



Risk and Audit Committee

Agenda Item 6c

November 17, 2020

Item Name: Independent Financial Statement Auditor Selection

Program: Financial Reporting and Accounting Services

Item Type: Action

Recommendation

The Risk and Audit Committee (RAC) approve and recommend to the CalPERS Board of Administration (Board): 1) the finalist selected by the Subcommittee of the Risk and Audit Committee (Subcommittee) as CalPERS' Independent Financial Statement Auditor and 2) Approve CalPERS to enter contract negotiations with the approved finalist; and if those negotiations are unsuccessful, approve CalPERS to enter contract negotiations with the next highest scoring finalist.

Executive Summary

The Board has delegated to RAC the authority to conduct the selection of the Board's Independent Financial Statement Auditor using a Subcommittee of the RAC and to recommend the finalist to the Board. On May 5, 2020, CalPERS released RFP No. 2020-8853 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 2020-21 through 2024-25. CalPERS received five responsive proposals: BDO USA, LLP, CliftonLarsonAllen LLP, Deloitte & Touche LLP, Eide Bailly LLP and KPMG LLP. All proposals passed both technical and fee proposal evaluations.

This item is for the Subcommittee of the Risk and Audit Committee (RAC) to present the highest scoring finalist for the Independent Financial Statement Auditor. Upon RAC approval, CalPERS will enter contract negotiations with the approved finalist. If contract negotiations are unsuccessful with the approved finalist, this item also seeks approval to enter contract negotiations with the second highest scoring finalist, as allowable per the related Request for Proposal 2020-8853 (RFP).

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 accounting firm 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, BDO USA, LLP, expires on March 31, 2021 with the conclusion of the Fiscal Year 2019-20 financial statement audit.

On September 21, 2020, a Subcommittee of the RAC interviewed the finalists for the Independent Financial Statement Auditor, Request for Proposal No. 2020-8853.

Each finalist was allotted 30 minutes for the interview consisting of 10 minutes for presentation and 20 minutes for questions and answers. All finalists were asked the same questions. If needed, the Subcommittee had an additional five (5) minute period to ask clarifying questions based on the finalist's interview responses. Following the interviews, the Subcommittee determined a score as a group for each finalist and motioned the Interview Score, with a maximum of 700 points. Each finalist's Interview Score was combined with the Fee Proposal Score and any applicable Preference and/or Incentive Points for a Total Score.

The following chart summarizes the finalists ranked according to their Total Scores from highest to lowest:

Independent Financial Statement Auditor				
Finalist	Total Proposed Fees for Five Years	Preliminary Total Score	Interview Score	Grand Total Score
BDO USA, LLP	\$13,250,000	328	640	968
KPMG, LLP	\$13,750,000	298	660	958
CliftonLarsonAllen, LLP	\$12,296,125	300	650	950
Eide Bailly, LLP	\$14,000,680	293	575	868

Deloitte & Touche, LLP	\$17,860,779	237	550	787
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Analysis

At today’s meeting, the Subcommittee is presenting the top highest scoring proposer from the table above: BDO USA, LLP with a total of 968 points for approval by the RAC as the Independent Financial Statement Auditor.

KPMG, LLP and CliftonLarsonAllen, LLP were the second and third ranked proposers with 958 and 950 total points, respectively.

The RAC 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 shall comport with the fees presented in the successful Proposer’s RFP Fee Proposal but may be negotiated in the event the scope of services changes or, in CalPERS’ estimation, renegotiation of fees is otherwise necessary.

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 an independent financial statement auditor 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.

Michele Nix
Controller

Michael Cohen
Chief Financial Officer