



Risk and Audit Committee Agenda Item 6c

November 14, 2018

Item Name: Independent Financial Statement Auditor Selection

Program: Audit Services

Item Type: Action

Recommendation

The Risk and Audit Committee (RAC) approve and recommend to the CalPERS Board of Administration (Board) one of the following options identified by staff to secure the Board's Independent Financial Statement Auditor: 1) Approve the Finalist who has passed the technical proposal evaluation and interview the Finalist to award the independent financial statement auditing services contract under the Request for Proposal (RFP) No. 2018-8484, subject to final negotiations and satisfaction of all requirements; 2) Cancel RFP No. 2018-8484 without awarding the independent financial statement auditing services contract and reissue the RFP to seek additional vendor participation; or 3) Direct staff to attempt to extend the existing independent financial statement auditor one-year contract by one additional year, with a new RFP to be issued at a later date.

Executive Summary

The Board has delegated to RAC the authority to conduct the selection of the Board's Independent Financial Statement Auditor and to recommend the Finalist to the Board. On September 13, 2018, CalPERS released the 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 2018-19 through 2022-23. CalPERS received one proposal from KPMG, LLP (KPMG), which passed both technical and fee proposal evaluation.

Since CalPERS received no other proposals, the RAC must select and recommend the process by which the Board will secure independent financial statement auditing services. If the RAC were to cancel the existing RFP, there will be some time required to reissue the RFP and complete the evaluation of response(s). It is also possible that more vendors will not respond.

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 employ an audit firm to conduct annual 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. In addition, a copy of the final audited financial statements must be provided each October to the State Controller's Office and the California State Auditor's Office for inclusion in the State of California Comprehensive Annual Financial Report. The contract with the current Board's Independent Auditor, KPMG, will expire with the conclusion of the Fiscal Year 2017-18 financial statement audit.

Analysis

On September 13, 2018, CalPERS released the RFP to solicit proposals from qualified firms to provide independent financial statement auditing services to the Board. CalPERS received one proposal from KPMG by the final filing date of October 18, 2018. The proposal passed the technical and fee proposal evaluations.

The following chart summarizes the preliminary score of the Finalist, including the Fee Proposal Score and Disabled Veteran Business Enterprise (DVBE) Incentive Points.

Independent Financial Statement Auditor				
Proposer	Total Proposed Fees for Five Years	Fee Proposal Score	DVBE Incentive Points	Preliminary Total Score
KPMG	\$19,500,000	300	30	330

An interview provides the RAC an opportunity to further consider the Finalist's proposal, including fees and any other specific areas of the proposal for which clarification is necessary. The Finalist is available to be interviewed at today's meeting, should the Committee accept it as a Finalist and decide to proceed with an interview.

In preparation for an interview, the Finalist interview packet is provided separately to assist RAC with its interview and evaluations. The Finalist will have thirty minutes for an interview before the RAC, which will consist of a ten minute presentation and a twenty minute question and answer session.

If the RAC elects to go forward, following the interview, the RAC will determine a score as a group for the Finalist and motion the Interview Score, with a maximum of 700 points. The Interview Score will be combined with the Fee Proposal Score and any applicable Preference

and/or Incentive Points for a Total Score. The distribution of maximum possible points is as follows:

- Technical proposal: Pass/Fail¹
- Fee Proposal: 300 points maximum
- Risk and Audit Committee Interview: 700 points maximum
- Preference and/or Incentive Points:
 - 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.

The Board may award the contract to the Finalist, subject to final negotiations and satisfaction of all requirements. Notice of CalPERS intent to award to the Finalist will be posted at CalPERS website www.calpers.ca.gov for five State business days before the award is made.

If the RAC elects to forgo an interview or elects not to recommend the Finalist to the Board, then it must consider the other options described above. The option selected by the RAC will then be presented to the Board for final approval.

Budget and Fiscal Impacts

The total costs associated with any contract will be negotiated.

Benefits and Risks

Selection of independent financial statement auditor services supports the Board and RAC 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.

Failure to secure independent financial statement audits would result in non-compliance with Government Code section 20228. 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.

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¹ A minimum score of 140 points is required to pass the technical proposal evaluation to advance to the Fee Proposal Evaluation. These points do not carry over and are not factored into the Proposer's final score.