



Risk and Audit Committee

Agenda Item 7a

February 20, 2019

Item Name: Finalist Interviews for the Independent Financial Statement Auditor

Program: Audit Services

Item Type: Action

Recommendation

The Risk and Audit Committee (RAC) interview and score the Finalists and recommend to the CalPERS Board of Administration (Board) award of the contract under Request for Proposal (RFP) No. 2018-8556 to the Finalist having the highest Total Score, subject to final negotiations and satisfaction of all requirements.

Executive Summary

The Board has delegated to the 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 RFP No. 2018-8484 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. Since CalPERS received just one proposal, the RAC cancelled RFP No. 2018-8484 without awarding the independent financial statement auditing services contract and instructed staff to reissue the RFP to seek additional vendor participation.

On November 28, 2018, CalPERS released RFP No. 2018-8556 and received five proposals. Four of the five proposals, which consist of BDO USA, LLP (BDO), CliftonLarsonAllen LLP (CLA), Deloitte & Touche LLP (Deloitte), and KPMG LLP (KPMG), passed the technical and fee proposal evaluations.

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, expires on March 31, 2019 with the conclusion of the Fiscal Year 2017-18 financial statement audit.

Analysis

On November 28, 2018, CalPERS released RFP No. 2018-8556 to solicit proposals from qualified firms to provide independent financial statement auditing services to the Board. CalPERS received five proposals by the final filing date of January 14, 2019. Four of the five proposals, which consist of BDO, CLA, Deloitte, and KPMG, passed the technical proposal evaluation and had their fee proposals opened and scored.

The following chart summarizes the current ranking and preliminary total scores of the four Finalists, including the Fee Proposal Scores 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
CLA	\$ 10,805,000	300	50	350
BDO	\$ 13,728,658	236	30	266
Deloitte	\$ 17,860,779	181	30	211
KPMG	\$ 18,875,000	172	30	202

Interviews provide the RAC an opportunity to further consider each Finalist's proposal, including fees and any other specific areas of the proposals for which clarification is necessary. The Finalists are available to be interviewed at today's meeting.

In preparation for the interviews, the Finalists interview packets are provided separately to assist the RAC with its interviews and evaluations. Each 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.

Following the interviews, the RAC 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 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 will award the contract 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 for five State business days before the award is made.

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 the RAC in meeting their objectives to prudently manage the System and fulfill 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.

Attachments

NA

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.

Beliz Chappuie
Chief Auditor
Office of Audit Services

Matthew G. Jacobs
General Counsel