



## Risk and Audit Committee

# Agenda Item 4c

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February 18, 2025

**Item Name:** External Audit Services Request for Proposal

**Program:** Audit Services

**Item Type:** Action consent

### Recommendation

Approve issuance of a Request for Proposal (RFP) for Selection of Independent Financial Statement Auditor (Board's Independent Auditor) and RFP selection process to include the formation a subcommittee of the Risk and Audit Committee to interview and recommend finalist to the full Committee and Board of Administration (Board) for a five-year contract that will exceed \$1 million.

### Executive Summary

The CalPERS Board has delegated to the Risk and Audit Committee or subcommittee of the full Committee, the authority to conduct the RFP process for selection of the Board's Independent Auditor and to recommend the Finalist to the Board.

The purpose of this agenda item is to seek formal approval 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 2025-26 through 2029-30.

### Strategic Plan

This agenda item supports the Pension Sustainability Strategic Plan Goal – Strengthen the long- term sustainability of the pension fund. . The Board's Independent Auditor will provide the Risk and Audit Committee and full Board with oversight and audit recommendations on financial reporting, which plays an integral role in the success and sustainability of the Total Fund.

### Background

The Public Employees' Retirement Law requires the Board of Administration 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 these audit reports 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 Government Annual Financial Reports. The term of the current Board's Independent Auditor, BDO USA, LLP, will expire with the conclusion of the Fiscal Year 2024-25 financial statement audit.

**Analysis**

A competitive selection process is proposed, including the issuance of a RFP, to secure the Board's Independent Auditor. The Board's Independent Auditor will provide external auditing services as required by statute. Staff's recommendations for securing these services are as follows:

RFP Schedule

Upon approval of the issuance of the RFP, staff anticipates a release date of the RFP in the Spring 2025 and anticipates a contract start date of May 2026.

Proposed RFP Selection Process

Staff proposes the following competitive selection process:

Upon receipt of the proposals, firms will be assessed by staff against a robust Minimum Qualifications review, adequate to select a quality vendor. Firms that satisfy Minimum Qualifications will advance to the Technical Proposal Evaluation. The Technical Evaluation Team will include two members of the Risk and Audit Committee and three staff to review the proposals for technical requirements. Proposals that pass the Technical Proposal Evaluation will advance to the Fee Proposal Evaluation phase. Once the Technical Evaluation Team scores the Fee Proposals, a subcommittee of the Risk and Audit Committee will conduct interviews for the Finalists and determine a score as a group for each Finalist with a maximum of 700 points. The interview score will then be combined with the Fee Proposal score and any applicable Preference and/or Incentive Points for a total score. The subcommittee will present a recommendation for the firm receiving the highest overall score to the full Risk and Audit Committee for consideration of contract award recommendations.

Staff recommends approval of the following scoring process. Staff proposes a total score of 1000 points to be distributed as follows:

	Maximum Score
Technical Proposal.....	Pass/Fail*
Fee Proposal.....	300 points 30%
Risk and Audit Committee Interview .....	<u>700 points</u> <u>70%</u>
Total.....	<b>1,000 points 100%</b>

\*Proposers must satisfy Minimum Qualifications before moving on to the Technical Proposal Evaluation Phase. 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. Proposers must also pass the Technical Proposal Evaluation in order to advance to the Fee Proposal Evaluation.

Staff's recommendation as detailed above is consistent with the Government Finance Officers' Association's Best Practice guidance which states, "The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit."

### **Budget and Fiscal Impacts**

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

### **Benefits and Risks**

Issuance of the RFP authorized by the Board to obtain the services of a qualified firm to audit CalPERS' financial statements to ensure CalPERS complies with Government Code Section 20228. It also assists the Board in fulfilling its fiduciary role and statutory responsibility in selecting an annual independent external financial statement auditor.

CalPERS could impact the issuance of the State Government Annual Financial Reports if CalPERS fails to file timely annual audited financial statements with the applicable State agencies.

### **Attachments**

None

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Financial Reporting and Accounting Services

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MICHELE NIX  
Chief Financial Officer  
Financial Office