



Risk and Audit Committee Agenda Item 5a

September 20, 2016

Item Name: Finalist Selection for the Independent Financial Statement Auditor

Program: Audit Services

Item Type: Action

Recommendation

Recommend the firms, who have passed the technical proposal evaluation, to the CalPERS Board of Administration (Board) for selection of Finalists to appear before the Risk and Audit Committee in November 2016 for an oral interview to provide independent financial statement auditing services as specified in Request for Proposal (RFP) No. 2015-8132.

Executive Summary

The Board has delegated to the Risk and Audit Committee the authority to conduct the selection of the Board's Independent Financial Statement Auditor and to recommend the Finalist to the Board. On November 17, 2015, the Board approved the release of a RFP to initiate a competitive selection process to engage the services of a qualified audit firm to perform audits of CalPERS' financial statements for Fiscal Year 2016-17 through 2020-21.

CalPERS released the RFP on May 11, 2016 and received a total of four proposals. Staff has completed the technical and fee proposal evaluations. Three of the four proposals passed the technical and fee proposal evaluations, from which the Board will select the Finalist, who will appear before the Risk and Audit Committee in November 2016 for an oral interview.

The purpose of this agenda item is to present to the Board the proposers who have passed the technical proposal evaluation for the Board's selection of the Finalists.

Strategic Plan

This item is not a specific project 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

Government Code 20228 requires the Board 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 the audit report 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 of California Comprehensive Annual Financial Report. The contract with Board's Independent Auditor, Macias Gini & O'Connell LLP, will expire with the conclusion of the Fiscal Year 2015-16 financial statement audit.

On November 17, 2015, the Board approved the release of a RFP to solicit proposals from qualified firms to provide independent financial statement auditing services to the Board. CalPERS intends to enter into a five and a half year contract beginning on January 1, 2017. 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.

Analysis

CalPERS released RFP No. 2015-8132 on May 11, 2016 and received four proposals by the final filing date of June 23, 2016. Three of the four proposals passed the technical proposal evaluation. One firm was disqualified, Sotomayor & Associates, LLP, because it did not meet minimum qualifications which require the Principal actuary assigned to this audit to have at least five years of professional experience, as of May 1, 2016, in defined benefit pension actuarial area and be a Fellow or Associate of the Society of Actuaries.

The three firms passed the technical proposal evaluation and moved on to the fee proposal phase. Each firm’s corresponding fee proposal score and DVBE incentive point allocation are detailed in the table below. The firm profile for each recommended firm is included as Attachment 1.

| Independent Financial Statement Auditor | | | | | |
|---|-----------------------------|------------------------------------|--------------------|-----------------------|-------------------------|
| Current Rank | Proposer | Total Proposed Fees for Five Years | Fee Proposal Score | DVBE Incentive Points | Preliminary Total Score |
| 1 | Macias Gini & O’Connell LLP | \$2,491,300 | 300 | - | 300 |
| 2 | Crowe Horwath LLP | \$8,317,850 | 90 | 50 | 140 |
| 3 | Grant Thornton LLP | \$10,384,033 | 72 | 50 | 122 |

Each Finalist rated as satisfactory in all categories of the technical and fee proposal evaluations will be required to appear for an oral interview with the Risk and Audit Committee in November 2016. Interviews provide the Risk and Audit Committee an opportunity to consider each of the recommended Finalist’s proposal, including fees and any other specific areas of the proposal for which clarification is necessary.

Each firm selected for an interview will have 30 minutes before the Risk and Audit Committee, which will consist of a 10 minute presentation and a 20 minute question and answer session.

Following each firm’s interview, the Risk and Audit Committee will determine a score as a group for each Finalist with a maximum of 700 points. The Interview Score of each Finalist will be combined with the Fee Proposal Score and any applicable Preference and/or Incentive Points for a Total Score. The Finalists will be ranked according to their Total Scores from highest to lowest.

The distribution of maximum possible points is as follows:

- Technical proposal: Pass/Fail*
- Fee Proposal: 300 points maximum
- Risk and Audit Committee Interview: 700 points maximum



- Preference and/or Incentive Points:
 - Small Business Preference – A preference of five percent of the total overall points will be awarded to the highest scored certified Small Businesses or non-small businesses claiming California-certified small business/microbusiness subcontractor participation for at least 25 percent of its bid.
 - Disabled Veteran Business Enterprise (DVBE) Incentive – DVBE incentive points of 30-50 will be awarded to proposers based on confirmed DVBE participation level from 3.01 to 5 percent.

*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.

At the November 2016 Board meeting, the Board will award the contract to the candidate receiving the highest Total Score, and the Notice of award will be issued.

Budget and Fiscal Impacts

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

Benefits and Risks

Selecting the Finalists to interview supports the Board and Risk and Audit Committee in meeting their objectives to prudently manage the System and fulfilling their fiduciary role and statutory responsibility in selecting an independent external financial statement auditor.

In addition, CalPERS could impact the issuance of the State of California Comprehensive Annual Financial Report if CalPERS fails to timely file the annual audited financial statements with the applicable State agencies.

Attachments

Attachment 1 – Finalist Profile Summary

BELIZ CHAPPUIE

Chief Auditor
Office of Audit Services

MATTHEW G. JACOBS

General Counsel

