



# Memorandum

## MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by Wmm Date 4/10/08  
General Manager

DATE: April 11, 2008  
TO: General Manager  
FROM: Finance Manager  
SUBJECT: Selection of Accountancy Firm of Hayashi & Wayland for FY 2007/08 through FY 2009/10 Audits

**RECOMMENDATION:** That the Board award a three year contract to select Hayashi & Wayland Accounting and Consulting, LLP, of Salinas to perform the District's Annual Audit for Fiscal Years 2007/08 through 2009/10. Funds for this work have been included in the Professional Services portion of the Fiscal Year 2007/08 Budget.

### DISCUSSION

At the January 2008 Board meeting, the Board authorized staff to solicit proposals for preparation of the District's Annual Audits for Fiscal Years 2007/08, 2008/09, and 2009/10. Staff sent a Request for Proposals (RFP) (attached) to 12 auditing firms; six did not respond, three declined to submit a proposal, and three proposals were received. The following table summarizes the proposed fees from the responses:

Firm	FY 2007/08	FY 2008/09	FY 2009/10	Total
Bianchi, Kasavan & Pope, Hollister	\$25,000	\$25,000+CPI	\$25,000+CPI	\$77,656 est. w/3.5% CPI
Charles Z. Fedak & Company, Cypress	25,000	26,000	27,000	78,000
Hayashi & Wayland, Salinas	28,500	29,900	31,500	89,900
Maze & Associates, Walnut Creek	Declined			
Moreland & Associates, Pleasant Hill	Declined			
Donna Mendenhall CPA, Carmel Valley	Declined			

Bianchi, Kasavan & Pope conducted the FY 2006/07 audit for \$19,500.

Audits are a unique professional service and fees should not be the only criteria in the selection process.

Staff has contacted the references provided by the firms. Each reference was asked a series of questions regarding their history with the firm, the firm's quality of work, staff professionalism and performance, ability to meet deadlines, and if they would want to engage the firm again. All references gave favorable responses for their firms.

Each of the firms stated that they will comply with the requirements of the RFP and will meet all the deadlines for reporting. Each firm has successfully completed an independent quality review of their accounting and auditing practice as established by the American Institute of Certified Public Accountants.

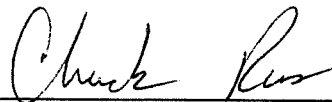
Bianchi, Kasavan & Pope, LLP (BKP) a member of The Moss Adams Connection, an association of independent firms was formed in July of 2007 with the merger of Bianchi, Lorincz, Huey, Hudson & Company, LLP and Kasavan & Pope, LLP. The firm has a professional staff of 37 persons. BKP performs audits for the Castroville Cemetery District, Monterey County Health Department, Monterey County Inmate Welfare Fund, North County Recreation and Park District, Pajaro/Sunny Mesa Community Services District, and Speckles Community Service District. BKP has estimated 170 hours to complete the audit for a \$147 average rate per hour. BKP has confirmed that additional fees would only result from unforeseen problems or unexpected circumstances and these would be discussed with the District prior to incurring additional costs. The audit will be supervised by the Partner from the initial planning through completion of the audit report.

Charles Z. Fedak & Company (Fedak) is located in Cypress, CA and was founded in 1981. Fedak's special district governmental audit and consulting practice accounts for approximately 50% of their annual services. Fedak's major special district client base is water districts. Their audit of the Ventura Regional Sanitation District (Toland Road Landfill) ended with the fiscal year 2006. Fedak has estimated 190 hours to complete the audit for a \$132 average rate per hour.

Hayashi & Wayland has a thorough understanding of the District operations since they served as the District's auditors for over 10 years. Staff has been very satisfied with their work. H&W has established a proven track record of working efficiently and effectively with our staff and has consistently delivered a quality and timely product. The firm has a professional staff of 47 persons. H&W performs audits for Pebble Beach Community Services District, Santa Lucia Community Services District, the City of Sand City, the City of Del Rey Oaks and Monterey Peninsula Water Management District. H&W has estimated 300 hours to complete the audit for a \$95 average rate per hour. H&W's proposal (attached) was unique in discussing the impact on the audit of eight new Statements on Auditing Standards relating to the assessment of risk in response to events (e.g. Enron and other recent business failures) and changes in the broader business community.

## CONCLUSION

Staff believes all of the above firms would perform a quality audit for the District. Because of their thorough understanding of the District operations and proven track record of working efficiently and effectively with District staff and delivering quality and timely audits, staff recommends that the Board award Hayashi & Wayland to perform the District's Annual Audit for Fiscal Years 2007/08 through 2009/10.



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Chuck Rees

Attachment

## **Monterey Regional Waste Management District Request for Proposal for Audit Services**

The Monterey Regional Waste Management District (District) provides solid waste disposal for the Monterey Peninsula and is soliciting proposals for 3 years of annual audit services beginning with the audit of its financial statements for the fiscal year ending June 30, 2008. The District operates as an enterprise fund and prepares financial statements in accordance with GASB 34, however, does not require a Single Audit Report.

If your firm is interested in being considered to perform these audits, please submit three copies of your proposal no later than 4:00 p.m. on Wednesday, March 26, 2008 to:

Chuck Rees  
Finance Manager  
Monterey Regional Waste Management District  
14201 Del Monte Blvd.  
P.O. Box 1670  
Marina, Ca 93933

### **INTRODUCTION**

The Monterey Regional Waste Management District (District) was formed in 1951 under the California Health and Safety Code. The primary purpose of the District is to dispose of solid waste from the Monterey Peninsula area. The District's role has expanded to include the recovery of recyclable materials in the waste stream (cardboard, newspaper, glass, woodwaste, plastic, metals, concrete, asphalt, reusable building materials and resale items). In addition, the District operates a landfill gas-to- electrical energy system which generates almost 4,000 kilowatts of continuous power.

The District is governed by a nine-member board made up of representatives from the cities of Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Sand City, Seaside, Pebble Beach Community Services District, and one from the unincorporated area representing the western portion of Monterey County. The jurisdictional boundaries of the District cover approximately 853 square miles and the District's population is estimated at 170,000.

**REQUEST FOR PROPOSAL**  
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The Monterey Regional Waste Management Authority (Authority) was formed pursuant to the provisions of the Government Code of the State of California and a Joint Exercise Powers Agreement, dated April 1, 1993 by and between the City of Carmel-by-the Sea, City of Del Rey Oaks, City of Marina, City of Monterey, City of Pacific Grove, City of Sand City, and City of Seaside. During the fiscal year ending June 30, 1996, the Pebble Beach Community Services District also became a member of the Authority. The Authority was formed to assist in the financing of public capital improvements, such as the design, acquisition and construction of additions, betterments, and improvements to the District facilities. It has issued revenue bonds and will maintain the debt on its books. The District has received ownership of the constructed assets and will maintain these assets on its books. In consideration for these assets, the District has pledged its revenue to the Authority in sufficient amount to pay the interest and principal payments of the revenue bonds.

The Authority functions as an independent entity and its policies are determined by an eight-member Board consisting of representatives of the eight entities mentioned above. The Authority's Board does not include a representative from the unincorporated area of Monterey County. Generally accepted accounting principles for governmental entities require the Authority to be accounted for as a component unit of the District which is considered the primary government.

The accounting records of the District are kept on an accrual basis, operating as an enterprise fund. These records are computerized using Microsoft Great Plains and Computer Associates AccPac Plus. The accounting records are maintained on a fiscal year basis, beginning on July 1 and ending June 30 of each year.

The District uses the modified accrual method of accounting for interim periods and converts to the full accrual method with year-end adjustments. On monthly financial statements, revenue is recorded when earned and expenditures recorded upon payment of goods and/or services. These monthly statements include a District Statement of Revenue, Expenses, and Changes in Net Assets, Statement of Net Assets, Capital Outlay and Reduction of Long-Term Debt Report, Statement of Cash Flow, Investments-Deposits Report, and a Report of Disbursements. Also included are an Authority Balance Sheet and Revenue and Expenditure Report.

Fixed assets are capitalized monthly and placed on depreciation schedules using the straight line method. Depreciation is accrued and expensed accordingly. Cash is kept in a checking account in a local bank, while investments are on deposit in the State of California Local Agency Investment Fund.

The District's Board of Directors approves a budget for each fiscal year that is prepared by staff. This budget acts as the control budget for expenditure of District funds. The approved budget for the 2007/08 fiscal year is \$16,864,000 for Operating Expenses, \$398,000 for Non-Operating Expenses, \$3,145,500 for current Capital Outlay and \$1,588,000 for Reduction of Long-Term Debt and Capital Leases.

**SCOPE OF WORK**

**A. Purpose**

To conduct an audit of the District's financial records and express an opinion on the fair presentation of its general purpose financial statements in accordance with the generally-accepted auditing standards developed by the American Institute of Certified Public Accountants, and those set forth in the industry audit guide for "Audits of State and Local Governmental Units." The District is not required to provide a Single Audit Report.

**B. Reports and Presentations**

- 1) Exit interview, if necessary, with District management to discuss relevant findings.
- 2) Administrative draft audit report and draft management letter delivered to Finance Manager prior to final report.
- 3) Meet and discuss draft audit report with District Board Audit Committee
- 4) Electronic version and thirty (30) bound copies of the final audit report and the management letter delivered 10 days prior to the Board of Directors meeting specified in item "6" below.
- 5) Prepare and electronically submit the State Controller's Annual Report of Financial Transactions of Special Districts by required due date.
- 6) Final oral presentation to Board of Directors (For FY 2007-2008 at the November 2008 regular meeting. Board meetings are normally held on the third Friday of the month).

**C. District Responsibilities**

- 1) District staff will prepare the final closing of the books. The District will provide the auditors with a copy of the general ledger with all data entered for the year ending June 30th. The District will also provide a trial balance and detailed cash receipts and accounts receivable subsidiary ledgers. In addition, the District staff will provide a reconciliation of all fixed asset accounts.
- 2) District staff will produce the confirmation letters prepared by the auditor.
- 3) District staff will be available to assist auditors by providing information, documentation and explanations.

**D. Proposal Requirements**

1) Firm Qualifications and Experience

The proposal should state the size of the firm, the size of the firm's audit staff, and the location of the office from which the work on this engagement is to be performed.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

The firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations.

2) On Site Supervisory and Staff Qualifications & Experience

The firm should identify the number and responsibility levels of staff assigned to the engagement and indicate whether each such person is licensed to practice as a certified public accountant in California. The firm also should provide information on the auditing experience of each person.

3) Similar Engagements with Other Government Entities

List the most significant engagements performed in the last two years that are similar to the engagement described in this request for proposal. Indicate the names and telephone numbers of the principal client contacts.

4) Total All-Inclusive Maximum Price

The cost estimate should contain all pricing information relative to performing the audit engagement as described in this request for proposals. The total all-inclusive maximum price is to contain all direct and indirect costs including all out-of-pocket expenses. The proposal should indicate pricing for the three years covering the audit proposal. The proposal should also include a schedule of professional fee rates by partner, specialist, supervisory and staff level.

5) Additional Professional Services

If it should become necessary for the District to request the auditor to render any additional services to either supplement the services requested in this request for proposal or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the District and the firm. Any such additional work agreed to between the District and the firm shall be

## REQUEST FOR PROPOSAL

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performed at the same rates set forth in the schedule of fees included in this proposal.

6) Proposal Costs

The District is not liable for any cost incurred by a proposer responding to this request for proposal.

7) Right to Select or Reject

The District reserves the right, in its sole discretion, to select the proposal which it determines will best serve the needs of the District, or to reject any and all proposals submitted, and to request additional information on all proposals.

### ADDITIONAL PROVISIONS

Either party may terminate the audit agreement at any time by giving not less than seven (7) day's prior written notice of such termination. If services are terminated the District will pay auditors for all work completed. Nothing herein shall be deemed a limitation upon the District's right to terminate for cause or otherwise to pursue such legal or equitable rights or remedies which may accrue to the District hereunder.

### SUBMISSION OF PROPOSAL

All proposals must be in a sealed envelope and clearly marked as a "Sealed Proposal – Annual Audit Services."

### QUESTIONS CONCERNING PROPOSAL REQUIREMENTS

All questions concerning this RFP should be made in writing, e-mail or by phone to:

Chuck Rees  
Finance Manager  
Monterey Regional Waste Management District  
P.O. Box 1670  
Marina, Ca 93933  
E-mail [crees@mrwmd.org](mailto:crees@mrwmd.org)  
(831) 384-5313

**EVALUATION OF PROPOSALS**

In evaluating the proposals and selecting the successful firm, the District will consider the firm's qualifications and experience, as well as cost. Evaluation of the proposals will take into account specialized experience and technical competence, references, firm's size, structure and location, and ability to meet the District's requirements.

**FINAL SELECTION**

The staff will present a report to the Board of Directors for consideration at its April 18, 2008 regular meeting. It is anticipated the Board of Director's will make the final selection in that meeting. The District staff and/or Board of Directors may request an interview with selected firms. The District will send written notification to those firms selected for an interview.

March 17, 2008

Mr. Chuck Rees, Finance Manager  
Monterey Regional Waste Management District  
14201 Del Monte Boulevard  
P.O. Box 1670  
Marina, California 93933

Dear Chuck:

We are pleased to respond to your request to submit our qualifications to serve as auditors for *Monterey Regional Waste Management District* for the years ending June 30, 2008 through June 30, 2010. We greatly appreciate the time afforded us to discuss the operations and the nature and extent of services you seek, and we are confident that Hayashi & Wayland Accounting & Consulting, LLP can provide you high quality services at a reasonable cost.

We understand that *Monterey Regional Waste Management District* seeks to retain a high quality, independent auditor to provide timely audit services including delivery of the final audit report and recommendations, if any, on or before November 1 each year. We feel the professional approach that we take as noted below and further detailed in the proposal can attain that goal.

We propose to perform an audit in accordance with auditing standards generally accepted in the United States of America and the Audit Guide for Audits of State and Local Governmental Units. We will perform a variety of audit procedures which are further detailed in the proposal. At the conclusion of the audit we will issue an independent auditors' report and a report on the internal control structure of *Monterey Regional Waste Management District*, which will include any deficiencies and proposed recommendations.

We are qualified to perform the audit for *Monterey Regional Waste Management District* because we have expertise in auditing California Special Districts as we currently serve as auditors for many special districts and other local governments. In addition, we have a thorough understanding of your operations as we served as the *District's* auditor for over ten years. During that time we established a proven track record of working efficiently and effectively with your staff and we consistently delivered a quality and timely audit to your Board.

Mr. Chuck Rees, Finance Manager  
Monterey Regional Waste Management District  
March 17, 2008  
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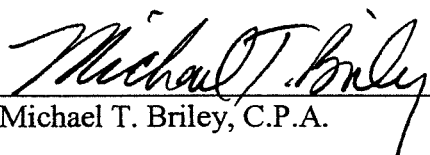
We have been providing audit services for over 30 years, and currently perform over 160 audits and reviews. Our consistency and stability in the audit area are our firm's trademarks. The close proximity of our offices to your office will allow our firm to provide *Monterey Regional Waste Management District* with year-round accessibility for service and convenience for scheduling of meetings and will save travel time and related costs.

In your Request for Proposal you specified that we list the most significant engagements performed in the last two years that are similar to your engagement. We have listed these in Section IX of this proposal on Page 12. We've included references and contract information for your convenience.

In closing, we appreciate the opportunity to present our professional qualifications and a description of our plan to serve *Monterey Regional Waste Management District*. We will be pleased to provide any additional information you may require.

Yours very truly,

HAYASHI & WAYLAND  
ACCOUNTING & CONSULTING, LLP

By   
Michael T. Briley, C.P.A.

## STATEMENT OF NEEDS

We understand that *Monterey Regional Waste Management District* seeks to retain an independent auditor to perform an annual audit of the financial statements for the years ending June 30, 2008 through June 30, 2010.

We understand that *Monterey Regional Waste Management District* seeks an independent auditor to express an opinion on the fair presentation of the *District's* general purpose financial statements in accordance with Generally Accepted Auditing Standards developed by the American Institute of Certified Public Accountants and those set forth in the industry Audit Guide for "Audits of State and Local Governmental Units."

We understand that *Monterey Regional Waste Management District* seeks an independent auditor that has undergone or will undergo a quality review in accordance with Government Auditing Standards.

Lastly, we understand that *Monterey Regional Waste Management District* seeks an independent auditor who is independent of *Monterey Regional Waste Management District*, its management and each of its component units and sub-recipients.

## PROPOSED SOLUTION

We propose to provide *Monterey Regional Waste Management District* with a high quality and timely audit of the financial statements for the years ending June 30, 2008 through June 30, 2010. Our philosophy has always been to provide the finest auditing, accounting, tax and consulting services that are available in the communities we serve, to be associated with clients who wish to reach their maximum potential, and to be a firm that is enjoyable to work for and rewarding to work with. Our goals are to contribute to our community and the profession to which we belong and to grow, but never lose the local identity and personal relationship with clients that are the foundation of our practice.

Hayashi & Wayland Accounting & Consulting, LLP is committed to hiring, training and keeping qualified personnel in order to provide our clients with the service and expertise they have come to expect from our firm. Our certified professional staff members have been with the firm from 3 to over 20 years. As required by the General Accounting Office's Generally Accepted Government Auditing Standards (GAGAS), certain personnel must obtain at least eighty hours of continuing professional education and training every two years; twenty-four hours of which must be in subjects related to the government environment or government auditing. All appropriate Hayashi & Wayland Accounting & Consulting, LLP personnel are currently involved in an education and training plan which satisfies these requirements.

Hayashi & Wayland Accounting & Consulting, LLP has undergone and successfully passed its peer review requirements since it joined the AICPA Quality Review Program in 1989. The program requires that we submit to an outside quality review every third year as follows:

1990	Successfully passed
1993	Successfully passed
1996	Successfully passed
1999	Successfully passed
2002	Successfully passed
2005	Successfully passed

A copy of our most recent report and comment letter, which included review of a nonprofit organization, is attached as Appendix A.

We have not had any federal or state desk reviews or field reviews of our audits during the past three years. The firm of Hayashi & Wayland Accounting & Consulting, LLP and its employees do not have a record of substandard audit work nor do we or our employees have any outstanding claim of substandard work or unsatisfactory performance pending with the State Board of Accountancy.

We are independent with respect to *Monterey Regional Waste Management District* in accordance with generally accepted auditing standards.

## PROCESS AND DELIVERABLES

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and the AICPA Standards set forth in the industry audit guide, "Audits of State and Local Governmental Units." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit will provide a reasonable basis for our report.

Our reports on internal control structure will include any significant or control deficiencies and material structural or operational weaknesses in the system of which we become aware.

To accomplish our audit objectives, we will use a variety of audit procedures including inquiry of *District* personnel, analytical review of financial information, confirming information with outside sources, and examining on a test basis evidence supporting amounts and disclosures. In addition, we will select the necessary procedures to test controls. The determination of which type of procedures are best for each segment of the audit will be made in the planning stage, after we have obtained a complete understanding of your *District's* internal control structure and accounting system. The criteria used in deciding the best approach for a particular client and audit segment are a) adequacy of level of assurance provided, b) efficiency, and c) cost-benefit factor.

We anticipate that the audit will be organized into the following segments:

- Understanding of Internal Controls and Accounting System.
- Assessment of Risk of Material Misstatement.
- Performance of Tests on Internal Controls.
- Preliminary Analytical Review.
- Planning.
- Performance of Substantive Audit Procedures on Account Balances and Transaction Classes.
- Proposal of Adjusting Journal Entries to trial balances provided.
- Assistance with the preparation of *Monterey Regional Waste Management District's* Financial Statements.
- Provide draft copy of Financial Statements.
- Conduct Exit Conferences and make recommendations based on our observations during the audit.
- Delivery of final audited Financial Statements.
- Prepare and electronically submit the State Controller's Annual Report of Financial Transactions of Special Districts by required due date.

## BENEFITS FROM OUR APPROACH

We will take a constructive approach, providing you with assistance and advice to enable you to improve administrative procedures and accounting practices.

We strive to assist our clients to achieve success through providing timely, professional service that can be relied upon.

We strive to complete the fieldwork of the audit with the least amount of interruption to your *District*. We believe we are uniquely qualified to do this based on our thorough understanding of the *District's* operations and financial reporting requirements resulting from our previous experience as the *District's* auditors.

We will be available on a year-round basis to field questions and discuss issues such as generally accepted accounting principles and reporting procedures with you as they arise rather than wait until the official audit commences. This approach benefits both your organization and ours as we stay current with your operations.

We are proud that our "roots" run deep in the Monterey Bay area. We feel it is important to give back to the community that has been so good to us. That is why we encourage our professionals' active involvement in numerous civic, charity, community and nonprofit organizations and activities. By offering our time, talents and financial support to many hospitals, churches, schools and other organizations, we are making an investment in the future of our community.

## THE HAYASHI & WAYLAND DIFFERENCE

Hayashi & Wayland Accounting & Consulting, LLP is a Certified Public Accounting Firm founded by Douglas Hayashi and F. Warren Wayland in 1977. Our offices are located in Salinas, Carmel, Monterey and King City, California and are staffed by 47 professional members (30 of whom are certified) and additional technology, bookkeeping and clerical staff. In addition, we offer retirement consulting services through Hayashi & Wayland Retirement Plan Services which is staffed by 14 individuals, and Hayashi & Wayland Wealth Management Services with a staff of 4 for a firm total of approximately 100 individuals.

Our team of diverse professionals will bring to your engagement a breadth of experience and expertise unmatched by any firm in the area. Though we are the largest firm in Central California we will maintain an attentive personal relationship with you, which has been the trademark and cornerstone of our client service.

At Hayashi & Wayland Accounting & Consulting, LLP, we provide services to our clients using a team concept. Specific team members for each engagement are selected based on their particular experience and expertise. This means we provide our best resources for each service or consulting engagement we perform. In addition, by selecting Hayashi & Wayland Accounting & Consulting, LLP, you are choosing a team that has extensive expertise in not-for-profit entities. The Hayashi & Wayland team has worked with numerous not-for-profit organizations over many years on similar engagements. Our clients include numerous California special districts, cities, foundations, health care organizations, low-income housing providers, and other community service organizations. We believe our experience with governmental and nonprofit entities provides us with a competitive edge in understanding the nature of your business, industry and community.

In addition, we would assign to the engagement qualified staff as needed to perform the services on a timely basis and in a professional manner.

In addition, to our qualified staff, to help us stay on that “cutting edge” and maintain our position as the leading independent accounting firm in our area, we became a member of the McGladrey Network. At the heart of that Network is the accounting firm of RSM McGladrey, Inc., the 5<sup>th</sup> largest accounting and consulting firm in the United States and the largest national firm dedicated to serving privately owned businesses.

The McGladrey Network is an affiliation of **quality accounting firms** with access to the full RSM McGladrey, Inc. national and international capabilities. Through the Network, we have access to the resources of more than 150 offices located throughout the United States. Through RSM International, the 10<sup>th</sup> largest worldwide association of accounting firms McGladrey is represented in over 70 countries. In most cases, our Network affiliation allows us to meet lenders’ or underwriters’ requirements that financial services be performed by a “Nationally Recognized Accounting Firm.” We became affiliated with the Network because it is a natural outgrowth of our commitment to clients and our determination to stay on the cutting edge of developments affecting accounting and consulting firms. It provides us and our clients, all the advantages of being part of a national and international organization, dedicated to serving our type of clientele, with none of the disadvantages of being owned by one.

**THE HAYASHI & WAYLAND DIFFERENCE**  
**(Continued)**

*We retain total autonomy and our identity as an established and independently owned member of our local business community. We are the only local accounting firm that can offer these types of resources and expertise.*

The McGladrey Network has an excellent not-for-profit accounting unit that support our local efforts. We have consulted with them on several occasions, and find their expertise to be invaluable to both us and our clients. We have adopted the RSM McGladrey, Inc. audit approach and we use their audit programs exclusively on our audit engagement. Our audit partners and staff have undergone extensive training at both RSM McGladrey, Inc. developed internal classes, and national program classes to implement these programs, and develop high proficiencies in carrying out each audit step.

## FEES, RATES AND TIMING OF AUDIT WORK

We expect our preliminary field work to be done in June and our primary fieldwork in August or September each year. The completed reports will be ready by November 1. This assumes that your books will be closed, and the supporting schedules completed by early August in time for us to meet this schedule. We are confident we will meet all the time requirements specified in your RFP.

### Fees and Rates

Our proposal is for the years ending June 30, 2008 to June 30, 2010 with the understanding that continuation of the agreement beyond the first year will be contingent upon the mutual agreement between your *District* and Hayashi & Wayland Accounting & Consulting, LLP. Our fees for the audit and preparation of the State Controller's Report will be as follows:

<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ <u>28,500</u>	\$ <u>29,900</u>	\$ <u>31,500</u>

These above fees include the implementation of new auditing standards as discussed in Appendix D, "New Statements on Auditing Standards." These fees also assume that all the records needed for the audit will be provided to us in reasonable condition and that your staff will be available to answer questions, copy documents, and pull selected invoices, cancelled checks and other files necessary for the audit. In addition, your staff will be asked to prepare the schedules to be outlined in our engagement letter.

These fees will be subject to adjustments based on unanticipated changes in the scope of our work and/or the untimely receipt by us of the assistance discussed. Any assistance requested by you for general accounting or consulting will be billed as a separate engagement at our customary rates. Services subject to such additional charges include assistance with year-end closing of the books, reconciliation of account balances to actual, assistance with preparation of schedules, the preparation of special reports requested by funding sources, additional internal control testing procedures you request for specific areas, consulting services relating to your computer systems and any other services required that are beyond the scope of our normal auditing procedures.

The fees stated above represent the total all-inclusive maximum fee containing all direct and, indirect costs including out-of-pocket expenses.

**FEES, RATES AND TIMING OF AUDIT WORK**  
(Continued)

Specific assignments of staff to the various segments will be made as the audit progresses. We feel that it is important, though, to match the complexity of the segment with the appropriate position level. The partner and manager will be heavily involved in the initial planning and analytical review portions of the audit. Most of the on-site fieldwork will be performed by the supervisor, senior and assisting associate staff. In addition to supervising the associate staff while on site, the supervisor and senior associate will perform those portions of the audit requiring more knowledge and experience. Of course, all work is reviewed at one or more higher levels. The manager is again heavily involved throughout the audit and especially when the audit reaches the financial statement preparation stage. The audit partner is also involved throughout the audit, directing and consulting on matters. At the end of the audit, the partner and manager will attend any exit conferences necessary. The following is the list of our hourly billing rates at various levels as well as an estimate of hours to complete the 2008 engagement:

	<u>Rates Per Hour</u>
Partner	\$ 240 – \$ 270
Senior Manager	\$ 167 – \$ 216
Manager	\$ 141 – \$ 160
Supervisor	\$ 112 – \$ 140
Senior Associate	\$ 91 – \$ 110
Associate	\$ 77 – \$ 91
Administrative Support	\$ 55 – \$ 87

	<u>Rate</u> <u>Per Hour</u>	<u>Estimated</u> <u>Hours</u>	<u>2008</u> <u>Amount</u>
Partners	\$ 270	25	\$ 6,750
Managers	\$ 175	50	8,750
Senior and Associate Staff	\$ 90	210	18,900
Support Staff	\$ 75	<u>15</u>	<u>1,125</u>
Total estimated hours		<u>300</u>	35,525
First year discount for multiple year engagement			<u>(7,025)</u>
Proposed fee			<u>\$ 28,500</u>

## REFERENCES

1. Suha Kilic, Chief Financial Officer  
Pebble Beach Community Services District  
(831) 647-5602
2. Forrest Arthur, General Manager  
Santa Lucia Community Services District  
(831) 620-6791
3. Linda Scholink, Director of Administrative Services  
Sand City  
(831) 394-3054
4. Joseph Russell, Mayor  
City of Del Rey Oaks  
(831) 394-8511
5. Dick Dickhaut, Administrative Services Manager/CFO  
Monterey Peninsula Water Management District  
(831) 658-5614

## ENGAGEMENT TEAM

Michael T. Briley will be the partner responsible for the direction and coordination of our services. Mr. John H. Gibbons will be performing the concurring review partner role on the engagement. Mr. Briley and Mr. Gibbons have extensive experience in governmental auditing and consulting.

Mike Nolan will be the manager on the engagement. Mr. Nolan has over ten years of diverse experience in accounting, including experience with not-for-profit and governmental organizations. Mrs. Autumn Rossi has worked on the *District* audit for many years and will bring valuable experience to the engagement. Mrs. Rossi will be involved in the planning and preliminary fieldwork stage of the audit. Mrs. Rossi will be on maternity leave beginning in August 2008 but will be available for consultations. Mike Briley and Mike Nolan will be managing the engagement in Autumn's absence.

The résumés of Mr. Briley, Mr. Gibbons, Mr. Nolan and Mrs. Rossi are included below.

### ***Michael T. Briley, C.P.A.***

Firm Position: Audit Partner

Experience: Twenty-four years experience in both not-for-profit and private accounting. Auditing background includes audits for commercial entities, special districts, local government, and not-for-profit organizations.

Professional Activities: Member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, Past Chairman of the Financial Council Madonna del Sasso Parish (Salinas) and Past Board Member of Christians in Commerce (the Salinas Valley Chapter). Board Member of the Hartnell College Foundation.

Education: BS Degree – Accounting  
California State University, Fresno (1984)

### ***John H. Gibbons, C.P.A.***

Firm Position: Audit Partner

Experience: Over twenty-six years experience in public accounting. Auditing background includes audits for commercial entities, local government, special districts, and not for-profit agencies. Is the partner responsible for the audits of both governmental and not-for-profit organizations involved in real estate development, including those funded through federal and state agencies.

Professional Activities: Member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, Treasurer of Ag Against Hunger, Past Treasurer of Monterey County Youth Museum and Past Chairman of American Heart Association Central Mission Trails Chapter.

Education: BS Degree – Accounting  
California State University, Fresno (1981)

**ENGAGEMENT TEAM  
(Continued)**

***Mike Nolan, C.P.A.***

Firm Position: Audit Senior Manager

Experience: Ten years experience in public accounting, primarily in areas of auditing and management advisory services. Auditing experience includes audits of public and privately held companies, commercial, not-for-profit entities and governmental entities.

Professional Activities: Member of the American Institute of Certified Public Accountants, and the California Society of Certified Public Accountants. Current board member of CPE Forum of Monterey County.

Education: BS Degrees – Accounting & Finance  
California Polytechnic State University, San Luis Obispo (1998)  
Additional Studies –  
MS Taxation (in process)-Golden Gate University (2005–2007)

***Autumn J. Rossi, C.P.A.***

Firm Position: Audit Manager

Experience: Over seven years experience in public accounting. Accounting background includes audits and reviews of commercial, not-for-profit and governmental entities.

Professional Activities: A member of the American Institute of Certified Public Accountants and California Society of Certified Public Accountants.

Education: BS Degree – Accounting  
Azusa Pacific University (1999)

## SPECIFIC AUDIT APPROACH

An audit is subject to the inherent risk that material errors, irregularities, or illegal acts, including fraud or defalcations, if they exist, will not be detected. Our engagement cannot be relied upon to disclose errors, fraudulent financial reporting, or misappropriation of assets that may exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraudulent financial reporting or misappropriation of assets that come to our attention, unless they are clearly inconsequential.

If circumstances relating to the condition of your records and/or the availability of sufficient competent evidential matter were to arise during the course of our work which in our professional judgment prevent us from completing the audit, we will notify you immediately. In such a situation, we retain the unilateral right to take any course of action permitted by professional standards, including withdrawal from the engagement.

As you know, the financial statements are the responsibility of your *District's* management. Management has the primary responsibility for properly recording transactions in the records, for safeguarding assets and for preparing reliable financial statements. At the conclusion of our audit, we will require certain written representations from you as to the fairness of the presentation of the financial statements and matters related thereto.

We understand that the financial statements and notes to the financial statements to be prepared by *Monterey Regional Waste Management District* will be in accordance with the Generally Accepted Accounting Principles. Our audit will be of the highest quality in terms of efficiency, technical competence and reliability. We will take a constructive approach in our auditing work and, as a result of our experience, we expect to raise questions and develop constructive suggestions that will assist you in your continuing efforts to administer your organization. These items, and any weaknesses found, will be communicated to you in writing.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm name, you agree to provide us with printer's proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed. Our report on the financial statements is not to be included in an official statement or other document involved with the sale of debt instruments without our prior approval. Any such review and approval will be billed to you at our standard hourly rates.

We will also prepare tax returns, Forms 990, 199 and RRF-1 for the years ended June 30.

It is difficult to say what potential problems we may encounter on the audit. However, in general we take a proactive approach in solving any problems that may arise during an audit. For example, if we encounter difficult to audit areas, we would involve our staff with expertise in those areas, consultants with McGladrey and Pullen, consult technical aids and involve appropriate Agency personnel in order to resolve the issue.

## NEW STATEMENTS ON AUDITING STANDARDS

In early 2006, the AICPA's Auditing Standards Board (ASB) issued eight new Statements on Auditing Standards (SAS) relating to the assessment of risk and performance of procedures in an audit of financial statements. Changes to the Auditing Standards were deemed necessary to respond to events (e.g. Enron and other recent business failures) and changes in the broader business community. The new standards are as follows:

- SAS No. 104, *Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")*
- SAS No. 105, *Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards*
- SAS No. 106, *Audit Evidence*
- SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*
- SAS No. 108, *Planning and Supervision*
- SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- SAS No. 111, *Amendment to Statement on Auditing Standards No. 39, Audit Sampling*

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

At the heart of these Statements are requirements for the auditor to:

- Obtain a broader and deeper understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.

**NEW STATEMENTS ON AUDITING STANDARDS  
(Continued)**

- Perform a more rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Demonstrate linkage between the assessed risks and the audit procedures performed in response to those risks.
- Perform substantive audit procedures for all significant accounts, transaction classes, and financial statement disclosures, regardless of the risk assessment for those items.

All of the above standards are effective for the year ending June 30, 2008 for your *District*. We will be spending a considerable number of hours on the implementation of these new standards.