



Metro

FINANCE AND BUDGET COMMITTEE
APRIL 16, 2008

SUBJECT: PS51102130, KPMG LLP, FINANCIAL AND COMPLIANCE AUDIT SERVICES

ACTION: AWARD CONTRACT

RECOMMENDATION

Authorize the Chief Executive Officer to:

- A. Award a seven year, firm fixed-price contract, Contract Number PS51102130, to KPMG LLP for the financial audit services in an amount not to exceed \$3,493,900, inclusive of a four-year base period and three one year renewal options.
- B. Execute contract modifications to this contract up to \$349,390.

RATIONALE

We are required to have financial audits performed annually by an independent Certified Public Accountant. The audit reports are submitted to our funding partners annually and to financing institutions relative to our bond issues. The contract will be effective May 1, 2008 and will begin with the audit of our financial statements and component units for the fiscal year ending June 30, 2008.

BACKGROUND

The scope of services include the financial and compliance audit requirements of our agency and the component units including: Public Transportation Service Corporation (PTSC), LACMTA Leasing Authority, PTSC-MTA Risk Management Authority (PRMA), Service Authority for Freeway Emergencies (SAFE), State Transit Assistance Funds (STA), Benefit Assessment District (BAD) I, Benefit Assessment District (BAD) II, National Transit Database (NTD), EXPO and the A-133 Single Audit. The auditor will also review official statements in connection with bond offerings and consult on the treatment of unusual accounting transactions that may occur during the term of the contact.

FINANCIAL IMPACT

Funding of \$600,000 for this service is included in the proposed FY09 budget in cost center 5110, Accounting, under project numbers 100030, 100040, 100050, 100060, 100070, 100080, 405511. In FY08, \$549,000 was expended on this service. This overhead amount is ultimately funded by local, state and federal funding sources. Since this is a multi-year contract, the Controller will be accountable for budgeting the cost in future years, including any options exercised.


ALTERNATIVES CONSIDERED

Laws and regulations require us to have financial and compliance audits performed annually by an independent Certified Public Accountant. The Board could choose to award the contract to the second low price bidder who is the incumbent. This alternative is not recommended.

ATTACHMENT(S)

- A. Procurement Summary
- A-1. Procurement History
- A-2. List of Subcontractors

Prepared by: Josie Nicasio, Controller
Robert Vasquez, Sr. Contract Administrator



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

FINANCIAL AND COMPLIANCE AUDIT SERVICES

1.	Contract Number: PS51102130		
2.	Recommended Vendor: KPMG LLP		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$3,493,900	Recommended Price: \$3,843,290 (includes contract modification authority of 10%)	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm Fixed Price		
5.	Procurement Dates:		
	A. Issued: 01/09/08		
	B. Advertised: 01/10/08		
	C. Pre-proposal Conference: 01/22/08		
	D. Proposals Due: 01/31/08		
	E. Pre-Qualification Completed: 02/12/08		
	F. Conflict of Interest Form Submitted to Ethics: 03/20/08		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 20% DALP	Date Small Business Evaluation Completed: 03/20/08	
	B. Small Business Commitment: 0% Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 13	Bids/Proposals Picked up: 11	Bids/Proposals Received: 2
8.	Evaluation Information:		
	A. Bidders/Proposers Names: KPMG LLP PricewaterhouseCoopers LLP	Bid/Proposal Amount: \$3,493,900 \$4,348,441	Final Amount: \$3,493,900 \$4,348,441
	B. Evaluation Methodology: Describe Methodology Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: 04/22/08		
	B. Protest Receipt Date: T.B.D.		
	C. Disposition of Protest Date: T.B.D.		
10.	Contract Administrator: Robert Vasquez	Telephone Number: 922-1044	
11.	Project Manager: Rene Decena	Telephone Number: 922-5440	

**BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY**

FINANCIAL AND COMPLIANCE AUDIT SERVICES

A. Background on Contractor

KPMG International is a Swiss cooperative with member firms in 145 countries and a local KPMG LLP office in Los Angeles, CA. KPMG LLP was incorporated in 1987 and has been in the audit services industry for much longer than that. In recent years KPMG LLP has provided audit and advisory services to over 60 transit agencies, including Foothill Transit, Long Beach Transit, SCRRA and City of Santa Monica (Big Blue Bus). KPMG has had prior contracts with us and has performed satisfactorily on those projects. KPMG is a large, global firm with extensive resources that enable it to offer multidisciplinary professional services and strategies to its clients in 5 major lines of business: 1) financial services; 2) information, communications and entertainment; 3) industrial markets; 4) consumer markets; and 5) health care and public sector.

B. Procurement Background

This is a competitively negotiated procurement under RFP No. PS51102130, which was issued on 01/09/08. Two responsive, responsible proposals were received on 01/31/08. The base contract period is for four years, plus three one-year options, for a total potential contract period of seven years. The RFP contained a 20% DBE Anticipated Level of Participation (DALP), which encouraged DBE participation but was not a condition of award or responsiveness.

C. Evaluation of Proposals

We used the Technically Acceptable-Lowest Price method of evaluating proposals, which is in compliance with our Procurement Policies and Procedures. Both proposers met the Minimum Requirements and were found to be technically qualified to perform the required services. References were checked for both proposers and their performance was found to be acceptable overall.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon adequate competition and an Independent Cost Estimate (I.C.E.) by the Estimating Department. KPMG's seven year price is \$854,541 or 24.5% lower than PWC's price and \$183,758 or 5.3% lower than the I.C.E. amount. Additionally, a first year comparison of Hourly Labor Rates for As-Needed Services show that PWC's rates are almost 90% higher than those of KPMG for key labor categories such as Partner, Manager and Sr. Accountant.

**BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS**

FINANCIAL AND COMPLIANCE AUDIT SERVICES

PRIME CONTRACTOR – KPMG LLP

Small Business Commitment

Other Subcontractors

N/A

N/A

Total Commitment 0%



Metro™

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.9200 Tel
213.922.9201 Fax
metro.net

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**FINANCE AND BUDGET COMMITTEE
APRIL 16, 2008**

SUBJECT: PROPERTY INSURANCE PROGRAM FOR OPERATIONS

**ACTION: PURCHASE ALL RISK PROPERTY AND
BOILER AND MACHINERY INSURANCE**

RECOMMENDATION

Authorize the Chief Executive Officer to purchase All Risk Property insurance policies and a Boiler and Machinery insurance policy for all our property for a not to exceed combined cost of \$2.3 million for the 12-month period effective May 10, 2008 through May 9, 2009.

RATIONALE

Discussion

Last month, we presented a Receive and file Board report outlining preliminary insurance quotations while our insurance broker, Aon Risk Services, continued marketing the property program to qualified insurance carriers to obtain final property insurance pricing. Final quotations for the property insurance program recommended last month have now been received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

Property insurance protects against losses to our structures and improvements, which are valued at almost \$7 billion. In addition, property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating facilities.

The property insurance market, outside of catastrophic exposures such as hurricane, earthquake and flood coverage, will continue to stay soft. Despite a very mild hurricane season the past three years, the very large losses from Hurricanes Katrina, Dennis, Rita and Wilma eliminated capacity in the catastrophic property market that may not be replaced as insurers have developed new catastrophic loss models that have increased the estimated costs for such events. Reinsurers, in particular, have raised rates, causing primary insurers to dramatically reassess their pricing for all catastrophic coverage including earthquakes.

This year, earthquake coverage is only available with low limits at high premiums; \$30 million in limits for approximately \$2 million. Therefore, this year, as in last year's renewal, the recommended program does not include earthquake coverage. Elimination of earthquake coverage is consistent with decisions made by other large organizations such as Bay Area Rapid Transit, Los Angeles Department of Water and Power, Metropolitan Water District and most Los Angeles County and City locations. Elimination of this coverage will mean greater reliance on FEMA for recovery. As demonstrated by the hurricane related property losses in New Orleans, transit, along with municipal services and utilities received priority FEMA funding for disaster relief.

Similarly, terrorism coverage is available for approximately \$2 million. However, consistent with last year and other public agencies, this alternative is not recommended because of FEMA priority funding for transit and its relatively high cost.

In February, the staff and Aon Risk Services met with multiple domestic and foreign insurance providers including several Lloyds syndicates to present our property risks and supplemental data. During the discussions we gave an overview of our system, including its extensive security infrastructure and fire protection. We also provided information and statistics on system operations, assets, and our loss history over the past eight years (only one fixed property insurable event, the January 2001 fire at Gateway, whose estimated final cost is \$518,663), in order to demonstrate the high quality risk that we represent in the property insurance marketplace. This marketing along with some rate softening have yielded pricing and insurance limits at least as favorable as last year even though insured values have increased. Globally, property insurance rates have softened with most renewals seeing 0% to 10% declines. Our extensive marketing effort, however, yielded almost a 30% decline in total premium, a far better result than the general market trends.

The Recommended Program secures the All Risk deductible at \$250,000 with no earthquake coverage and a flood deductible at 5% per location subject to a \$250,000 minimum. If a loss exceeds the deductible, All Risk coverage is provided up to \$300 million per occurrence and \$150 million for flood (an increase of \$50 million in limits). Attachment A includes a graphic representation of the premium history, final pricing and carriers for this year's property insurance renewal.

FINANCIAL IMPACT

Funding for two months of this \$2.2 million in premiums is incorporated into the FY08 budget. The remaining 10 months of premiums will be included in the FY09 budget, cost center 0531, Risk Management – Non Departmental Costs, under projects 100090 – Gateway Building Costs, 301001 Bus Operations – San Fernando Valley (SFV), 302001 – San Gabriel Valley (SGV), 303001 – Gateway, 304001 – South Bay (SB), 305001 – Westside Central (WC), 301012 – Metro Orange Line, 300022, Rail Operations - Blue Line, 300033, Rail Operations – Green Line, and 300044, Rail Operations – Red Line, 300055, Rail Operations - Gold Line and 610061 – Owned Property. In FY08, \$3.0 million will be expensed on this item.

ALTERNATIVES CONSIDERED

	Current Program	Current Program - Final Pricing	Recommended Program - Preliminary Pricing	Option B - Preliminary Pricing	Option C - Preliminary Pricing
Deductibles	\$250,000 All Risk/5% of structure value for Flood	\$250,000 All Risk/5% of structure value for Flood	\$250,000 All Risk/5% of structure value for Flood	\$250,000 All Risk/5% of structure value for Earthquake and Flood	\$250,000 All Risk/5% of structure value for Earthquake and Flood
All Risk Limits	\$300 Million	\$300 Million	\$300 Million	\$300 Million	\$300 Million
Earthquake Limits	None	None	None	\$30 Million	\$50 Million after first \$50 million of self-insured retention
Flood Limits	\$100 Million	\$150 Million	\$100 Million	\$100 Million	As Earthquake Limits
Total Not to Exceed or Actual Premium	\$3,192,188	\$2,245,833	\$3,200,000	\$5,200,000	\$4,200,000

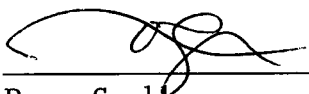
ATTACHMENT

A. PREMIUM HISTORY AND FY09 FINAL PRICING

Prepared by: Greg Kildare, Executive Officer Risk Management



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Roger Snoble
Chief Executive Officer

Attachment A

Premium History for Property and Boiler and Machinery Policies
Ending in the Following Fiscal Years

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
All Risk	\$4.7 Mil	\$5.4 Mil	\$5.5 Mil	\$4.8 Mil	\$4.6 Mil	\$3.9 Mil	\$3.1 Mil	\$3.1 Mil
Boiler & Machinery	\$135,000	\$135,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Premium	\$4.8 Mil	\$5.5 Mil	\$5.6 Mil	\$4.9 Mil	\$4.7 Mil	\$4.0 Mil*	\$3.2 Mil*	\$2.2 Mil*
TIV = Total Ins. Val.	\$5.0 Bil	\$5.2 Bil	\$5.8 Bil	\$6.0 Bil	\$6.5 Bil	\$6.7 Bil	\$6.7 Bil	\$7.0 Bil

* Excludes Earthquake Insurance

FY09 FINAL PRICING AND CARRIERS

Excess Limit	Layer(s)	Participation	Carrier	Premium	Estimated Taxes	Carrier Status	Company AmBest Rating	
\$150M	ALL RISK EXCLUDING EARTHQUAKE AND FLOOD	\$150M xs \$150M	\$ 50,000,000	Commonwealth Insurance Co.	\$ 100,000	\$ 3,125	Non Admitted	A- IX
			\$ 50,000,000	Continental Casualty (C.N.A.)	\$ 100,000	\$ -	Admitted	A XV
			\$ 50,000,000	Axis Surplus Insurance Co.	\$ 100,000	\$ 3,125	Non Admitted	A- IX
			\$ 150,000,000	Layer Total	\$ 300,000	\$ 6,250		
\$150M	ALL RISKS INCLUDING FLOOD EXCLUDING EARTHQUAKE	\$150M Primary	\$ 100,000,000	LEXINGTON	\$ 1,266,667	\$ 39,583	Non Admitted	A+ XV
			\$ 50,000,000	LIBERTY MUTUAL	\$ 633,333	\$ -	Admitted	A+ XV
			\$ 100,000,000	Layer Total	\$ 1,900,000	\$ 39,583		
				\$ 2,200,000	\$ 45,833			
					\$ 2,245,833			

