

# ***San Geronio Pass Water Agency***

**DATE:** June 27, 2022  
**TO:** Board of Directors  
**FROM:** Lance Eckhart, General Manager  
**BY:** Tom Todd, Jr., Chief Financial Officer  
**SUBJECT: Auditor Selection**

## **RECOMMENDATION**

The Board authorize a contract with the firm of Nigro & Nigro to perform auditing services beginning with FY 2021-22.

## **BACKGROUND**

Audited financial statements are a key component of the Agency's overall plan of financial accountability. They are required by the State of California and are supplied to Riverside County, but more importantly, assure the Board and the public that the information being presented on a monthly and quarterly basis accurately reflects the financial position and condition of the Agency.

By Agency policy, the Agency must change auditors every five years. This is designed to assure the independence of audit reports, a key component in unbiased audits. State law also requires regular changes in auditors but offers other alternatives in this regard.

The firm of Eadie & Payne was selected in 2017 and has served as the Agency's auditors for the last five years. Staff have had an excellent working relationship with Eadie & Payne, and Staff and the Board were very pleased with the work product.

## **ANALYSIS**

From past experience, the process of selecting an auditor has been a Staff-managed process. Because Staff are tasked with providing all the documentation necessary to complete the audit and have the required knowledge and experience to interact with the auditing firm, Staff are also tasked with managing the selection process. Because the auditors report directly to the Board, the final authorization of an auditing firm is the Board's responsibility.

The selection process generally follows these steps. First, a list is made of potential auditors. Names of potential auditing firms come from a variety of sources:

- Review of auditing firms not used in previous auditing cycles
- Any communication from potential auditing firms in the last five years
- Recommendations from finance staff from other similar organizations
- Review of auditing firms used in previous auditing cycles
- Review of auditing firms used by other similar organizations

This list is reviewed by Staff. Any information available is used to add or eliminate firms until a final list of potential auditors is assembled.

Next, the firms on the list are contacted to determine if they are interested in performing an audit and who to contact within their firm if they are. This usually results in names being deleted from the list, as firms do not respond to our inquiry, or say they do not want to consider performing an audit for the Agency, usually because they are not accepting new clients.

Then, a Request for Proposal is created, which provides the potential auditing firm with the specifications that must be met by the auditing firm in order to be selected. The RFP is sent to the list of firms on the finalized list. If a firm asks for additional information, the answers to any questions are sent to all the firms that have received an RFP.

The RFP has a specified deadline for response, and when the deadline has passed, no more RFPs are accepted. The RFPs are reviewed by Staff and ranked, and a selection is proposed. Depending on circumstances, additional information can be requested, or references can be called.

Staff have made some general observations about the process of selecting an audit firm in Southern California in 2022:

- While there are many firms that are qualified to perform financial audits, the number of firms that specialize in public agency audits is much smaller
- The number of firms that deal with special districts, and water agencies in particular, is even smaller
- There are only a handful of firms that have experience in dealing with the issues related to the State Water Project
- New pronouncements from the Governmental Accounting Standards Board (GASB) have increased the complexity of performing audits

For this audit cycle, Staff started with a list of sixteen potential auditing firms. Of those, ten were eliminated because they did not want to be considered, had merged with another firm, did not respond, or some other reason. Six firms received RFPs, and three firms responded with proposals.

Staff recommends the firm of Nigro & Nigro to perform auditing services starting in the current fiscal year, FY 2021-22. As stated in the RFP, the initial contract is for three years, with an extension for an additional two years if Staff is satisfied with their interaction and work product. The contract can be terminated if necessary after the first year or any subsequent year.

Staff recommends Nigro & Nigro for the following reasons:

- Submitted a timely proposal that met all the criteria in the RFP
- Has over 25 years of experience with auditing State Water Project contractors
- Displayed excellent customer service
- References responded positively about their interaction with the firm's staff
- Tied with one other firm for the lowest price
- Proposes to perform the audit for the same price for the next four years

### **FISCAL IMPACT**

Annual auditing services are part of every General Fund budget. For FY 2022-23, \$23,000 has been budgeted for Accounting and Auditing. For FY 2021-22, the Agency spent \$21,100. Nigro & Nigro proposes a fee of \$19,500 for FY 2022-23 and subsequent years.

Note: the audit is always performed after the end of the fiscal year, so the payments for an audit fall into the next fiscal year.

### **ACTION**

The Board authorize a contract with the firm of Nigro & Nigro to perform auditing services beginning with FY 2021-22.

### **ATTACHMENTS**

Proposal for Professional Auditing Services from Nigro & Nigro  
Engagement Letter

**PROPOSAL FOR PROFESSIONAL AUDITING SERVICES  
San Geronio Pass Water Agency**

**For the Fiscal Years Ending  
June 30, 2022-2024  
(with option for two subsequent years)**

**NIGRO & NIGRO<sup>PC</sup>**

***Respectfully Submitted on May 12, 2022 by:***

Paul J. Kaymark, CPA

Nigro & Nigro, PC

pkaymark@nncpas.com

Federal Tax ID: 30-0636241

Nncpas.com

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**Walnut Creek:** 2121 N. California Blvd. #290, Walnut Creek, CA 94596 • P: (844) 557-3111 • F: (844) 557-3444

*Let's Work Together!*



*By applying our financial expertise,  
we partner with our clients to build  
valuable relationships that inspire success.*

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May 12, 2022

Thomas W. Todd, Jr.  
Chief Financial Officer  
San Geronio Pass Water Agency  
1210 Beaumont Ave.  
Beaumont, CA 92223

Dear Mr. Todd,

Thank you for the opportunity to submit this proposal to continue providing audit services for the San Geronio Pass Water Agency. Our understanding of the work to be done is: the annual audit of the Agency's financial statements for the fiscal years ending June 30, 2022-2024, with an option to extend for two additional years. Based on our history with water agencies, I believe our firm would be a great fit, and we would develop a great working relationship. Our staff works hard to help ensure our audits are completed with the highest level of service and meet all deadlines.

Currently, our current State Water Project clients are as follows:

Palmdale Water District, Littlerock Creek Irrigation District and Calleguas Municipal Water District

Although many people think that all water agencies function in the same manner, we know that's not the case. The audit leadership team we've assigned to your agency, including myself, will take the time to learn the intricacies of your organization. We find that by delving deep into our client's structure and operations we are able to make recommendations that are not only useful, but also practical to implement.

At Nigro & Nigro, PC, our greatest strengths correspond to your most critical needs; we possess the full spectrum of resources needed to most effectively help the Agency's management team and Board members meet their goals – all at a very competitive rate. We believe we are your best choice.

- **Credibility, Reputation, and Resources of a Large Firm** without sacrificing the small-firm touch. Our CPAs and consultants can help you analyze and address financial, operational, and regulatory issues so you can focus attention on serving your citizens. We were originally formed in 1999, and now perform annual audits for approximately 80+ public agencies annually.
- **State-Wide Reach with Local Presence.** At Nigro & Nigro, we have the benefit of having the resources of a state-wide firm while serving you from our Murrieta office. We also have an office in Walnut Creek for additional resources.
- **Efficiency.** Our use of portal software allows you to upload audit documentation at any time, which will minimize disruption to your staff and enable timely completion of all deliverables.

- **An Efficient and Effective Work Plan.** We currently serve over 80+ governmental entities state-wide, which enables our staff to understand the scope of the audit. We also understand the Agency's complexities, not just from a compliance standpoint but also from an operational point of view. We have developed an effective work plan that takes into consideration your needs for high quality audit services, as well as timely deliverables. As a result of our efficient work plan, we commit to meeting your deadlines to complete our auditing services within the time period you specify.
- **Thought Leadership.** Members of our firm have been actively involved as presenters in numerous industry conferences and programs, including the GFOA, CSDA, and CSMFO. We have incorporated our experience with these committees into our audit framework.
- **Engagement Team.** We know that quality people drive quality results, which is why our commitment to you starts with the engagement team members who are selected based on their experience, focus on serving local government agencies, and who are the best fit for you. Each of the Agency's engagement team members have completed and exceeded the mandatory requirement for continuing professional education hours as requested in the RFP. Paul Kaymark, Partner, will be the main contact for the Agency regarding this project.
- **A Focus on Providing Consistent, Dependable Service to Government Entities.** Nigro & Nigro is organized by industry, affording our clients with industry-specific expertise supplemented by valuable local service and insight. Therefore, the Agency will enjoy the service of members of our Governmental Audit Services Team who have experience with similar governmental entities and understand the issues and environment critical to you. You will not have to train our auditors.

You may have many options in selecting a professional audit firm. By choosing Nigro & Nigro, you will gain value-added accounting and operational insights. We are the right fit for the Agency, as we have the expertise and depth of resources within our firm to offer you exceptional service while maintaining a sincere and honest relationship. We understand the work, we are committed to meeting your deadlines, and we would like the opportunity to continue to be your auditors. We also commit to meeting or exceeding your expectations.

Thank you once again for the opportunity to present our qualifications. If you have any questions about our offerings, please do not hesitate to contact me.

Sincerely,



Paul J. Kaymark, CPA  
Audit Services Partner





## LICENSE TO PRACTICE IN CALIFORNIA

The Firm and its entire CPA staff hold licenses to practice in the State of California. The Firm's CPA's are all members in good standing with the California Society of CPA's and the AICPA. We will assign a California licensed CPA as the auditor in charge of the audit.

## PROFILE OF THE FIRM

### Statement of Independence

Our standards require that we be without bias with respect to your operations. The Firm is independent of all entities listed in the RFP, as defined by auditing standards generally accepted in the United States of America and the U.S. General Accounting Office's "Governmental Auditing Standards". In addition, the Firm shall give the Agency written notice of any relevant professional relationships entered into during the period of this agreement.

### Experience

Nigro & Nigro team members are highly trained in governmental accounting and auditing, which sets us apart as being able to add value beyond the basic attest engagement. We are comfortable working with clients of various sizes. Within the past five years, we have worked with numerous governmental clients with revenues ranging from \$200,000 to over \$300 million.

Prior to any audit engagement, our engagement team leader will meet with the Board, Audit Committee and Management to gain a full understanding of the philosophy, objectives and policies for operating the organization, as well as to discuss significant business, regulatory and accounting matters that will affect the audit. At the conclusion of the audit, we will communicate the results of the audit with the Board, Audit Committee and Management.

Areas of specialization include:

- Audit and Review Services
- Government Auditing Standards & Single Audits
- Annual Report of Financial Transactions
- Agreed Upon Procedures Engagements
- Comprehensive Annual Financial Report (CAFR) development

# PROFILE OF THE FIRM (CONTINUED)

## Size of Our Firm

Firm-wide, we have the following staffing for our governmental audit services:

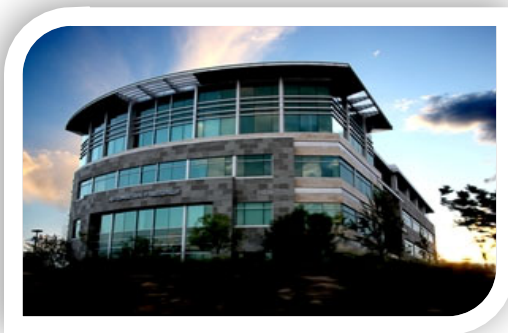
| Position              | Number of Employees | Number of Licensed CPA's |
|-----------------------|---------------------|--------------------------|
| <b>Partner*</b>       | 6                   | 6                        |
| <b>Senior Manager</b> | 1                   | 1                        |
| <b>Manager</b>        | 3                   | 1                        |
| <b>Supervisor</b>     | 1                   | -                        |
| <b>Senior</b>         | 5                   | 1                        |
| <b>Associates</b>     | 6                   | -                        |
| <b>Support Staff</b>  | 3                   | -                        |
| <b>Total</b>          | <b>25</b>           | <b>9</b>                 |

*\*Although the term "partner" is used throughout this proposal to avoid confusion, the firm is organized as a Professional Corporation, and the firm's owners are "shareholders."*

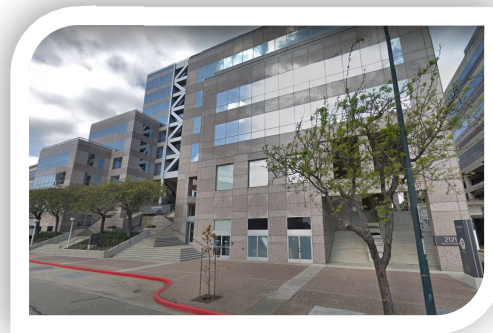
## Size and Location of Offices

The firm was originally established in 1999. In 2013, we opened our second office in Northern California in order to better serve our growing client base of agencies in the San Francisco Bay Area. The Firm now has five partners and a professional staff of 18 accountants and expects to add more in the coming years as we continue to grow. We are a full service firm, providing audit and review, tax, consulting, and accounting services to local government, non-profit organizations, charter schools, commercial businesses and homeowners' associations. The office serves clients of all sizes and industries, however, we focus on government agencies, just like yours.

*We are prepared to do what it takes to provide the extra level of service required to maintain a long-term business relationship.*



MURRIETA OFFICE



WALNUT CREEK OFFICE

## Range of Activities Performed

- Consulting and other services for numerous other agencies and not-for-profits
- Tax services for individuals, corporations, and non-profit organizations

## PROFILE OF THE FIRM (CONTINUED)

### Peer Review

Our firm's most recently issued peer review report can be found under the "Additional Documents" section of the proposal. A firm can receive a "Fail", "Pass with Deficiencies", or a "Pass" rating. The firm's most recent peer review report rating was a Pass. This rating indicates that the firm's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects. As required by our membership in the Government Audit Quality Center (GAQC), the peer review included a selection of a sample of governmental audit engagements.

### Meet Your Audit Leadership Team

Listed on the following pages are the resumes of the management team that will be assigned to your audit. As mentioned previously, our staff members have considerable governmental audit experience. This gives us a pool to draw on in addition to the group listed.

| Name                        | Role             | Years of Experience in Audits |
|-----------------------------|------------------|-------------------------------|
| <b>Paul J. Kaymark, CPA</b> | Lead Partner     | 27                            |
| <b>Peter Glenn, CPA</b>     | Review Partner   | 13                            |
| <b>Jared Solmons, CPA</b>   | Audit Manager    | 4                             |
| <b>Stacy Macias</b>         | Audit Supervisor | 3                             |
| <b>Anabel Cruz, CPA</b>     | Audit Senior     | 2                             |

# Paul J. Kaymark, CPA

## Lead Audit Partner

Paul joined the firm in 2019 and has more than 26 years of previous public accounting and auditing governmental entities experience. Paul is our choice for new governmental audit clients, having extensive experience in the areas of governmental entities. His main responsibilities include assistance in the preliminary planning of audit work, review of assistants' work, and performing audit procedures in more complex audit areas.

### Audit Services:

Mr. Kaymark has been working on audit engagements of governmental agencies, not-for-profit organizations, as well as for-profit corporations and companies. His previous experience includes audit and consulting work for large and small businesses with a focus on client service. Paul strives to build strong relationships with his clients by assisting them with any emerging issues and being available as a resource.

### Consulting Services:

Mr. Kaymark has experience in a variety of governmental issues, garnered from his auditing experience over the years. He regularly consults with clients in areas of:

### Special District Accounting:

- Internal controls
- Financial reporting
- Annual report of financial transactions

### Financial Reporting:

- Year-end closing procedures
- Cash flows
- Budget development and projections
- Multi-Year projections
- Pension and OPEB accounting

### Some Agencies Served:

- Palmdale Water District
- Mojave Water Agency
- Western Municipal Water District
- El Toro Water District
- East Orange County Water District
- Trabuco Canyon Water District



**California Special Districts Association**

*Districts Stronger Together*

**CSDA Workshop Speaker**



### Education:

Bachelor of Science, Business Administration, Accountancy  
California State University, Long Beach  
1994

### Licenses and Certifications:

- Certified Public Accountant, California
- GFOA Certificate for Excellence in Financial Reporting - Reviewer

### Professional Affiliations:

- Government Finance Officers Association (GFOA)
- California Society of Municipal Finance Officers (CSMFO)
- California Special District Association (CSDA)

### Continuing Education:

Various municipal accounting courses offered by the AICPA, CalCPA Education Foundation including:

- Governmental and Nonprofit Annual Update
- GASB Basic Financial Statements for State and Local Governments
- Single Audits: Uniform Grant Guidance (formerly OMB Circular A-133)
- Financial Accounting Standards Board Annual Updates



**Water and Wastewater Clients Audited and/or Consulted With Over My Career**

**Water and Wastewater**

Metropolitan Water District of Southern California  
Los Angeles County Sanitation District  
Long Beach Water Department  
Glendale Water and Power  
Colton Public Utilities  
Baldy Mesa Water District  
Bear Valley Community Services District  
Beaumont-Cherry Valley Water District  
Big Bear City Community Services District  
Cabazon Water District  
California Domestic Water Company  
Casitas Municipal Water District  
Castaic Lake Water Agency  
Chino Basin Water Conservation District  
Chino Basin Watermaster  
Coachella Valley Water District  
Diablo Water District  
East Orange County Water District  
El Toro Water District  
Farm Mutual Water Company  
Golden Hills Community Services District  
Goleta Water District  
Hi-Desert Water District  
Inverness Public Utilities District  
Irvine Ranch Water District  
Joshua Basin Water District  
Jurupa Community Services District  
Leucadia Wastewater District  
Mesa Consolidated Water District  
Mojave Water Agency  
Monte Vista Water District  
Montecito Water District  
North Coast County Water District  
North Marin Water District  
Novato Sanitary District  
Palmdale Water District

**Water and Wastewater, continued**

Phelan Pinon Hills Community Services District  
Pomona Valley Protective Agency  
Purissima Hills Water District  
Rincon del Diablo Water District  
Rosamond Community Services District  
Rossmoor Los Alamitos Area Sewer District  
Sacramento Suburban Water District  
San Bernardino Valley Water Conservation District  
San Gabriel Valley Municipal Water District  
San Lorenzo Valley Water District  
Santa Ana Watershed Project Authority  
Santa Margarita Water District  
Saticoy Sanitary District  
Solano County Water Agency  
Soquel Creek Water District  
Stallion Springs Community Services District  
Summerland Sanitary District  
Trabuco Canyon Water District  
Tres Pinos Water District  
Triunfo Sanitation District  
Twentynine Palms Water District  
Vallecitos Water District  
Valley County Water District  
Ventura Regional Sanitation District  
Victor Valley Water District  
Victor Valley Wastewater Reclamation Authority  
Victorville Water District  
Water Facilities Authority - Joint Power Agency  
Water Replenishment District  
West County Agency  
West County Wastewater District  
West Valley Water District  
Westborough Water District  
Western Municipal Water District  
Western Riverside County Regional Wastewater  
Yorba Linda Water District

# Peter Glenn, CPA

## Review Partner

Peter joined the firm in 2011 after nearly three years of previous public accounting and auditing experience. Peter will work under the general direction of the partner. Peter is our choice for new governmental audit clients, having successfully worked on each of the Firm's clients since beginning with the Firm. His main responsibilities include assistance in the preliminary planning of audit work, review of assistants' work, and performing audit procedures in more complex audit areas.

### Audit Services:

Peter Glenn began his auditing career with Nigro & Nigro in 2011, participating in audits of special districts, LEAs, other governmental audits, and agreed-upon procedure engagements. Prior to joining the firm, he worked for three years at another public accounting firm, developing his auditing skills. He has previously been the in-charge accountant for some of the firm's largest clients.

### Consulting Services:

Mr. Glenn has experience in a variety of governmental accounting issues, derived from his auditing experience at the firm. He regularly consults with clients in areas of:

### Special District Accounting:

- Internal controls
- Financial reporting & GASB 34
- Annual report of financial transactions

### Financial Reporting:

- Uniform Guidance
- Performance Audits
- Year-end closing procedures
- Cash flows
- Budget development and projections
- Multi-Year projections

### Other Agencies Served:

- Riverside County Open Space and Park District
- Cahuilla Band of Indians
- Central Basin Municipal Water District
- Murrieta Valley Cemetery District
- Elsinore Valley Cemetery District
- Alamo-Lafayette Cemetery District
- Bodega Bay Fire Protection District
- Los Angeles Harbor Cemetery District



### Education:

Bachelor of Science, Business Administration, Accounting  
California State University,  
San Marcos, 2008, Magna Cum Laude

### Licenses and Certifications:

- Certified Public Accountant, California

### Continuing Education:

- CASBO Annual Conference
- SSC Finance & Management Conferences
- Government Accounting & Auditing Conference
- In-house training for audit staff (presenter)



# Jared Solmosen, CPA

## Manager

Jared joined the firm in 2019 as a Staff Accountant. After completing his degree, Jared went to work for a midsize construction company where he worked as an estimator and project manager before transitioning into more of an accounting and finance role. It was working in this role that led him to the decision to pursue the goal of becoming a Certified Public Accountant. He continues to hone his skills and expand his knowledge as he branches out into different areas of accounting services and working with various governmental agencies and not-for-profit organizations. Jared will work under the general supervision of the partner and oversee staff as they work together through different audit areas.



### Audit Services:

Jared began his career with Nigro & Nigro working on LEA audits before transitioning to focus on special districts and not-for-profit organizations. He focuses on a customer-oriented approach to auditing, striving to build strong relationships by working with clients to help them navigate the ever-changing world of accounting rules and standards.

### Consulting Services:

Jared has experience with a variety of governmental and not-for-profit accounting issues, as well as other tax and audit concerns, derived from his audit and consulting experience at the firm. He regularly consults with clients in the areas of:

### Special District Accounting:

- Internal control policies, procedures, and best practices
- Year-end closing procedures
- Capital asset and depreciation schedule

### Financial Reporting:

- Federal and state compliance
- Single audits
- Revenue and expense tracking by program/grant
- Statement of functional expense
- Compiling financial statements
- Disclosure requirements

### Other Agencies Served:

- Palmdale Water District
- Scotts Valley Water District
- Oxnard Harbor District
- Big Bear City Airport District
- Pauma Valley Community Services District
- North County Fire Protection District
- San Gabriel Valley Mosquito & Vector Control District
- Ventura County Resource Conservation District
- Tehachapi Valley Recreation & Park District
- Murrieta Valley Cemetery District

### Education:

Bachelor of Science, Business Administration, Finance  
California State University,  
San Marcos, 2013

### Licenses and Certifications:

- Certified Public Accountant, California

### Continuing Education:

- AICPA webinars and CPE
- California Special Districts Association Conference
- Spidell Tax Seminar
- In-house training for audit staff (presenter)

### Additional Areas:

- Tax preparation
- QuickBooks knowledge

# Stacy Macias

## Supervisor

Stacy joined the firm in 2018 as a staff accountant after completing her degree at California State University, Chico and has worked her way up to Senior Accountant. Stacy has worked in a variety of the firm's audit and tax departments. Stacy continues to expand her knowledge as she branches out into different areas of accounting services and working with varying governmental and not-for profit clients. Stacy will work under the general direction of the partner and oversee staff as they work together through different audit areas.

### Audit Services:

Stacy began her auditing career on audit engagements of local education agencies, charter schools, governmental agencies, and non-for-profit organizations. Stacy enjoys auditing governmental agencies and non-for-profit due to their varying structures and sizes. Stacy truly values customer service and building client relationships. Her friendly demeanor makes clients comfortable in reaching out to her during the audit process or throughout the year.

### Consulting Services:

Stacy has experience in a variety of governmental and not-for-profit accounting, tax, and audit concerns, derived from her audit and consulting experience those industries. She regularly consults with clients in the areas of:

### Financial Reporting:

- Year-end closing procedures
- Internal control policies and procedures and best practices
- Compiling Financial Statements
- Revenue and Expense tracking by program/grant
- Statement of Functional Expenses
- Capital assets and depreciation schedules
- Disclosure requirements
- Federal and State compliance

### Additional Areas:

- Tax preparation
- QuickBooks knowledge

### Other Agencies Served:

- Palmdale Water District
- Ventura County Conservation District
- Antelope Valley Resource Conservation District
- Rowland Water District
- North County Fire Protection District
- Bolinas Fire Protection District
- Bodega Bay Fire Protection District



### Education:

Bachelor of Science, Business Administration, Accounting  
California State University,  
Chico, 2018

### Licenses and Certifications:

- CPA License Candidate (expected licensure in 2022)

### Continuing Education:

- CalCPA Conferences for Governmental Accounting and Auditing and Not-for-profit Organizations
- Spidell Tax Seminar
- Western CPE Tax update webinars
- In-house training for audit staff (presenter)



# Anabel Cruz, CPA

## Audit Senior

Anabel began her career in public accounting in 2019 with Nigro & Nigro, PC. Previous to joining the firm, she worked as an Accountant at private sector companies. She has passed the CPA examination and is working towards meeting the requirements needed for licensure. Anabel's audit experience includes audits of governmental and not-for-profit organizations such as cemeteries, resource conservation districts, water Districts, fire Protection Districts and community Service Districts. Anabel values building quality relationships with clients while providing timely and reliable services. Anabel is working under the general direction of the Audit Supervisor.



### Audit Services:

Anabel has experience with a variety of governmental and not-for-profit accounting issues derived from her audit and consulting experience at the firm. She regularly consults with clients in the areas of:

### Consulting Services:

Anabel has experience in a variety of governmental and not-for-profit accounting and audit concerns, derived from her audit and consulting experience those industries. She regularly consults with clients in the areas of:

### Financial Reporting:

- Year-end closing procedures
- Agreed upon procedures
- Internal control policies and procedures and best practices
- Capital assets and depreciation schedules

### Other Agencies Served:

- Palmdale Water District
- North County Fire Protection District
- Ventura County Resource Conservation District
- County of San Bernardino ATC
- Winters Cemetery District

### Education:

Bachelor of Science, Finance and Accountancy  
California State University, Northridge,  
2014

### Licenses and Certifications:

- Certified Public Accountant, California

### Continuing Education:

- Government Accounting & Auditing Conference
- Not-For-Profit Organizations Conference
- In-house training for audit staff

## PROFILE OF THE FIRM (CONTINUED)

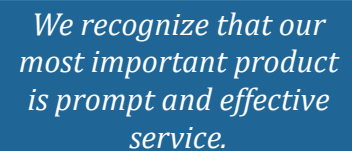
### Training & Resources

The Firm is committed to a continuing professional education program, which emphasizes the areas of expertise of each member of our professional staff. The Firm is required to comply with the *Government Auditing Standards* for each professional practicing in the area of governmental accounting and auditing. We are committed to follow those standards, which result in quality audit services, including continuing education for all staff of 60-80 hours each year, specifically in school districts and governmental auditing. As required by *Government Auditing Standards*, all governmental audit staff receives the required continuing education in the area of governmental auditing and accounting. These policies are monitored internally, reviewed annually and certified periodically by independent peer review.

Library facilities are maintained which include current professional literature and specific information for the industries that we serve. The Firm library is also reviewed as part of the external quality review program. The Firm has in-house training programs specific to our school district clients. We also perform auditing and accounting updates for our clients that are organized by our staff. These practices ensure the quality of our staff over the term of the engagement.

Our staff participates in activities relating to government accounting and reporting issues through our membership and involvement with the following organizations:

- a. American Institute of CPA's Governmental Audit Quality Center
- b. California Society of CPAs
- c. Government Finance Officers Association (GFOA)
- d. California Special Districts Association (CSDA)
- e. Government Accounting Standards Board (GASB)
- f. Association of Certified Fraud Examiners (ACFE)



*We recognize that our most important product is prompt and effective service.*

Through our participation in these organizations and continuing education provided by them, the Firm continues to stay abreast of all current governmental accounting and reporting issues. Some of the professional education our audit team members have either presented at or attended in the last two years include:

- SSC Annual Finance and Management Conference
- SSC Governor's Budget Workshop
- CSDA Annual Conference
- CSMFO Conference
- GFOA Annual Conference
- Various other governmental workshops

We recognize that our most important product is prompt and effective service. We believe the Agency should work with its CPA firm throughout the entire year. We are available at any time throughout the year to provide any assistance you may need.

## PROFILE OF THE FIRM (CONTINUED)

### Similar Engagements with Other Special District Water Districts

We currently conduct over 80+ government audits each year and have well rounded experience with local governmental agencies. We are excited for the opportunity to devote our attention to you and your specific needs. Below is a partial list of some similar governmental clients we have audited within the past three years.

|                            |   |
|----------------------------|---|
| <b>Organization Name:</b>  | <b>Scotts Valley Water District</b>             |
| <b>Contact Person:</b>     | Piret Harmon, General Manager                   |
| <b>Address:</b>            | 2 Civic Center Drive<br>Scotts Valley, CA 95066 |
| <b>Phone:</b>              | (831) 438-2363                                  |
| <b>Project(s):</b>         | CAFR - Financial Statement Audits               |
| <b>Date:</b>               | June 30, 2020                                   |
| <b>Total Hours:</b>        | 210   |
| <b>Engagement Partner:</b> | Paul J. Kaymark                                 |

|                            |  |
|----------------------------|--|
| <b>Organization Name:</b>  | <b>Rowland Water District</b>                    |
| <b>Contact Person:</b>     | Myra Malner, CPA, Director of Finance            |
| <b>Address:</b>            | 3021 Fullerton Road<br>Rowland Heights, CA 91748 |
| <b>Phone:</b>              | (562) 697-1726                                   |
| <b>Project(s):</b>         | Financial Statement Audits                       |
| <b>Date:</b>               | June 30, 2020                                    |
| <b>Total Hours:</b>        | 190  |
| <b>Engagement Partner:</b> | Paul J. Kaymark                                  |

|                            |   |
|----------------------------|---|
| <b>Organization Name:</b>  | <b>Trabuco Canyon Water District</b>              |
| <b>Contact Person:</b>     | Michael Perea, AGM                                |
| <b>Address:</b>            | 32003 Dove Canyon Dr.<br>Trabuco Canyon, CA 92679 |
| <b>Phone:</b>              | (949) 858-0277 x 121                              |
| <b>Project(s):</b>         | Financial Statement Audits                        |
| <b>Phone:</b>              | (949) 858-0277 x 121                              |
| <b>Date:</b>               | June 30, 2021                                     |
| <b>Engagement Partner:</b> | Paul J. Kaymark                                   |

|                              |                                       |
|------------------------------|---------------------------------------|
| <b>Organization Name:</b>    | <b>Palmdale Water District</b>        |
| <b>Project(s):</b>           | Financial Statement Audits            |
| <b>Dates Audited:</b>        | December 31, 2017-2020                |
| <b>Engagement Partner:</b>   | Paul J. Kaymark                       |
| <b>Firm Office Location:</b> | Murrieta, California                  |
| <b>Contact Person:</b>       | Dennis Hoffmeyer, Finance Manager/CFO |
| <b>Contact Phone Number:</b> | (661) 456-1021                        |

## SCOPE OF THE AUDIT

We will audit the basic financial statements of the Agency for the fiscal year ended December 31, 2021 in accordance with the following standards:

- Auditing Standards Generally Accepted in the United States of America
- *Government Auditing Standards*, issued by the Comptroller General of the United States
- Minimum Audit Requirements and Reporting Guidelines for Special Districts

Our audit will be for the purpose of expressing an opinion on the basic financial statements, and will include such auditing procedures as considered necessary to accomplish this purpose. We will also provide an "in-relation-to" opinion on any other supplemental information and statistical schedules. We anticipate issuing the following reports:

- Independent Auditors' Report on the basic financial statements.
- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

In addition, we will provide the Agency with a management letter that will give written appraisals of its accounting and related systems. This letter will identify any control deficiencies, significant control deficiencies or material weaknesses that are identified during the audit. We will work with management before audit fieldwork and during the course of the audit to assess internal controls and review mitigating controls in place in an effort to reduce the control deficiencies, significant control deficiencies and material weaknesses that need to be reported to management in writing, assuming there are mitigating controls in place. The letter will also offer recommendations for the elimination of weaknesses that we identify, and we will suggest any methods we discover to help improve efficiency and effectiveness.

We will schedule an appearance with the Board and the Audit Committee that allows an opportunity for us to present the audit and management letter. This is an excellent time for the Agency to resolve any questions it has regarding our audit or management letter. As mentioned earlier, the value in hiring our Firm comes from not only the audit, but from our experience and the education, we can provide. We hope that as questions or concerns arise throughout the year, the Agency staff will contact us and draw on our knowledge and experience.

Non-significant deficiencies discovered during the audit process shall be reported in a separate letter to management, the Board and the Audit Committee, which shall be referred to in the report(s) on internal controls. This separate letter also informs the Board and the Audit Committee of the following:

- 1) The auditor's responsibility under auditing standards generally accepted in the United States of America.
- 2) Significant accounting policies.
- 3) Management judgments and accounting estimates.
- 4) Significant audit adjustments.
- 5) Other information in documents containing audited financial statements.
- 6) Disagreements with management.
- 7) Management consultation with other accountants.
- 8) Major issues discussed with management prior to retention.
- 9) Difficulties encountered in performing the audit.

All working papers and reports will be retained at the Firm's expense for a minimum of seven (7) years, unless the Firm is notified in writing by the Agency of the need to extend the retention period.

## SCOPE OF THE AUDIT(CONTINUED)

### Segmentation of Engagement

#### ***STEP 1: Planning***

Our goal in preliminary fieldwork is to gain a thorough understanding of your internal controls, processes and procedures. Our goal is to accomplish as much interim fieldwork as possible so that our stay during final fieldwork is kept to a minimum. Our preliminary work focuses on planning and internal control documentation.

#### ***STEP 2: Interim Field Work***

##### **Internal Control Documentation**

Our internal control documentation usually occurs during interim fieldwork. Our documentation process will be as follows:

- 1) Gather or update documentation for significant processes defined in our preliminary fieldwork.
- 2) Perform a "walk-through" of these significant processes.
- 3) Ask "what can go wrong" questions.
- 4) Identify controls in place. This will include both preventative and detective controls.
- 5) Evaluate the design of internal controls.
- 6) Decide whether to test and rely on controls.
- 7) Summarize preliminary fieldwork and submit management letter of all areas of concern.

#### ***STEP 3: Final Fieldwork***

We assess risks, design procedures and obtain evidence to support financial statement amounts and disclosures during final fieldwork. Our Firm utilizes a methodology designed specifically for special districts. Our process emphasizes continuous communication with our staff.

##### **Assess Risks and Design Procedures**

As outlined in the risk based statements of audit standards (SAS 104 to 111), our Firm uses a risk-based approach to the audit. Our procedures to assess risks and design procedures are as follows:

- 1) Assess risk of material misstatement from errors or fraud based on internal controls combined with inherent risk of significant accounts.
- 2) Design procedures to test controls if considered necessary.
- 3) Design procedures to test details of account balances and classes of transactions based on risk.

##### **Interim and Year End Testing**

- 1) Perform tests of controls if considered necessary.
- 2) Perform tests of details of account balances and classes of transactions.
- 3) Evaluate quality and sufficiency of audit evidence.
- 4) Evaluate misstatements.

#### ***STEP 4: Audit Completion***

##### ***Preparation of Audit Report and Management Letter***

After reviewing the financial statements, notes and required supplementary schedules, we will agree the data to our working papers and provide a thorough review of all information by using written Firm standards and checklists. We will also review and incorporate any statistical data. This will verify appropriate presentation and disclosure. We will also at this time prepare our management letter that identifies financial trends and recommendations for improvement, reports required communications to the governing board, and discusses change in the environment in which the Agency operates.

## SCOPE OF THE AUDIT (CONTINUED)

### Proposed Schedule/Level of Staff & Number of Hours Assigned to Each Segment

We will provide a detailed audit plan and prepare a list of schedules upon proposal acceptance. The following table summarizes our proposed segmentation of the engagement by date, segment, and level of staff:

| Date/Segment  | Total Hours     |            |             | Total      |
|---|-----------------|------------|-------------|------------|
|   | Partner/Manager | Supervisor | Staff/Admin |            |
| <b>April/May</b>  |                 |            |             |            |
| Preliminary planning and fieldwork  | 12              | 8          | 10          | 30         |
| <b>May/June</b>   |                 |            |             |            |
| Interim fieldwork   | 20              | 12         | 15          | 47         |
| <b>September/October</b>  |                 |            |             |            |
| Final fieldwork, report preparation, review, finalization, and presentation | 38              | 25         | 50          | 113        |
| <b>Total hours</b>  | <b>70</b>       | <b>45</b>  | <b>75</b>   | <b>190</b> |
| <br>  |                 |            |             |            |
| Preliminary planning and fieldwork  | 12              | 8          | 10          | 30         |
| Control   | 20              | 12         | 15          | 47         |
| Substantive   | 24              | 15         | 40          | 79         |
| Reporting   | 14              | 10         | 10          | 34         |
|   | <b>70</b>       | <b>45</b>  | <b>75</b>   | <b>190</b> |

### Sample Size and the Extent to Which Statistical Sampling is to be Used

We perform sampling techniques and determine sample size after assessing the risk associated with specific transaction classes. No single “cookie-cutter” approach will be followed in regards to sampling techniques, but the Agency can be assured that an appropriate sampling methodology will be utilized. We use the following methods of sampling during our audits: statistical, haphazard, and judgmental. For statistical sampling we use guidance provided by the AICPA and by federal guidelines in accordance with industry standards, which typically recommends sample sizes between 40 to 60 items.

### Type and Extent of Analytical Procedures to be Used

We will perform analytical procedures throughout the course of our audit. Professional standards require that analytical procedures be performed in the planning and wrap-up stages of the audit. Analytical review will be used during our expenditure, revenue, budget information as well as many other areas.

These procedures typically entail a review of interim reports, budgets, and comparisons to prior year data. We also use financial statement amounts to calculate certain ratios to determine whether any unusual or unexpected relationships exist in the financial data.

These procedures are then followed by inquiry of key Agency personnel to corroborate the auditors' expectations based on the data.

## SPECIFIC AUDIT APPROACH (CONTINUED)

### **Approach to be Taken to Gain and Document an Understanding of Internal Control Structure(s)**

Our audit approach will entail interviews with key personnel in the Agency involved in the design and implementation of internal controls. In conjunction with the interviews, we will perform tests and observations of how well the controls function. Key areas of internal control generally include: cash receipting, accounts payable/purchasing, payroll/personnel, technology, facilities, and maintenance and operations.

### **Approach to be Taken in Determining Laws and Regulations That Will be Subject to Audit Test Work**

We are required to obtain an understanding of the possible financial statement effect of laws and regulations that have a direct and material effect on the determination of financial statement amounts. The determination of laws and regulations is addressed in the planning stage through reading available grant documentation, inquiry of the client, a preliminary review of finance system accounts and search of the Board minutes. We also have working knowledge of the types of laws and regulations under which California special districts operate. We also obtain further information about federal laws and regulations through the Catalog of Federal Domestic Assistance (CFDA) and the Uniform Guidance.

### **Approach to be Taken in Drawing Audit Samples**

Since each program or grant agreement is different, we use many different approaches to sampling in our tests of compliance. The size of the sample considers many factors; size and risk of the program, program maturity, complexity, level of oversight and prior audit findings. AICPA Guidelines generally recommend sample sizes of 25, 40, or 60 items when the population is greater than 250. Ultimately, our professional judgment determines that a representative number of transactions have been selected. You can be confident in our judgment because our peer reviews and an outside review by the U.S. Department of Education have all accepted our audit sampling techniques and procedures.

### **Use of Technology/Remote Proficiency**

In order to facilitate the exchange of data between us and our clients in a secured manner throughout the course of the audit, we employ the use of an online secured portal. Our clients have appreciated this unique and forward-thinking platform which helps minimize duplicate requests and unnecessary email and phone exchanges to request and receive audit documentation. The software is very user-friendly and easy to understand. This also allows us to perform much of the audit remotely without being onsite to reduce our carbon footprint.

## AUDIT FEES

| Professional  | Hours         | Rates     |           | Total               |
|---|---------------|-----------|-----------|---------------------|
|   |               | Standard  | Quoted    |                     |
| Partner   | 30.00         | \$ 175.00 | \$ 150.00 | \$ 4,500.00         |
| Manager   | 40.00         | 150.00    | 125.00    | 5,000.00            |
| Supervisor  | 45.00         | 125.00    | 100.00    | 4,500.00            |
| Senior  | 70.00         | 100.00    | 75.00     | 5,250.00            |
| Admin   | 5.00          | 75.00     | 50.00     | 250.00              |
| <b>Subtotal</b>   | <u>190.00</u> |           |           | 19,500.00           |
| <b>Out-of-Pocket - Included in Rates (We Are Local)</b> |               |           |           | -                   |
| <b>Total Max</b>  |               |           |           | <u>\$ 19,500.00</u> |

| Fiscal Year                | 2021-2022        | 2022-2023        | 2023-2024        | Total            |
|----------------------------|------------------|------------------|------------------|------------------|
| <b>Audit of Financials</b> | \$ 19,000        | \$ 19,000        | \$ 19,000        | \$ 57,000        |
| <b>State Controller's</b>  | \$ 500           | \$ 500           | \$ 500           | \$ 1,500         |
| <b>Total</b>               | <u>\$ 19,500</u> | <u>\$ 19,500</u> | <u>\$ 19,500</u> | <u>\$ 58,500</u> |

Same Price for FY 2025 and FY 2026

## ADDITIONAL INFORMATION

### Testimonial

"Few people have the opportunity to work with someone who was a coach and a mentor-but I did when I worked with Paul. I had the pleasure working directly under Paul's supervision and I was particularly impressed by his ability to handle even the toughest clients - and effortlessly. That skill often takes years to develop, but it seemed to come perfectly natural to him. Paul was one of those rare partners who also naturally serve as an inspiring mentor for the whole staff and I was grateful to learn a lot from him."

*Deana Miller  
Accounting Manager  
PolyCera, Inc.*

### Fraud Hotline



Throughout the audit process, we will make available our fraud hotline reporting service at no additional charge over the period of the contract to ensure the Agency has an effective anti-fraud program.





# **ADDITIONAL DOCUMENTS**



### Report on the Firm's System of Quality Control

To Nigro & Nigro, PC  
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Nigro & Nigro, PC (the firm) in effect for the year ended August 31, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

#### Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

#### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

#### Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

#### Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Nigro & Nigro, PC in effect for the year ended August 31, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency (ies)*, or *fail*. Nigro & Nigro, PC has received a peer review rating of *pass*.

June 11, 2021



June 27, 2022

Board of Directors and Mr. Lance Eckhart, General Manager  
San Geronio Pass Water Agency  
1210 Beaumont Avenue  
Beaumont, CA 92223

We are pleased to confirm our understanding of the services we are to provide the San Geronio Pass Water Agency (Agency) as of and for the year ended June 30, 2022.

### **Audit Scope and Objectives**

We will audit the business-type activities and each major fund of the Agency, as of June 30, 2022 and for the year then ended and the related notes, which collectively comprise the Agency's basic financial statements as listed in the table of contents of the financial statements.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and, if applicable, in accordance with *Government Auditing Standards*, and/or any state or regulatory audit requirements will always detect a material misstatement when it exists.

Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America, (U.S. GAAP,) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information (RSI) such as management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Proportionate Share of the Net Pension Liability
3. Schedule of Pension Contributions
4. Schedule of Changes in the Net OPEB Liability and Related Ratios
5. Schedule of OPEB Contributions

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA

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The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

1. Organizational Information
2. Schedule of Board of Directors and Insurance Coverage

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that the Agency is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Auditor Responsibilities**

We will conduct our audit in accordance with GAAS and in accordance with *Government Auditing Standards*. As part of an audit in accordance with GAAS and in accordance with *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
4. Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and in accordance with *Government Auditing Standards*.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

## Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the Agency's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

## Management Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- a) For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
- b) For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c) To provide us with:
  - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
  - ii. Additional information that we may request from management for the purpose of the audit;
  - iii. Unrestricted access to persons within the Agency from whom we determine it necessary to obtain audit evidence.
  - iv. A written acknowledgement of all the documents that management expects to issue that will be included in the annual report and the planned timing and method of issuance of that annual report; and
  - v. A final version of the annual report (including all the documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report.
- d) For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by us;
- e) For identifying and ensuring that the Agency complies with the laws and regulations applicable to its activities;
- f) For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
- g) For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- h) For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- i) For informing us of any known or suspected fraud affecting the Agency involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- j) For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility:

- a) for the preparation of the supplementary information in accordance with the applicable criteria;
- b) to provide us with the appropriate written representations regarding supplementary information;
- c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and

- d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management, written confirmation concerning representations made to us in connection with the audit.

### **Nonattest Services**

With respect to any nonattest services we perform,

At the end of the year, we agree to perform the following:

- a) Propose adjusting or correcting journal entries detected during the audit, if applicable, to be reviewed and approved by the Agency's management.
- b) Word process the financial statements using information provided by management.

We will not assume management responsibilities on behalf of the Agency. However, we will provide advice and recommendations to assist management of the Agency in performing its responsibilities.

The Agency's management is responsible for:

- a) making all management decisions and performing all management functions;
- b) assigning a competent individual to oversee the services;
- c) evaluating the adequacy of the services performed;
- d) evaluating and accepting responsibility for the results of the services performed; and
- e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the nonattest services are as follows:

- a) We will perform the services in accordance with applicable professional standards
- b) The nonattest services are limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries. Our firm will advise the Agency with regard to tax positions taken in the preparation of the tax return, but the Agency must make all decisions with regard to those matters.

### **Reporting**

We will issue a written report upon completion of our audit of the Agency's basic financial statements. Our report will be addressed to the Board of Directors of the Agency. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of Government Auditing Standards, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

## ***Preparation of State Controller Report***

### **Our Responsibilities**

The objective of our engagement is to prepare the annual Financial Transactions Report (FTR) in accordance with the California State Controller's Office Instructions based on information provided by you. We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion or provide any assurance on the FTR.

Our engagement cannot be relied upon to identify or disclose any FTR misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the Agency or noncompliance with laws and regulations.

### **Management Responsibilities**

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare the FTR in accordance with the State Controller's Office Instructions. Management has the following overall responsibilities that are fundamental to our undertaking the engagement to prepare your FTR in accordance with SSARs:

- a) The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements
- b) The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- c) The prevention and detection of fraud
- d) To ensure that the Agency complies with the laws and regulations applicable to its activities
- e) The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement to prepare financial statements
- f) To provide us with:
  - i. Documentation, and other related information that is relevant to the preparation and presentation of the financial statements,
  - ii. Additional information that may be requested for the purpose of the preparation of the financial statements, and
  - iii. Unrestricted access to persons of whom we determine necessary to communicate.

As part of our engagement, we will issue a disclaimer that will state that the FTR were not subjected to an audit, review, or compilation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

### **Engagement Fees**

Our fixed fees for the services previously outlined will be as follows:

|  |                 |
|--|-----------------|
| Financial Statements and Auditor Reports     | \$19,000        |
| Preparation of the State Controller's Report | 500             |
| <b>Total</b>                                 | <b>\$19,500</b> |

If significant changes occur in the Agency's audit requirements with the implementation of new Governmental Accounting Standards Board (GASB) Standards, Government Auditing Standards or the Audit and Accounting Guide for State and Local Governments issued by the AICPA for attest and/or nonattest services, this may render additional services needed which may increase the above noted fixed fee.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if the Agency's account becomes 60 days or more overdue and may not be resumed until the Agency's account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. The Agency will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from Agency personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate before we incur the additional costs.

Additionally, our fees are dependent on the availability, quality, and completeness of the Agency's records and, where applicable, upon the Agency's personnel providing the level of assistance identified in the "prepared by client" request list distributed at the end of our planning work (e.g., Agency employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.).

We will schedule the engagement based in part on deadlines, working conditions, and the availability of Agency key personnel. We will plan the engagement based on the assumption that Agency personnel will cooperate and provide assistance by performing tasks such as preparing requested schedules, retrieving supporting documents, and preparing confirmations. If, for whatever reason, Agency personnel are unavailable to provide the necessary assistance in a timely manner, it may substantially increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate.

If circumstances occur related to the condition of Agency records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate as soon as reasonably practicable.

### **Other Engagement Matters**

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

**Paul J Kaymark, CPA** is the engagement partner responsible for supervising the engagement and signing the report.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.



You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

The audit documentation for this engagement is the property of Nigro & Nigro, PC and constitutes confidential information. However, we may be requested to make certain audit documentation available to regulatory agencies pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Nigro & Nigro, PC's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to regulatory agencies. The regulatory agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We will notify the Agency of any such request.

### **Conflict Resolution**

Should any litigation or adverse action (such as audits by outside governmental agencies and/or threatened litigation, etc.), by third parties arise against the Agency or the board of directors subsequent to this engagement, which results in the subpoena of documents from Nigro & Nigro, PC and/or requires additional assistance from us to provide information, depositions or testimony, the Agency hereby agrees to compensate Nigro & Nigro, PC (at our standard hourly rates) for additional time charges and other costs (copies, travel, etc.), and to indemnify us for any attorney's fees to represent Nigro & Nigro, PC.

If any dispute arises among the parties hereto, the parties agree to first try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its applicable rules for resolving professional accounting and related services disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties.

The Agency and Nigro & Nigro, PC both agree that any dispute over fees charged by the auditor to the Agency will be submitted for resolution by arbitration in accordance with the applicable rules for resolving professional accounting and related services disputes of the American Arbitration Association, except that under all circumstances the arbitrator must follow the laws of California. Such arbitration shall be binding and final. **IN AGREEING TO ARBITRATION, WE BOTH ACKNOWLEDGE THAT IN THE EVENT OF A DISPUTE OVER FEES CHARGED BY THE ACCOUNTANT, EACH OF US IS GIVING UP THE RIGHT TO HAVE THE DISPUTE DECIDED IN A COURT OF LAW BEFORE A JUDGE OR JURY AND INSTEAD WE ARE ACCEPTING THE USE OF ARBITRATION FOR RESOLUTION.** The prevailing party shall be entitled to an award of reasonable attorneys' fees and costs incurred in connection with the arbitration of the dispute in an amount to be determined by the arbitrator.

### **Conclusion**

At the conclusion of our audit engagement, we will communicate to the Board of Directors the following significant findings from the audit:

- a) Our view about the qualitative aspects of the Agency's significant accounting practices;
- b) Significant difficulties, if any, encountered during the audit;
- c) Uncorrected misstatements, other than those we believe are trivial, if any;
- d) Disagreements with management, if any;
- e) Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- f) Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- g) Representations we requested from management;
- h) Management's consultations with other accountants, if any; and

- i) Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the basic financial statements including our respective responsibilities.

Enclosed, as required by *Government Auditing Standards*, is a copy of the report on the most recent peer review of our firm.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement.

Very truly yours,



Nigro & Nigro, PC

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

Management signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Governance signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_