



Agenda Item 5a

November 17, 2015

ITEM NAME: Request for Proposal (RFP) for Selection of Independent Financial Statement Auditor for Audit Years 2017-21

PROGRAM: Audit Services

ITEM TYPE: Action

RECOMMENDATIONS

Approve issuance of the Request for Proposal (RFP) for Selection of Independent Financial Statement Auditor (Board's Independent Auditor), the proposed contract duration, and RFP selection process and recommend approval of the proposed contract duration to the Board of Administration (Board).

EXECUTIVE SUMMARY

The CalPERS Board has delegated to the Risk and Audit Committee the authority to conduct the RFP process for selection of the Board's Independent Auditor and to recommend the Finalist to the Board.

The purpose of this agenda item is twofold. First, it seeks formal approval to initiate a competitive selection process to engage the services of a qualified audit firm to perform audits of CalPERS' financial statements for Fiscal Years 2016-17 through 2020-21. Second, it seeks approval by the Committee and a recommendation to the Board to approve the five and one half year contract duration. Since the term of this proposed contract exceeds five years, Board approval is necessary.

STRATEGIC PLAN

This item is not a specific product of the Strategic Plan but assists the Board in fulfilling its fiduciary role and statutory responsibility to secure an annual independent financial statement audit.

BACKGROUND

The Public Employees' Retirement Law requires the Board of Administration to annually employ a Certified Public Accountant to audit CalPERS' financial statements. According to the applicable statutes, the Board is also required to file copies of these audit reports with the Governor, the Secretary of the Senate, and the Chief Clerk of the Assembly. In addition, a copy of the final audited financial statements must be provided each October to the State Controller's Office for inclusion in the State Government Annual Financial Reports.

The term of the current Board's Independent Auditor, Macias Gini & O'Connell LLP, will expire with the conclusion of the Fiscal Year 2015-16 financial statement audit.

ANALYSIS

A competitive selection process is proposed, including the issuance of a RFP, to secure the Board's Independent Auditor. The Board's Independent Auditor will provide external auditing services as required by statute. Staff's recommendations for securing these services are as follows:

Contract Duration

Staff recommends that contract duration be approved for five and a half years. Board Resolution 92-04B-2 permits a contract duration for more than a five year term where the Board affirmatively determines that a longer term is necessary to fulfill the Board's duty to serve the interests of the System members and beneficiaries, including the interest in defraying administrative expenses. Such a determination shall only be made after considering: 1) The impact of a longer term upon the System's interests in obtaining quality services at a reasonable cost; and 2) The System's ability to monitor the performance of contractors with such lengthy contract terms, and to take corrective action (including expeditious termination of the contract) if necessary to fulfill the Board's fiduciary duties.

The proposed contract duration is necessary because the audit field work for the final fiscal year of the contract is typically completed during the period of July through October. Independent Auditor's reports are presented to the Risk and Audit Committee in November. The proposed six-month extension beyond five years allows the audit firm sufficient time to complete the audit, prepare the management letter, and perform other attest work while providing a coordinated transition for the successive financial statement audit firm. Despite the five and one half year contract duration, the audit firm selected will only audit five years of financial activity. The term is necessary to fulfill the Board's duties to serve the interests of the members and defray costs by ascertaining independent audit reviews of the System's financial statements and allows the Board to meet its statutory and fiduciary duties.

Minimum Qualifications

The minimum qualifications in the prior RFP included 14 distinct requirements. Staff enhanced two requirements in Attachment 1, Items 2 and 9. Staff also suggests an addition to the qualifications to further refine the minimum qualifications as shown in Item 3.

- Audit experience - Staff enhanced the audit experience in Items 2 and 9 to require firms to have conducted within the last seven years at least two audits of defined contribution plans, health plans and other post-employment benefit plans.

- GASB 67 and GASB 68 – Staff added Item 3 related to audit knowledge of and experience with new Government Accounting Standards Board (GASB) Statements No. 67 and 68. Government entities such as CalPERS are governed by GASB.

The objective of these GASB Statements is to improve financial reporting by state and local governments with respect to their pension plans. The new standards were designed to provide decision-useful information, increased transparency, and comparability of pension information across governments.

RFP Schedule

Upon approval of the issuance of the RFP, staff anticipates a release date of the RFP in the Spring 2016 and anticipates a contract start date of January 2017.

Proposed RFP Selection Process

Staff proposes the following competitive selection process. Upon receipt of the proposals, firms will be assessed against a robust Minimum Qualifications review. Firms that satisfy the Minimum Qualifications will advance to the Technical Proposal Evaluation. The Evaluation Team will review the proposals and may receive guidance and oversight from two members of the Risk and Audit Committee. Proposals that pass the Technical Proposal Evaluation will advance to the Fee Proposal Evaluation phase. Once the Evaluation Team scores the Fee Proposals, the Risk and Audit Committee will recommend the Finalists to the Board.

The Risk and Audit Committee will conduct interviews for the Finalists and determine a score as a group for each Finalist with a maximum of 700 points and then motion the interview score. The interview score will then be combined with the Fee Proposal score and any applicable Preference and/or Incentive Points for a total score. The Board will award the contract to the candidate receiving the highest overall score, and the Notice of Award will be issued.

Staff recommends approval of the following scoring process. Staff proposes a total score of 1000 points to be distributed as follows:

	Maximum Score
Technical Proposal.....	Pass/Fail*
Fee Proposal.....	300 points 30%
Risk and Audit Committee Interview	<u>700 points</u> <u>70%</u>
Total	1,000 points 100%

*Proposers that satisfy the Minimum Qualifications will move on to the Technical Proposal Evaluation Phase. A minimum score of 140 points is required to pass the Technical Proposal Evaluation in order to advance to the Fee Proposal Evaluation. These points do not carry over, and are not factored into the Proposer's final score.

Proposers must pass the Technical Proposal Evaluation in order to advance to the Fee Proposal Evaluation.

Staff's recommendation as detailed above is consistent with the Government Finance Officers' Association's Best Practice guidance which states, "The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit."

BUDGET AND FISCAL IMPACTS

The total costs associated with the resultant contract will be negotiated with the successful bidder.

BENEFITS/RISKS

Issuance of the RFP authorized by the Board to obtain the services of a qualified firm to audit CalPERS' financial statements ensures CalPERS complies with Government Code Section 20228. It also assists the Board in fulfilling its fiduciary role and statutory responsibility in selecting an annual independent external financial statement auditor.

CalPERS could impact the issuance of the State Government Annual Financial Reports if CalPERS fails to file timely annual audited financial statements with the applicable State agencies.

ATTACHMENT

Attachment 1 – Proposed Minimum Qualifications for Independent Financial Statement Auditor Request for Proposal.

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