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November 15, 2016

**Item Name:** Finalist Interviews for the Independent Financial Statement Auditor

**Program:** Audit Services

**Item Type:** Action

**Recommendation**

Staff recommends the Risk and Audit Committee interview the Finalists and award the contract under Request for Proposal (RFP) No. 2015-8132 to the Finalist having the highest Total Score, subject to final negotiations and satisfaction of all requirements. In the event negotiations are unsuccessful, award the contract to the Finalist having the second highest Total Score, subject to final negotiations and satisfaction of all requirements.

**Executive Summary**

The CalPERS Board of Administration (Board) has delegated to the Risk and Audit Committee the authority to conduct the selection of the Board's Independent Financial Statement Auditor and recommends the finalist to the Board. On November 17, 2015, the Board approved the release of an 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 Years 2016-17 through 2020-21.

CalPERS released the RFP on May 11, 2016 and received a total of four proposals. Staff completed the technical and fee proposal evaluations. Three of the four proposals passed the technical and fee proposal evaluations. On September 20, 2016, the Board approved the selection of all three Finalists for an oral interview by the Risk and Audit Committee.

The purpose of this agenda item is to present the three Finalists for the oral interviews and seek approval for awarding the contract. CalPERS intends to enter into a five and one half year contract beginning on January 1, 2017.

**Strategic Plan**

This item is not a specific project of the Strategic Plan but assists the Board in fulfilling its fiduciary and statutory responsibility to employ an audit firm to conduct independent financial statement audits.

**Background**

Government Code section 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. The contract with 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.

On November 17, 2015, the Board approved the release of an RFP to solicit proposals from qualified firms to provide independent financial statement audit services to the Board. 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 and fee proposal evaluations. On September 20, 2016, the Board approved the selection of the three Finalists for oral interviews by the Risk and Audit Committee.

**Analysis**

The following chart summarizes current ranking and preliminary total scores of the three Finalists, including the Fee Proposal Scores and Disabled Veteran Business Enterprise (DVBE) Incentive Points.

Independent Financial Statement Auditor Finalists					
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

Interviews provide the Risk and Audit Committee the opportunity to further consider each of the Finalist's proposals, including fees and any other specific areas of the proposal for which clarification is necessary.

Under separate cover, the Finalist interview packet is provided to assist the Board with its interviews and evaluations. Each firm will have 30 minutes before the Risk and Audit Committee, which consist of a 10-minute presentation and a 20-minute question and answer session. Following the interviews, the Risk and Audit Committee will determine a score as a group for each Finalist and motion the Interview Score, with a maximum of 700 points.

Each Finalist's Interview Score 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 contract award will be made to the Finalist receiving the highest Total Score, subject to final negotiations and satisfaction of all requirements. If negotiations are not successful, the contract award will be made to the Finalist receiving the next highest Total Score, subject to final negotiations and satisfaction of all requirements. Notice of CalPERS intent to award to the selected Finalist will be posted at CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) for five State business days before the award is made.

**Budget and Fiscal Impacts**

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



**Benefits and Risks**

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

In addition, failure to secure independent financial statement audits would result in noncompliance with Government Code section 20228.

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