



## Agenda Item 7a

May 15, 2012

**ITEM NAME:** Specialty Investment Audit Services Spring-Fed Pool

**PROGRAM:** Audit Services

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

In April 2011, the Board approved the establishment of a Specialty Investment Audit Services Spring-Fed Pool (Pool) to replace and expand services provided by the existing pool of real estate auditors. See Attachment 2. This new Pool will consist of independent firms possessing specialized investment audit expertise to allow expanded capabilities for performing compliance or consulting reviews. This Pool will provide CalPERS with increased assurance of compliance by investment advisors, partners, managers, and programs across CalPERS investment portfolio and enhance CalPERS ability to mitigate risks and meet its fiduciary responsibilities. The Pool supplements OFAS available resources and provides flexibility to engage firms to continue with real estate compliance reviews, address additional potential areas such as investments in international locations, increase coverage of alternative investment managers, and provide additional assurance of compliance over external managers. OFAS will continue to work closely with the Investment Office in performing these reviews.

### **ANALYSIS**

The Pool has 19 independent firms for OFAS to select for engagements. See Attachment 1. Although we plan to develop contracts with each of the proposers, OFAS is not required to engage any of the firms. We will only engage firms when the need arises for specific expertise or when sufficient resources do not exist within our Office. We are building internal capabilities to assist the Investment Office in performing external reviews of advisors, partners and managers. We plan to increase the use of internal resources for these types of reviews and minimize the use of external resources to those reviews requiring specialty expertise or access to geographical regions, or other demonstrable need.

We adhere to the Spring-Fed Pool letter of engagement procedures outlined by the Operations Support Services Division. Our criteria to engage audit firms are based on auditor expertise, availability, cost, absence of conflict of interest, and geographical location to auditee.

On July 1, 2007, the Finance Committee approved an annual budget not to exceed \$1.5 million. The average cost for a typical agreed-upon procedures review ranges from approximately \$40,000 to \$60,000. Refer to Attachment 3 for an information summary of fees incurred for the last three fiscal years.

The Office of Audit Services will work closely with the Investment Office and the individual firms in the Pool to minimize costs while achieving desired audit coverage as efficiently and effectively as possible.

**ATTACHMENTS**

Attachment 1 - List of firms in the Specialty Investment Audit Services Spring-Fed Pool.

Attachment 2 - April 12, 2011 Agenda Item – Establishment of Specialty Investment Audit Services Spring-Fed Pool

Attachment 3 - Real Estate Compliance Auditor Fees for Last Three Fiscal Years

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