
- All of our server information is backed up daily offsite.

The Firm carries standard professional liability insurance at \$1,000,000 per occurrence and \$2,000,000 total.

Our Firm positively affirms the following:

- Our Firm is properly licensed for practice as a Certified Public Accounting (CPA) Firm in the State of California.
- We hereby represent and warrant that our proposal is genuine and not a sham or collusive or made in the interest or on behalf of any person not herein named and that we have not, directly or indirectly, induced or solicited any other proposer to put in a sham bid. We also hereby represent that we have no interest in the Agency nor any relationship which presents a conflict of interest under CA government code section 1090 through 87100.
- Each of the individuals of the Firm meet the continuing education and external quality control review requirements contained in the Government Auditing Standards, 2003 revision, published by the U.S. General Accounting Office.
- We will carry requisite insurance coverages – professional liability, workers compensation, business occupancy and auto insurance – throughout the course of our engagement so the Agency’s risks are effectively mitigated.

Specific Audit Approach

Fechter & Company, CPAs, is run as a professional corporation and was formed April 16, 2005. We provide finance consulting and auditing services to governmental entities. Specifically, our target clients are special districts with annual budgets of less than \$50,000,000.

SPECIFIC AUDIT APPROACH

We anticipate this engagement to be divided into the following segments:

1. Initial preparation and planning procedures
2. Preliminary analytical procedures, report preparation, cash and other confirmations, and information gathering techniques
3. Field work procedures
4. Post-field work activities (following up on pending items, collection of all confirmation letters, etc.)
5. Report finalization and final analytical procedures
6. Report delivery and board of directors' presentation

1. Initial preparation and planning procedures:

During this phase we plan to accomplish the following:

- A. Conduct an initial meeting with the staff from the Fox Canyon Groundwater Management Agency as soon as our proposal is approved in order to establish a relationship with those we would be working with. We expect this meeting would involve the Agency Manager and the Agency's Finance Director. We would prefer conducting this meeting via tele-conference. During this meeting we plan to deliver a "client participation schedule", detailing the items we would need provided by the Agency for the audit. During this meeting we would also gather information as to the Agency's bankers, attorneys, prior accountant and contacts within the County. Additionally, we would resolve any ambiguities or questions we or the Agency might have about the Firm's contracted services.
- B. After the above meeting, we would begin contacting named individuals in order to make inquiries as required by *Government Auditing Standards*.
- C. We would begin to develop audit plans for each individually significant area by examining the prior year financial statements and developing expectations for the upcoming year for each significant balance sheet and income statement account.

Specific Audit Approach (continued)

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SPECIFIC AUDIT APPROACH (continued)

2. Preliminary analytical procedures, report preparation, cash and other confirmations and information gathering techniques:

During this phase of the audit we plan to accomplish the following:

- A. Preliminary analytical procedures – the primary focus of an audit is to develop expectations and compare actual financial results against those expectations. While performing preliminary analytical procedures, we would compare current year results against prior period results and budgetary expectations against actual results. We would also perform analytical procedures specific to water and irrigation districts – comparing total water revenues to services provided over a 5 year period to attempt to identify any trends, comparing collections and billings on a month-to-month basis over the fiscal year, etc.
- B. Report preparation – our approach differs from that of other firms – our goal is to have the financial statements prepared prior to field work. We believe that by accomplishing this that it allows us to focus on the overall financial position of the organization and to limit our testing of clearly insignificant areas.
- C. Cash and other confirmations – during this portion of the audit, we will send out confirmation letters to confirm cash with the bank, any material year-end accounts or grants receivable, grants or donations received during the year, debt outstanding at the end of the year, or any other financial transaction that we consider material to the financial statements as a whole. The decision to confirm a financial statement item depends on the materiality of the item, the susceptibility of the item to misstatement, or the likelihood of fraud.
- D. Information gathering techniques – we would obtain the information requested to the Agency in the client participation schedule and any other associated report that would be required.
- E. Sample sizes and usage of statistical sampling – our sampling selection process has three categories of consideration. First - what is the purpose of the test; is it for attribute testing or balance testing? Second, is the

Specific Audit Approach (continued)

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SPECIFIC AUDIT APPROACH (continued)

population or process susceptible to fraud or misstatement? Third, are the individual transactions small and numerous or large and infrequent in number?

Our testing of revenues and disbursements processes focuses on the attributes of the transactions. The purpose of these samples is to determine that the attribute being tested is being applied to the transaction as approved by the Agency's Management and Board; not to determine if a balance is valued properly.

For example, our sample for disbursements test has two purposes – attributes testing and control testing. An example of attribute testing is looking to see if the amounts posted to the general ledger agree to the invoices and canceled checks. In addition, since disbursements have potential for fraud and defalcation, we would select additional items to test by looking for any suspect or significant transactions that may appear to be out of place in your detailed general ledger.

Therefore, for our disbursements process testing, we may randomly select 30 items based on the results of a random number generator and select another 20-30 items by scanning the detailed general ledger. This results in an overall sample of 50-60 invoices to confirm compliance with board-approved procedures.

Our sample sizes will be determined based on the objective of the test, the population to be sampled and the risk associated with that population. The sample size will also depend on the size of the population and the purpose of the test and whether or not we will be able to properly stratify populations into individually significant and individually insignificant items.

- F. Approach to be taken to document and gain an understanding of the Agency's internal control structure – as part of our initial planning, we will forward internal control questionnaires to Agency personnel to complete for the audit. Once complete, we will review the questionnaires and compare them against established Agency procedures (purchasing procedures, fixed asset purchases, cash and check collections, etc.). We will then proceed to audit each area of internal controls that will materially affect the audit. We would expect that we would audit

Specific Audit Approach (continued)

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SPECIFIC AUDIT APPROACH (continued)

controls over disbursements and purchasing, fixed asset inventory procedures, billing procedures, cash handling procedures, payroll, and budgeting.

- G. Approach to determine laws and regulations subject to audit test work – we will examine grant agreements and other items and determine the effect on the Agency and audit them, if considered necessary. We will pay close attention to federal grants received as they have a high risk of being audited by the pertinent federal agency.
- H. Risk assessments – we are required by generally accepted auditing standards to assess the risks of material misstatement and fraud as part of our planning. After gaining an understanding of internal controls and evaluating potential weaknesses through our preliminary analytical procedures we will assess which areas of the audit we consider to carry more risk than others. Our audit will then focus on the areas of higher risk so we can effectively mitigate the risk of material misstatement.
- I. Random tests – we would conduct a number of random tests on a year-to-year basis to determine the functionality of controls inside of the Agency. We would conduct full walk-throughs, randomly selecting a sample of customers and tracing all their payments into the system over the course of a year. It is our audit philosophy that any potential area of weakness that we discover will be audited by a specifically designed test.
- J. Due to the unique nature of the Agency's enterprise fund activities (being in the business of water distribution services), we would conduct special procedures to address the activities of the Agency and trace payments received from irrigation, recharge fees to verify revenues were received properly.

3. Field work procedures:

We anticipate conducting 5 days of fieldwork in the initial year. We anticipate conducting no less than 4-5 days of fieldwork in the following years.

Specific Audit Approach (continued)

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4. Post-field work activities:

It is our experience that there are usually open items in audits upon wrapping up field work. This phase of the audit would be dedicated to resolving any open items and to be sure we obtained all requested confirmations from third parties. We would also obtain a signed representation letter from the Agency (after the Agency reviewed the financial statements and any proposed adjusting journal entries), and a signed attorney letter from Agency counsel that would confirm or explain any pending litigation against the Agency and the effect on the audited financial statements.

5. Report finalization and final analytical procedures:

During this phase of the audit we would finalize the financial statements. Prior to finalizing the statements, however, we would perform final analytical procedures that would again compare current year results to prior year results and budgetary expectations to actual results. By performing these tests subsequent to the audit work an additional level of assurance is provided to make certain financial statements are free of potential material misstatement(s).

6. Report delivery and board of directors' presentation:

Our commitment to you is to deliver the report in person to the board of directors and be present at a board meeting in order to answer questions that the board may have. We feel that by fulfilling this commitment, better communication exists between our firm and your organization and the board can feel confident and comfortable with any questions or issues that may arise during the year. As we stated in our transmittal letter, we absolutely commit to providing you the final reports in a timely manner otherwise we will bill just 75% of the total proposed fee.

Specific Audit Approach (continued)

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Audit Task	Timeline
Preliminary conference Determine interim work to be done	September 2014
Initial planning and audit planning Prepared-by-Agency list Information from bankers, attorneys Prior year's statements	September 2014
Preliminary analysis Report preparation Cash and other confirmations Internal controls	
Information gathering Statistical sampling and testing Revenues and disbursements Internal controls Laws and regulations Risk assessment Functionality testing	October 2014
Progress conference	
Entrance conference	December 2014
Fieldwork: 4 – 5 days Cash deposits Internal control of disbursements Payroll Revenues Inventory control Billing and collections Unrecorded liabilities	
End-of-fieldwork conference	December 2014
Draft reports	December 2014
Final report Signed auditor's opinion Board of Directors presentation	January 2015

The following audits would follow the same timeline, unless during the course of services a time adjustment is prudent and more effective.

Resumes

Detailed resumes are available upon request

Craig R. Fechter, CPA

Fechter & Company, Certified Public Accountants

Classification: President

Years of Experience: 11 years

Mr. Fechter is the president of the firm: Fechter & Company, Certified Public Accountants.

Academic Background:

Mr. Fechter received his Bachelor's degree from California State University, Sacramento in 2001 with an emphasis in accountancy.

Mr. Fechter completed his Masters in Taxation through Golden Gate University in August of 2012.

Professional Certifications/Affiliations:

- Certified Public Accountant
- Adjunct Professor of Accounting, U.C. Davis Extension
- Executive Committee, Big Brothers/Big Sisters organization of Sacramento (past Finance Committee chair)
- Member California Society of Certified Public Accountants
- Member American Institute of Certified Public Accountants
- Scoutmaster, Boy Scouts of America Troop 320
- San Juan Unified School District, Finance Committee
- Immediate Past Finance Committee chair, San Juan Education Foundation

Relevant Experience:

Mr. Fechter graduated from California State University, Sacramento in 2001 and has worked for two regional CPA firms since graduation. During college, Mr. Fechter worked for a local sole practitioner. Mr. Fechter has performed financial statement audits of numerous counties and local governmental agencies, including other special districts. He has performed these audits in the capacity of both a staff, lead auditor and engagement partner.

Financial Statement Audits:

Mr. Fechter has participated in the following audits in the capacity of engagement partner:

Resumes (continued)

Detailed resumes are available upon request.

Clients:

- Quincy Community Services District (water/wastewater)
- Sunrise Recreation and Park District
- Arden Manor Recreation and Park District
- Sylvan Cemetery District
- El Dorado Hills Community Services District
- Olivehurst Public Utility District (water/wastewater & CFDs)
- Stanislaus Consolidated Fire Protection District
- Bayshore Sanitary District (wastewater)

References for these clients, who worked exclusively with Mr. Fechter, are available upon request.

Single Audit Act Compliance Audits:

Mr. Fechter has participated in the following single audits in the capacity of lead auditor:

- Marin County
- MAAP, Inc.
- San Joaquin County
- Stanislaus County
- Sierra County
- San Luis Obispo County
- Lassen County

Continuing Professional Education:

Mr. Fechter attends annual courses on the Governmental Accounting & Audit Update. He recently completed a course on implementation of the new Auditing Standards (SAS 108-114). Mr. Fechter currently serves on the UC Davis Extension's accounting Advisory Board and teaches a course, that also serves as a CPE source for him.

Mr. Fechter is an accomplished public speaker and published author. Mr. Fechter has taught CPE courses for the American Society of Women Accountants (Sacramento chapter) and has published accounting related articles for Comstocks Business magazine and the Sacramento District Dental Society's Nugget magazine.

Resumes (continued)

Detailed resumes are available upon request

Scott German, CPA

Fechter & Company, Certified Public Accountants

Classification: Partner

Years of Experience: 20

Mr. German is partner in the firm: Fechter & Company, Certified Public Accountants.

Academic Background:

Mr. German received his Bachelor's of Science in Accounting from California State University of Sacramento.

Professional Certifications/Accomplishments:

- Certified Public Accountant
- California Hospice Association, Board Member and Treasurer
- Treasurer, St. Francis of Assisi Catholic Elementary School Parent Club and School Advisory Commission

Relevant Experience

KPMG Peat Marwick:

Audit Manager (6 years)

Provided audit and business consulting to real estate, construction, and non-profit clients. Representative clients include California Dental Association, American Red Cross, United Way.

California's Optometric Association:

Director of Business Services

Acted as chief financial officer, human resources and general business manager. Oversight for financial reporting for 5 related entities and liaison for one for-profit wholly owned subsidiary.

California Association for Coordinated Transportation

Contract Chief Financial Officer, assisted with budgets, grant proposals and cost allocations for contacts with the State of California.

Resumes (continued)

Detailed resumes are available upon request.

Fechter & Company, CPAs

Mr. German is a partner in the Firm and has been with the Firm for two years. Mr. German is the lead partner on the Sylvan Cemetery District Engagement.

Continuing Professional Education

Mr. German has taken a variety of accounting & auditing related courses, the most pertinent of which is the annual Governmental Accounting & Auditing Update published by the American Institute of Certified Public Accountants.

Resumes (continued)

Detailed resumes are available upon request.

David W. Fechter, CPA

Fechter & Company, Certified Public Accountants

Classification: Audit Senior

Years of Experience: 35

Mr. David Fechter is an audit senior in the firm: Fechter & Company, Certified Public Accountants.

Academic Background:

Mr. Fechter received his Bachelor's of Science in Business Management from California State University of Sacramento in 1971.

Professional Certifications/Accomplishments:

- Certified Public Accountant
- Enrolled Agent

Relevant Experience

Californication Department of Health and Human Services:

Audit Manager (33 years)

Coordinated reviews of Medi-Cal care audit reports conducted in conformance with the Yellow Book, responsible for supervising 8 auditors in the performance of the reviews. Mr. Fechter had responsibility to coordinate and complete the audits, appeals and finalization.

Fechter & Company, CPAs

Senior Auditor (2 years)

Conducted a variety of audits in accordance with the yellow book and governmental auditing standards.

Participated in fraud investigations.

References

Additional references are available upon request

Bayshore Sanitary District (wastewater)

Scope of audit work: Fechter & Company, CPAs was engaged to provide a financial statement audit for the Bayshore Sanitary District under Government Auditing Standards and OMB A-133. Size of general fund budget – 2.5 million. The agency has one finance staff.

Services provided: Audit of the GASB 34 financial statements, management letter and report on internal control structure, and preparation of annual report of financial transactions of special districts.

Engagement partner: Craig R. Fechter, CPA

Contact information:

Joann Landi, Finance Director
36 Industrial Way
Brisbane, CA 94005
1-415-467-1144

Lakeside Fire Protection District

Scope of audit work: Fechter & Company, CPAs was engaged to provide a financial statement audit for the Lakeside Fire Protection District under Government Auditing Standards and OMB A-133.

Services provided: Audit of the GASB 34 financial statements, management letter and report on internal control structure, and preparation of annual report of financial transactions of special districts.

Engagement partner: Craig R. Fechter, CPA

Contact information:

Robert Schiwitz, Administrative Officer
Lakeside Fire Protection District
12365 Parkside Street
Lakeside, CA 92040
619-390-2350 x310

References (continued)

Additional references are available upon request

East Contra Costa Irrigation District

Scope of audit work: Fechter & Company, CPAs was engaged to provide a financial statement audit for the East Contra Costa Irrigation District under Government Auditing Standards and OMB A-133.

Services provided: Audit of the GASB 34 financial statements, management letter and report on internal control structure, and preparation of annual report of financial transactions of special districts.

Engagement partner: Craig R. Fechter, CPA

Contact information:

Pat Corey, District Manager
1711 Sellers Avenue
Brentwood, CA 94513
925-634-3544

Compensation

The cost proposal is as follows.

COMPENSATION:

The below fee quote is for the general financial statement audit, state controller's report preparation, and all other services listed in this proposal and the Agency's request for proposal:

Total Maximum Fee, Fox Canyon Groundwater Management Agency Audit: \$ 6,800

The above fee quote is a fixed price to be charged for all services rendered in connection with the audit. Our best understanding is that the following must be performed – performing auditing standards under GASB standards, preparing the financial statements, and preparation of the Special Districts financial transactions report as required by the California State Controller. We will default to what the request for proposal defines as needed services should any questions arise.

We recognize the Agency may wish to have the option to extend the contract by an additional two years and we accordingly implicitly agree to this two-year extension, should the Agency so choose. Fees for audits in the following years are estimated to increase by approximatley 2.5% per year, sufficient to cover a cost of living increase.