



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUEST FOR PROPOSAL – AUDIT SERVICES

KCERA
Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield CA 93311
Tel 661.381.7700
Fax 661.381.7799
www.kcera.org

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUEST FOR PROPOSAL – AUDIT SERVICES

Table of Contents

<u>Section</u>	<u>Page No.</u>
I. Introduction	1
A. General Information	1
B. Term of Engagement	2
C. Qualification of Auditor	2
II. Description of Entity and Records to be Audited	2
A. General Background	2
B. Investments	3
C. Accounting and Reporting	3
D. Systems Applications	4
E. Administrative Expenses	4
F. Actuarial Services and Information	4
G. Membership Plans	5
H. Benefit Provisions	5
I. Reserves	6
III. Nature of Services Required	7
A. General	7
B. Scope of Work to be Performed	7
C. Auditing Standards to be Followed	8
D. Working Paper Retention and Access to Working Papers	8
IV. Reports to be Issued	8
A. Independent Auditor's Report	8
B. Required Communication to the Board and Management	9
C. Irregularities and Illegal Acts	9
D. Compliance Report	9
V. Time Requirements	10
A. Critical Dates in RFP Process	10
B. Date Final Report for Fiscal Year 2007-08 Audit is Due	10
VI. Assistance to be Provided to the Auditor	11
A. Assistance During Engagement	11
VII. Entrance and Exit Conferences	11
A. Entrance Conference	11
B. Progress Reports	11
C. Exit Conference(s)	12

VIII.	Bidding Requirements	12
	A. General	12
	B. Preparation of Responses	12
	C. Submission of Proposals	12
	D. Communications with KCERA	13
	E. Proposal Contents	13
	1. Cover Letter	13
	2. Table of Contents	14
	3. Executive Summary	14
	4. Technical Proposal	14
	5. Sealed Dollar (\$) Cost Bid	17
	6. Additional Data and Attachments	19
IX.	Evaluation and Selection Procedures	19
	A. General	19
	B. Evaluation Committee	19
	C. Review of Proposals	19
	1. Mandatory Elements	20
	2. Technical Qualifications and Price	20
X.	Terms and Conditions	22
	A. Right to Reject Proposals	22
	B. Public Record and Confidentiality of RFPs	23
	C. Confidentiality of Data and Information	23
	D. Disposition of Proposals and Proprietary Data	23
	E. Collusion Affidavit/Conflict of Interest	25
	F. Sub-Contracting	25
	G. Consultant's Liability and Insurance Requirements	25
XI.	Contract Form	26

Exhibits

- A.** "Minimum Audit Requirements and Reporting Guidelines for California Retirement Systems," issued by the State Controller
- B.** KCERA Organization Chart and List of Key Personnel
- C.** KCERA Investment Fund Manager Risk Assessment Program
- D.** KCERA 2011 Audited Financial Statements
- E.** Standard Legal Language to be included in the Audit Contract

Attachments (Forms that Require Completion)

1. Notification of Interest (Example Letter)
2. Qualifications and Experience Certification
3. Minimum and Desirable Qualifications Certification
4. Sealed Dollar Cost Bid
5. Background and Reference Checks

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION REQUEST FOR PROPOSAL – AUDIT SERVICES

SECTION I. INTRODUCTION

A. General Information

The Kern County Employees' Retirement Association (KCERA) is requesting proposals from qualified firms of certified public accountants (Auditor) to audit its financial statements for the fiscal year ending June 30, 2012 and for each of the two (2) subsequent fiscal years, contingent on the stipulations in the "term of engagement" as stated below (Section I.B.).

These audits are to be performed in accordance with Government Auditing Standards issued by the Comptroller of the United States, and the "*Minimum Audit Requirements and Reporting Guidelines for California Public Retirement Systems*" issued by the California State Controller (See Exhibit A).

Clarifications of or requests for additional information to this Request for Proposal should be submitted to KCERA's Executive Director Anne M. Holdren by email at holdrena@co.kern.ca.us or fax 661-381-7700 by February 22, 2012.

To be considered, fifteen (15) hard copies and an electronic copy of a proposal must be received by Anne M. Holdren at the KCERA office at 11125 River Run Boulevard, Bakersfield, CA 93311 by 5:00 PM on March 23, 2012. KCERA reserves the right to reject any and all proposals submitted.

The Audit Actuarial Committee consisting of four Board of Retirement trustees will evaluate proposals submitted and interview finalist candidates. The Audit Actuarial Committee will develop a recommendation for the Board of Retirement.

KCERA will administer the agreement that will result from this Request for Proposal (RFP). A standard form of Agreement for Auditing Services is provided with this RFP as Exhibit E. Any objections to or concerns regarding the form of Agreement must be set forth in a separate letter to be included in the Auditor's proposal.

B. Term of Engagement

A three-year agreement is contemplated, subject to the annual review and recommendation of the Board of Retirement and the satisfactory negotiation of terms (including a price acceptable to both KCERA and the selected firm). The term of the original agreement may be extended for an additional three years upon the mutual agreement of KCERA and the selected firm.

C. Qualification of the Auditor

In accordance with State Controller Guidelines, firms submitting a proposal must:

- Have sufficient knowledge and training to enable them to comply with generally accepted auditing standards.
- Have an adequate knowledge of government accounting.
- Have sufficient knowledge of pension accounting and actuarial science.

SECTION II. DESCRIPTION OF ENTITY AND RECORDS TO BE AUDITED

A. General Background

KCERA is a defined benefit pension fund established to provide retirement benefits to the employees of Kern County (County) and other participating agencies pursuant to the County Employees Retirement Law of 1937, California Government Code Section 31450, et seq. Original membership in the system began in 1945.

KCERA collects, deposits, invests, and manages retirement trust funds solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries. As of December 31, 2011 KCERA's membership included approximately 9,332 active and deferred members and 6,541 retired members. KCERA acts as fiduciary agent for the accounting and control of member and employer contributions and investment income. The trust fund had assets of approximately \$2.74 billion as of November 30, 2011.

The general management of KCERA is the responsibility of the Board of Retirement. The Board of Retirement and KCERA staff are responsible for daily operations involving the administration of retirement, disability and death benefits, member services, accounting functions, systems management, and

portfolio administration. KCERA is budgeted for 22 employee positions. Exhibit B is KCERA's organization chart.

KCERA administers "the plan" primarily for the County and the employees of the County and participating agencies: (1) Berrenda Mesa Water District, (2) Buttonwillow Recreation and Park District, (3) East Kern Cemetery District, (4) Inyokern Community Service District, (5) Kern County Water Agency, (6) Kern Mosquito and Vector Control District, (7) North of the River Sanitation District, (8) San Joaquin Valley Unified Air Pollution Control District, (9) Shafter Recreation and Park District, (10) Superior - Court of Kern County, (11) West Side Cemetery District, (12) West Side Mosquito Abatement District, and (13) West Side Recreation and Park District.

B. Investments

The Board of Retirement is responsible for all investments of KCERA and oversees the investments of 18 external investment managers. The Board utilizes the services of an investment consultant, Wurts & Associates. KCERA does not do any internal management of investments. KCERA's accounting staff does investment reconciliation accounting.

KCERA has an Investment Committee that develops investment strategies, policies and objectives and recommends their adoption by the Board of Retirement.

KCERA engages in a security lending program through the Northern Trust Company.

C. Accounting and Reporting

KCERA operates as an independent governmental entity separate and distinct from Kern County. KCERA's annual financial statements are referenced in Kern County's Annual Financial Report as a pension plan.

KCERA follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines. KCERA's financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the fund.

D. Systems Applications

The following is an overview of KCERA's existing systems applications and environment:

1. KCERA Desktop PCs are Dell Optiplex.

2. Local Area Network (LAN)

KCERA has implemented a Local Area Network (LAN) to support end-user computing and to serve as a communications network.

3. Accounting Applications

In 2007, KCERA implemented a new accounting software package - Microsoft Dynamics GP2010 software as its main general accounting record and financial reports. The program runs on the server and is loaded on selected PCs. KCERA utilizes the County of Kern's Financial Management System (FMS) and Payroll On-Line System as sub-systems for certain portions of the administrative and professional expenses as well as reporting member and employer contributions. Active members' bi-weekly payroll information is imported from the County's system into KCERA's PENSIONS administration system. Monthly retiree payroll data is transmitted from the PENSIONS administration system to KCERA's custodial bank.

KCERA is in the process of implementing a new pension administration system, CPAS Systems. The changes with the new system, include but are not limited to, an interface with Microsoft Dynamics GP2010 and in-house processing of retiree payroll.

E. Administrative Expenses

KCERA's Board of Retirement annually adopts the operating budget for the administration of KCERA. The administrative expenses are charged against the earnings of the fund and are limited to twenty-one hundredths of one percent of the Actuarial Accrued Liability of KCERA. The operating budget includes allocations for capital assets, which are capitalized upon purchase and expensed over their useful lives.

F. Actuarial Services and Information

KCERA engages an independent actuarial firm, The Segal Company, to conduct annual actuarial valuations to monitor KCERA's funding status. On a triennial basis, these valuations are updated for economic and non-economic assumptions

as required by the California Government Code. The triennial valuation was performed as of June 30, 2011. The June 30, 2010 valuation determined the GASB 25 funding status to be 62.7%. The Board of Retirement will adopt the June 30, 2011 valuation upon completion in February 2012.

Both the triennial and annual valuations use the entry age normal method, and an actuarial 5-year smoothing of asset values. The current valuation uses a 7.75% interest assumption, and a 4.00% salary assumption.

G. Membership Plans

KCERA was established on January 1, 1945 by the County of Kern Board of Supervisors under the provisions of the County Employees' Retirement Law of 1937.

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all employees of the County of Kern (Kern County), and participating agencies: (1) Berrenda Mesa Water District, (2) Buttonwillow Recreation and Park District, (3) East Kern Cemetery District, (4) Inyokern Community Service District, (5) Kern County Water Agency, (6) Kern Mosquito and Vector Control District, (7) North of the River Sanitation District, (8) San Joaquin Valley Unified Air Pollution Control District, (9) Shafter Recreation and Park District, (10) Superior - Court of Kern County, (11) West Side Cemetery District, (12) West Side Mosquito Abatement District, and (13) West Side Recreation and Park District.

Management of the Association is vested in the Board of Retirement consisting of nine members and two alternates. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the County and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; the eighth member shall be a retired member elected from the retired membership. The Association has one plan, which covers members classified as general and safety.

H. Benefit Provisions

The KCERA Plan provides for retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits.

All eligible employees must participate in KCERA. A member may retire after reaching age 50 with 10 years of service; or general members may retire with 30 years of service and safety members may retire with 20 years of service,

regardless of age. The amount of such monthly benefit is determined as a percentage of their final monthly compensation and is based on age at retirement and the number of years of service. KCERA provides an annual cost-of-living adjustment (COLA) of up to 2.5 percent for all retirees and continuance beneficiaries.

A member who leaves County service may withdraw the contributions made by the member to the Association, plus accumulated interest.

Pension provisions include deferred allowances whereby a member may terminate his or her employment with the County after five or more years of service. If the member does not withdraw his or her accumulated contributions, the member is entitled to all pension benefits after being vested five years, and upon reaching the age of 50 with ten or more years of participation in the retirement system.

A member that terminates his or her employment with the County of Kern and within six months enters another retirement system that has a reciprocal agreement with KCERA, may elect to leave their contributions on deposit with KCERA and establish reciprocity, regardless of their length of service with KCERA. Reciprocal retirement systems include any other county under the County Employees' Retirement Law of 1937, the Public Employees' Retirement System (CalPERS), and any public agency within the State of California that has a reciprocal agreement with CalPERS.

I. Reserves

Effective July 1, 1984, the Kern County Board of Supervisors adopted by resolution BOS 84-297 CERL Article 5.5 Alternative Financial Provisions. Article 5.5 provides alternative financial provisions relating to the reserve against deficiencies, the disposition of earnings and surplus earnings, the charging of costs of various benefits and functions, a supplemental Retiree Benefits Reserve, the payment of cost-of-living adjustments, a Contingency Reserve Account, related transfers, distribution and payments, definitions of the actuarial rate and net earnings, related crediting, and a standard for certain board of retirement recommendations.

In addition, the County of Kern adopted on December 11, 2001, Section 31617, which states that a fixed part of the required cost-of-living contributions shall come from excess interest earnings.

SECTION III. NATURE OF SERVICES REQUIRED

A. General

KCERA is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal year ending June 30, 2012 and the two (2) subsequent fiscal years, contingent on the stipulations in the "term of engagement" (See Section I.B.). These audits are to be performed in accordance with the provisions contained in this request for proposals.

B. Scope of Work to be Performed

The core requirements are contained in Item 1. below. Additional scope of work identified in Items 2. and 3. is ancillary. Exclusion of Items 2. or 3. will not subject the bidder to elimination from consideration.

1. KCERA requires the Auditor to express an opinion on the fair presentation of the financial statements in conformity with generally accepted accounting principles. The Auditor shall be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.

The Auditor will review the basic requirement of internal controls for KCERA. The Auditor will advise KCERA about the appropriateness of accounting policies and their application. The Auditor will evaluate KCERA's compliance with accounting principles generally accepted in the United States of America.

KCERA issues a Comprehensive Annual Financial Report (CAFR) and the Auditor will review the CAFR. The Auditor will not be required to audit the supporting schedules contained in the CAFR. However, the Auditor is to provide an "in-relation-to" opinion on the supporting schedules based on the auditing procedures applied during the audit of the general purpose financial statements. The Auditor is not required to audit the introductory, investment, actuarial, and statistical sections of the report but to review for consistency. The June 30, 2011 CAFR can be found on the KCERA website at www.kcera.org.

The Auditor will review and audit KCERA's current pension administration system, Pensions. Areas to review and audit include, but may not be limited to, the accuracy of member information, benefit calculations, and actuarial information. Upon implementation of CPAS Systems, the same areas noted for Pensions are to be reviewed and audited annually.

2. The Auditor will perform up to six on-site reviews of investment managers' risk assessment program at the manager's location throughout the United States. The Auditor will gain a general understanding of the manager's services provided. The Risk Assessment Program can be found in Exhibit C.
3. The Auditor will audit the CPAS System during parallel testing to ensure there are sufficient controls in the system, and to review the adequacy of the data conversion prior to full implementation of the system.

C. Auditing Standards to be Followed

To meet the requirements of this RFP, the audit shall be performed in accordance with Government Auditing Standards as set forth by the Comptroller General of the United States, and with the "*Minimum Audit Requirements and Reporting Guidelines for California Public Retirement Systems*", issued by the California State Controller (see Exhibit A).

D. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the Auditor's expense, during the term of the engagement and for a minimum of five (5) years thereafter, unless the firm is notified in writing by KCERA of the need to extend the retention period or unless written permission is given by KCERA to dispose of any such materials prior to this time.

The Auditor will be required to make working papers available, upon request, to KCERA, or its designees.

The Auditor shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

SECTION IV. REPORTS TO BE ISSUED

A. Independent Auditor's Report

1. Following the completion of the audit of each fiscal year's financial statements, the Auditor shall issue a report on the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States.
2. The audit report shall comment upon any occurrences of noncompliance with legal requirements and qualify or disclaim the audit opinion, if necessary.

B. Required Communication to the Board and Management

The Auditor shall prepare a separate report on the internal control structure based on the Auditor's understanding of the control structure and assessment of control risk. The report shall communicate the following elements:

- ❖ The scope of the Auditor's work in obtaining an understanding of the internal control structure, and in assessing the control risk.
- ❖ KCERA's significant internal controls or control structure including the controls established to ensure compliance with laws and regulations that have a material impact on the financial statements and results of the financial related audit.
- ❖ Significant audit findings found during the audit. A reportable condition, per Statement on Auditing Standards Number 114, is a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Non-reportable conditions discovered by the auditors shall be reported in a separate letter to management, which shall be referred to in the report[s] on internal controls.

C. Irregularities and Illegal Acts

Auditor shall be required to make an immediate, written report of all irregularities and illegal acts, or indications of illegal acts, of which they become aware to the following parties: the Chairperson of the Board of Retirement and the Executive Director.

D. Compliance Report

The Auditor shall prepare a written report on its tests of compliance and on internal control over financial reporting performed in accordance with Government Auditing Standards.

SECTION V. TIME REQUIREMENTS

A. Critical Dates in RFP Process

The following is a list of key dates in the proposal/contract process:

Request for Proposal issued	February 1, 2012
Letter of Intent to Bid due	February 22, 2012
Due Date for Proposal	March 23, 2012
Finalist Interviews with Committee	week of April 23, 2012
Retirement Board Meeting	May 16, 2012
Date for Notifying Firm Awarded Contract	May 18, 2012
Contract Executed	June 13, 2012

B. Date Final Report for Fiscal Year 2011-12 Audit is Due

A draft Auditor's report will be delivered to the Executive Director and Retirement Financial Officer by early November 2012.

The Executive Director and Retirement Financial Officer will complete their review of the draft report as expeditiously as possible. It is expected that this process should not exceed one week. During that period, the Auditor should be available for any meetings with the Audit Actuarial Committee that may be necessary to discuss the audit reports. Once all issues for discussion are resolved, the final signed report shall be delivered to the Board of Retirement. It is anticipated that this process will be completed and the final report delivered by the first week in December.

The final report will be submitted electronically in addition to fifteen (15) signed copies plus a master copy to be used for photocopying. They are to be delivered to KCERA at 11125 River Run Boulevard, Bakersfield, CA 93311.

SECTION VI. ASSISTANCE TO BE PROVIDED TO THE AUDITOR

A. Assistance During Engagement

1. KCERA will prepare year-end closing entries, draft financial statements, footnotes, and all required supplementary schedules. The Auditor will provide to the Executive Director and Retirement Financial Officer all recommendations, revisions and suggestions for improvement to the Financial Statements by early November 2012.
2. KCERA will arrange for reasonable office space, desks, tables and chairs.

SECTION VII. ENTRANCE AND EXIT CONFERENCES

A. Entrance Conference

Prior to commencing fieldwork, the Auditor will attend an entrance conference with KCERA management. The purpose of this meeting will be to establish and discuss the following:

- ❖ The overall liaison for the audit.
- ❖ Arrangements for work space and other needs of the Auditor.
- ❖ Prior audit and/or anticipated audit problems.
- ❖ The timetable for year-end work to be performed.
- ❖ KCERA responsibilities and schedules required.
- ❖ Any special area of concern recommended by the Board or Management.
- ❖ Auditor responsibilities.

B. Progress Reports

Routine progress reports shall be provided to the Retirement Financial Officer and the Assistant Executive Director on a regular basis, but not less than weekly during the course of the work. Also, either KCERA management or the firm conducting the audit may, with reasonable notice, request a meeting at any time during the course of the work.

C. **Exit Conference(s)**

The Auditor will attend an exit conference or conferences with the Audit Actuarial Committee and KCERA Management to review the Independent Auditor's Report on the Financial Statements, the Required Communication to the Board, and the Independent Auditor's Report on Internal Control over Financial Reporting and Compliance. The Auditor will also discuss findings and recommendations from each report with the Board of Retirement.

SECTION VIII. BIDDING REQUIREMENTS

Each bidder shall observe the following in preparation and submission of a proposal:

A. **General**

The issuance of this solicitation does not constitute an award commitment on the part of the KCERA, and the KCERA shall not pay for costs incurred in the preparation or submission of proposals. **The KCERA reserves the right to reject any or all proposals or portions thereof if the KCERA determines that it is in the best interests of the KCERA to do so.** KCERA reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected.

B. **Preparation of Responses**

A response to this RFP must be prepared and submitted according to the specifications set forth in this section, both for content and sequence. Failure to adhere to these specifications may be cause for rejection of the proposal. Any correction and/or resubmission of a proposal shall be submitted prior to the bid submission deadline.

C. **Submission of Proposals**

The bidder will submit one original, one electronic version and fifteen (15) copies of the proposal and any related information **to be received at KCERA's office by 5:00 PM Pacific Time on March 23, 2012.** Proposals received after the submission deadline will not be accepted. Completed proposals must be submitted to:

Anne M. Holdren
Executive Director
Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

All proposals shall be firm and may not be withdrawn for a period of 90 days following the date of submission of proposals.

D. Communications with KCERA

As of February 1, 2012, firms intending to submit a proposal should not contact KCERA staff other than the contact person, Executive Director Anne M. Holdren, any trustee of the KCERA Board of Retirement, or Deputy County Counsel for the KCERA. Bidder will submit a letter to KCERA of its intent to submit a proposal (Attachment 1, Notification of Interest Example Letter).

E. Proposal Contents

To be eligible for evaluation, a proposal must adhere strictly to the format set forth below. Each of the required sections identified must be addressed and must be specifically labeled. The content and sequence of the proposal will be as follows:

<u>Section</u>	<u>Title</u>
1	Cover Letter
2	Table of Contents
3	Executive Summary
4	Technical Proposal
5	Dollar Cost Bid
6	Additional Data and Attachments

Items 1 through 6 below contain brief descriptions of material that must be included in the proposal.

1. Cover Letter

A maximum one-page cover letter must be included. This page must include the (a) name of the bidder firm, (b) organizational structure of the firm (e.g., corporation, partnership, etc.), (c) address, telephone number, and facsimile number of the firm's office that will be responsible for the audit, (d) name, telephone number, e-mail address and facsimile number of the firm's representative who is designated as primary liaison to KCERA, (e) name,

telephone number, e-mail address and facsimile number of the representative who is authorized to bind the firm in contract, and (f) date of the proposal.

2. Table of Contents

Immediately following the cover letter, there should be a comprehensive Table of Contents of the material included in the proposal. The Table of Contents must clearly identify the proposal section/subsection and the applicable page numbers.

3. Executive Summary

This section should briefly state the bidder's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes itself to be best qualified to perform the engagement, and a statement that the proposal is a firm and irrevocable offer for 90 days following the date for submission of proposals.

4. Technical Proposal

a. General Requirements

The technical proposal should address all the points outlined in the RFP. The proposal should be prepared by providing a straightforward, concise description of the bidder's capabilities to satisfy the requirements of the RFP. While additional data may be presented, the following subjects, Items (b) through (i) must be included. They represent the criteria for evaluating and analyzing material included in the proposal

b. Independence

The bidder should provide an affirmative statement regarding its independence of KCERA as defined by the U.S. General Accounting Office's Government Auditing Standards.

c. License to practice in California

An affirmative statement should be included indicating that the bidder and all assigned key professional staff are properly licensed to practice in California. Bidder to complete and submit Attachment 2, Qualifications and Experience Certification.

d. Bidder qualifications and experience

The proposal should state the size of the firm, the size of the firm's governmental audit staff, the location and telephone number of the office from which the work on this engagement is to be performed, and the number and nature of the professional staff to be employed in this engagement on a full or part-time basis.

The bidder is required to provide information on the circumstances and status of any investigation, examination, complaint, disciplinary action or other proceeding commenced by any state or federal regulatory body or professional organization during the past three (3) years against the bidding firm.

The bidder is required to provide information on the circumstances and status of any pending litigation or litigation that has taken place against the bidding firm during the past three years.

e. Partner, supervisory and staff qualifications and experience

The bidder should identify the principal supervisory and management staff, including engagement partners, managers, supervisory seniors and specialists, who would be assigned to the engagement and indicate whether each person as applicable, is licensed to practice as a certified public accountant in California.

The bidder should provide a statement of the qualifications of the key individuals so identified, including their experience in the auditing of public retirement systems, other employee benefit plans, systems applications, governmental units, auditing in general, and any specialized expertise such individuals may have which is applicable to this engagement (i.e., that pertaining to pension accounting and actuarial science, cash management, investments, etc.). Bidder to complete and submit Attachment 3, Minimum and Desirable Qualifications Certification.

Information should be included on total continuing professional education hours (divided into governmental and non-governmental) for the firm for the past two (2) years, and on membership in professional organizations relevant to the performance of this audit.

The bidder should identify the extent to which partners, managers, supervisory staff, specialists and other staff will have continuity in their audits with KCERA for the period of the contract.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may be changed for other reasons with the express prior written permission of KCERA. However, in either case, KCERA retains the right to approve or reject replacements.

f. Similar engagements with other public retirement systems

For the bidder's office that will be assigned responsibility for the audit, list the most significant engagements (maximum of four) performed in the last four years that are similar to the engagement described in this RFP. List prior engagements auditing public retirement systems first and then experience with Kern County or other government units. Indicate the scope of the work, date, engagement partners, total hours and the name, e-mail address and telephone number of the principal client contact.

g. Liaison with other entities

The bidder should describe arrangements that it has with regard to liaison with or access to offices of the State and Federal governments or other entities relevant to this engagement for the purpose of obtaining prompt responses to inquiries arising from technical or procedural questions developed in the course of the examination.

h. Specific audit approach

The proposal should set forth the bidder's understanding of the engagement requirements, and a work plan. This should include an explanation of the audit methodology to be followed in order to perform the services required in Sections III through V of this RFP. The bidder should not necessarily limit the bid response to the performance of the services in Sections III through V, but should outline any additional services if the bidder deems them necessary to accomplish the audits. Additional services should be clearly marked as such, with their costs separately stated in the Sealed Dollar Cost Bid.

Bidders will be required to provide the following information on their audit approach:

- ❖ Proposed segmentation of the engagement
- ❖ Level of staff and estimated number of hours to be assigned to each proposed segment of the engagement

NO DOLLARS SHOULD BE INCLUDED IN THE TECHNICAL PROPOSAL

- ❖ Proposed compliance with timing requirements set forth in Section V above
- ❖ Type and extent of analytical procedures to be used in the engagement
- ❖ Proposed supervisory review and direction
- ❖ Approach to be taken to gain and document an understanding of KCERA's internal control structure
- ❖ Approach to be taken in determining laws and regulations that will be subject to audit test work

i. Procedures for resolving potential audit problems

The proposal should describe the bidder's approach to resolving potential problems that may be encountered during the performance of the audit, and any special assistance that may be requested from KCERA.

5. Sealed Dollar (\$) Cost Bid

a. Total not-to-exceed Maximum Price

The sealed dollar cost bid (Attachment 4) should contain all pricing information relative to performing the audit engagement as described in this request for proposal. The total not-to-exceed maximum price to be bid is to contain all direct and indirect costs including all out-of-pocket expenses.

KCERA will not be responsible for expenses incurred in preparing and submitting the proposal or the sealed dollar cost bid. Such costs should not be included in the proposal.

The first page of the sealed dollar cost bid should include the following information:

1. Name of the firm.

2. Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with KCERA.
3. Total not-to-exceed cost for three separate areas of service, to include, a) Independent Audit of Financial Statements, b) Audit of New Pension Administration System, CPAS Systems, and c) Investment Fund Manager Risk Assessment On-site Visits.

b. Rates by staff classification and anticipated hours

The second page of the sealed dollar cost bid should include schedules of professional fees and expenses, presented in the format that supports the total not-to-exceed maximum price. Bid should include the cost per trip to the KCERA investment managers and custodian for auditing purposes. A separate schedule should be prepared for each year's audit. If needed, a separate schedule of additional services should be prepared for each year's audit.

c. Out-of-pocket expenses included in the total not-to-exceed maximum price and reimbursement rates

All estimated out-of-pocket expenses to be reimbursed, if any, should be presented in the cost bid and will be charged against the total not-to-exceed maximum price submitted by the bidder.

d. Rates for additional professional services

If it should become necessary for KCERA to request the Auditor to render any additional services to either supplement the services requested in this RFP or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed as set forth in an addendum to the agreement between KCERA and the bidder. Any such additional work agreed to between KCERA and the bidder shall be performed at the same rates as set forth in the schedule of fees and expenses included in the sealed dollar cost bid.

e. Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the firm's cost bid proposal. Interim billings

shall cover a period of no less than a calendar month. Ten percent (10%) will be withheld from each billing pending delivery of the firm's final reports.

6. Additional Data and Attachments

Material and data not specifically requested for evaluation, but which the bidder wishes to submit may be included, but only in the "Additional Data" section. The following are examples of the type of data that may be included in this section:

- ❖ Standard sales brochures and promotional material with minimal technical content

- ❖ Pictorial material

SECTION IX. EVALUATION AND SELECTION PROCEDURES

A. General

This section describes the guidelines to be used for analyzing and evaluating proposals. KCERA reserves the right to evaluate all factors deemed appropriate, whether or not such factors have been stated in this section.

B. Evaluation Committee

The Audit Actuarial Committee consisting of four Board of Retirement trustees (and one alternate trustee) will evaluate proposals submitted and interview finalist candidates. The Audit Actuarial Committee will develop a recommendation for the Board of Retirement.

C. Review of Proposals

The scope of services to be provided shall include that which is described in Section 3 subsection B. but may not be all-inclusive. All proposals will be considered that meet the bidding requirements and evaluation criteria. Proposals will be evaluated using a three-step process:

1. Bidders meeting the mandatory criteria listed below will have their proposals evaluated.

2. Each member of the Audit Actuarial Committee will evaluate the individual proposals using a scoring system. The Audit Actuarial Committee will then convene to review and discuss these evaluations to arrive at an overall score. Finalist candidates will be invited to an interview with the Audit Actuarial Committee

3. Finalist candidates will be interviewed by the Committee during the week of April 23, 2012. A recommendation for the Board of Retirement will be developed after interviewing the finalist candidate(s) on May 16, 2012.

The evaluation criteria to be used in the selection process will include, but may not be limited to, the following:

1. Mandatory Elements

- a. The bidder is independent and licensed to practice in California.
- b. The bidder has no conflict of interest with regard to any other work performed by the bidder.
- c. The bidder adheres to the instructions in this RFP.

2. Technical Qualifications and Price

a. Audit Planning/Approach

- Comprehensiveness of financial audit work plan
- Comprehensiveness of agreed-upon procedures work plan
- Completeness of deliverables
- Adequacy of proposed timetable
- Adequacy of proposed staffing plan
- Adequacy of supervisory review & direction
- Approach to be taken to gain and document an understanding of the internal control structure.
- Approach to determine relevant laws and regulations

b. Bidder's Experience and Capabilities

- Relevant experience and technical skills
- Quality of bidder's management support personnel to be available for technical consultation
- Financial stability

c. Assigned Professional Personnel

- General experience
- Experience relevant to this engagement
- Professional and academic qualifications
- Adequate continuing professional education within the last two years

d. Audit Cost

- Hours
- Hourly rate
- Total not-to-exceed maximum price
- Flat dollar amount to perform annual audit services

COST WILL NOT BE THE PRIMARY FACTOR IN THE SELECTION OF AN AUDIT FIRM.

After the preferred bidder is identified, the KCERA will enter into fee negotiations or clarifications. If the preferred bidder cannot reach a mutually agreed upon fee, the KCERA may, at its sole discretion, proceed to negotiations with the next highest ranked bidder until award of the agreement is successfully completed.

The KCERA reserves the right to conduct a background inquiry of each bidder that may include collection of appropriate criminal history information, contractual and business associations and practices, employment histories, reputation in the business community and financial condition (Attachment 5). By submitting a proposal to the KCERA, the

bidder consents to such an inquiry and agrees to make available to the KCERA such books and records the KCERA deems necessary to conduct the review.

e. Oral Presentations

The Audit Actuarial Committee will select the firms to be interviewed and conduct the interviews prior to making a recommendation to the Board of Retirement. The Board of Retirement may want the recommended firms to make oral presentations. Such presentations will provide the firms with an opportunity to answer any questions the Board of Retirement may have on a firm's proposal. Not all firms may be asked to make such oral presentations.

f. Final Selection

The Board of Retirement will make the final selection of a firm.

It is anticipated that a firm will be selected by May 18, 2012. Following notification of the firm selected, it is expected a contract will be executed between both parties by June 13, 2012.

SECTION X. TERMS AND CONDITIONS

A. Right to Reject Proposals

The KCERA reserves the right to reject any and all proposals and to waive informalities and minor irregularities in any proposals received. Absence of required information may render a proposal non-responsive, resulting in rejection of the proposal by the KCERA. An error in the proposal may cause rejection of that proposal; however, the KCERA may, in its sole discretion, retain the proposal and make corrections to clearly clerical errors. The KCERA may also request clarification from a bidder on any item in a proposal that the KCERA believes to be in error.

The following will lead to disqualification: misrepresentation or omission of facts in respondent's proposal submittal or in any other communication from respondent in connection with this RFP process; seeking or causing intervention by third parties, where the purpose is to achieve special advantage in the award of any resulting contract.

B. Public Record and Confidentiality of RFPs

All information received becomes a matter of public record unless it is exempt. However, all proposals will remain confidential until an award is made.

The California Public Records Act, Government Code sections 6250, *et seq.*, provides that access to information concerning the conduct of the people's business is a fundamental and necessary right of every person in the state. Public records are defined as any writing relating to the conduct of the public's business and are open to inspection during normal business hours.

There are specific exceptions to the Public Records Act. In the event KCERA receives a request of any proposal submitted pursuant to this Request for Proposal, it is the responsibility of the organization whose proposal has been requested to assert any rights to confidentiality that may exist. KCERA will not make that assertion on behalf of the bidder. Absent a judicial determination that the documents are exempt from disclosure, they will be subject to inspection.

Submission by a bidder constitutes a complete waiver of any claims whatsoever against the County of Kern, KCERA, and/or its agents, officers, or employees, that KCERA has violated a bidder's right to privacy, disclosed trade secrets or caused any damage by allowing the proposal to be inspected.

C. Confidentiality of Data and Information

Bidders will maintain in confidence all KCERA member data and information derived from any data, which becomes available in connection with this RFP or services under this agreement, and will use any such information only for providing services to KCERA. All data and information acquired or developed by the bidder in performance of this proposal will be and remain the property of KCERA. This section will survive the termination of this agreement.

Bidders also agree that all discussions or information gained during the engagement be considered confidential; no information or data accessed or gathered by the bidder will be released without prior consent of the KCERA Executive Director, Anne M. Holdren.

D. Disposition of Proposals and Proprietary Data

All materials submitted in response to this RFP become the property of the KCERA. Any and all proposals received by the KCERA shall be subject to public disclosure and inspection, except to the extent the bidder designates trade secrets or other proprietary data to be confidential, after the Audit Actuarial Committee has completed its deliberative process and either the bidder has been

informed that they are not a vendor selected by the Audit Actuarial Committee for recommendation to the Board of Retirement, or the matter has been set for consideration before the Board of Retirement, whichever comes first.

Material designated as proprietary or confidential shall accompany the proposal and each page shall be clearly marked and readily separable from the proposal in order to facilitate public inspection of the non-confidential portion of the proposal. Prices, makes and models or catalog numbers of the items offered, deliverables, and terms of payment shall be publicly available regardless of any designation to the contrary.

The KCERA will endeavor to restrict distribution of material designated as confidential or proprietary to only those individuals involved in the review and analysis of the proposals. Bidders are cautioned that materials designated as confidential may nevertheless be subject to disclosure. It is the responsibility of the bidder whose proposal has been the subject of a Public Records request to assert any rights to confidentiality or exemption from disclosure that may exist.

Bidders are advised that the KCERA does not wish to receive confidential or proprietary information and that bidders are not to supply such information except when it is absolutely necessary. If any information or materials in any proposal submitted is labeled confidential or proprietary, the proposal shall include the following clause:

_____ (legal name of bidder) shall indemnify, defend and hold harmless the Kern County Employees' Retirement Association, its officers, agents and employees from and against any request, action or proceeding of any nature and any damages or liability of any nature, specifically including attorneys' fees awarded under the California Public Records Act (Government Code §6250 et seq.) arising out of, concerning or in any way involving any materials or information in this Proposal that _____ (legal name of bidder) has labeled as confidential, proprietary or otherwise not subject to disclosure as a public record.

Submission by a bidder constitutes a complete waiver of any claims whatsoever against the County of Kern, KCERA, and/or its agents, officers, or employees, that KCERA has violated a bidder's right to privacy, disclosed trade secrets or caused any damage by allowing the proposal to be inspected.

E. Collusion Affidavit/Conflict of Interest

By submitting a proposal, the bidder certifies that the quoted prices are genuine and not the result of collusion or any other activity which would tend to directly or indirectly influence the process.

The bidder further certifies the bidder has no real or potential conflicts of interest that would prevent the consultant from acting in the best interests of KCERA.

F. Sub-Contracting

The bidder may not assign or transfer this agreement, or any interest or claim, or subcontract any portion of the work contracted under this agreement without prior written approval of KCERA. If KCERA consents to such assignment or transfer, the terms and conditions of this agreement will be binding on any assignee or transferee.

G. Consultant's Liability and Insurance Requirements

The Auditor will defend, indemnify and hold KCERA, its officers, employees and agents, harmless from and against any and all liability, loss, expense (including reasonable attorneys' fees) or claims for injury or damages caused by or resulting from negligent or intentional acts or omissions of the Auditor, its officers, agents or employees.

The Auditor, at its sole cost and expense, will insure its activities in connection with work under this proposal and obtain, keep in force and **maintain insurance at a minimum** as follows:

1. Workers' Compensation Insurance. Auditor shall submit written proof that Auditor is insured against liability for workers' compensation in accordance with the provisions of section 3700 of the California Labor Code.
2. Commercial General Liability Insurance, including, but not limited to, Contractual Liability Insurance (specifically concerning the indemnity provisions included in the Agreement), Personal Injury (including bodily injury and death), and Property Damage for liability arising out of Actuaries' performance of work under this Agreement. Such insurance coverage shall have minimum limits for bodily injury and property damage liability of One Million Dollars (\$1,000,000) each occurrence and Five Million Dollars (\$5,000,000) in aggregate.
3. Automobile Liability Insurance against claims of Personal Injury (including bodily injury and death) and Property Damage covering all owned, leased, hired and non-owned vehicles used in the performance of services pursuant to this

Agreement with minimum limits for Bodily Injury and Property Damage liability of One Million Dollars (\$1,000,000) per occurrence and Five Million Dollars (\$5,000,000) aggregate. Such insurance shall be provided by a business or commercial vehicle policy.

4. Professional Liability (Errors and Omissions) Insurance, for liability arising out of, or in connection with, the performance of all required services under this Agreement, with limits of not less than Five Million Dollars (\$5,000,000) aggregate and a deductible of not greater than \$500,000.

None of the insurance coverages required under the Agreement may be written on a claims-made basis. All insurance shall be issued by a company or companies listed in the current "Best's Key Rating Guide" publication with a minimum of "A-; VII" rating. All insurance coverages required to be maintained by bidder shall be maintained until the completion of all of bidder's obligations under this Agreement, and shall not be reduced, modified, or canceled without thirty (30) days prior written notice to KCERA. Failure by bidder to maintain all such insurance in effect at times required by this Agreement shall be a material breach of this Agreement by bidder. KCERA, at its sole option, may terminate this Agreement and obtain damages from bidder resulting from such breach. Alternatively, KCERA may purchase such required insurance coverage, and without further notice to bidder, KCERA shall deduct from sums due to bidder any premiums and associated costs advanced or paid by KCERA for such insurance. If sums due Auditor pursuant to this Agreement are insufficient to reimburse KCERA for the premiums and any associated costs, bidder agrees to reimburse KCERA for the premiums and pay for all costs associated with the purchase of such insurance.

Insurance coverages in the minimum amounts set forth herein shall not be construed to relieve Auditor for any liability, whether within, outside, or in excess of such coverage, and regardless of solvency or insolvency of the insurer that issues the coverage; nor shall it preclude the KCERA from taking such other actions as are available to it under any other provision of the Agreement or otherwise in law.

SECTION XI. CONTRACT FORM

The general form of the agreement is attached as Exhibit E to this RFP. By submitting a proposal without comment on the agreement, you will be deemed to have agreed to each term in the agreement, and that you will not seek any modifications to the agreement. If you object to a term in the agreement, or wish to modify or add terms to the agreement, your proposal must identify each objection, and propose language for each modification, and additional terms sought, including the reasons therefore. KCERA may take into consideration any bidder proposed changes to the sample agreement during the selection process. KCERA reserves the right to make changes to the contract prior to execution. Due to the schedule implications of potentially protracted negotiations, KCERA reserves the right to terminate any negotiations with the selected bidder if subsequent requests for amendments to the agreement are made after the interview or during the negotiations.

STATE OF CALIFORNIA
OFFICE OF THE CONTROLLER



MINIMUM AUDIT REQUIREMENTS
AND REPORTING GUIDELINES
FOR
PUBLIC RETIREMENT SYSTEMS

INTRODUCTION

The following audit requirements are not intended to be a comprehensive audit program or check list of things to be completed during a retirement system audit. This is intended to include only the minimum requirements which the State Controller prescribes in conjunction with implementing Sections 7501-7504 of the Government Code.

The county auditor, certified public accountant or public accountant undertaking an audit of a public retirement system should:

1. Have sufficient knowledge and training to enable him to comply with generally accepted auditing standards.
2. Have an adequate knowledge of government accounting.
3. Have or acquire sufficient knowledge of pension accounting and actuarial science.

MINIMUM AUDIT REQUIREMENTS

The audit shall be made in accordance with generally accepted auditing standards. In meeting these standards, the following standards and procedures, although not all inclusive, should be considered:

1. A proper study and evaluation of the existing internal control and the financial organizational structure should be made. The purpose of the study is to decide how much the auditor can rely on internal control. Furthermore, it is used as a basis for determining the nature, extent, and timing of the audit tests to be applied in the examination of the financial statements.
2. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination. If the internal control is so deficient that an auditor must qualify his opinion in this regard, the reason for this qualification must be set forth in the audit report.
3. The auditor should review the regulations applicable to the transactions of the retirement system. Should there be indications that the retirement system may have failed to comply with such legal requirements, the transactions should be referred to proper legal counsel for interpretation of applicable law. Noncompliance, if so determined, should be commented upon in the report and the auditor's opinion should be qualified or disclaimed if necessary.
4. A review should be made to see if the report of financial transactions to the State Controller as filed agrees with the official records of the system for the period covered by the audit.

MINIMUM AUDIT REQUIREMENTS
(Continued)

5. A review should be made of the previous audit report workpapers and program if available.
6. The auditor should ascertain the basis of accounting, that is: cash, accrual or modified accrual. The accrual basis of accounting should be employed to provide a fair and fully disclosed financial position for the retirement system.
7. The auditor should obtain confirmations from depositories for (1) all bank accounts, time certificates or savings and loan accounts, and (2) collateral securing such accounts, if applicable. Collateral should also be examined or confirmed with the depository holding the collateral as trustee. The auditor should determine the adequacy and propriety of the collateral pledged.
8. The collections and recording of all ascertainable revenues, such as employee retirement contributions and dividends from investments, should be tested during the period under audit. The test should be sufficient to determine that receipts have been recorded properly for the period.
9. The auditor should determine that expenditures were properly authorized and supported by proper documents.
10. A review should be made of nonrevenue receipts and non-expense disbursements to determine if they were legal and properly recorded.
11. All other assets such as investments, prepaid expenses, fixed assets and similar items should be verified in accordance with generally accepted auditing standards.
12. All liabilities should be verified in accordance with generally accepted auditing standards. Proper authorities should be contacted to ascertain existence of any possible contingent liabilities.

AUDIT REPORT REQUIREMENTS

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall state whether such principles have been observed in the current period in relation to the preceding period.
3. The audit report shall contain the footnote disclosures and supplementary information in accordance with Governmental Accounting Standards Board Statement 25.
4. The audit report shall contain an opinion regarding the fairness of the financial statements as enumerated by the State Board of Accountancy Rules 58.1 and 58.2¹. The types of opinions that may be expressed are:
 - a. an unqualified opinion
 - b. a qualified opinion
 - c. an adverse opinion
 - d. a disclaimer of opinion
5. The report should be based on fair value as described in GASB Statement 25. The net appreciation (depreciation) in the fair value of investments, as defined in GASB Statement 25 must be disclosed separately in the financial statements.

AUDIT REPORT FORMAT

It is suggested that the audit report be prepared in accordance with the following general format.

1. Title page
2. Table of contents
3. Scope, opinion and other necessary paragraphs

¹ 16 Cal. Adm. Code 58.1 - 58.2.

AUDIT REPORT FORMAT
(Continued)

4. Basic financial statements:
 - a. Statement of Plan Net Assets
 - b. Statement of Changes In Plan Net Assets
 - c. Notes to the Financial Statements
 - d. Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement 25.

Some of the supplementary information such as schedules, comments, and statistical tables are optional and often enhance the usefulness of a report. An agency-wide audit is acceptable if the audit report includes a pension fund Statement of Plan Net Assets, Statement of Changes In Plan Net Assets, and the required supplementary information in combining or individual fund financial statements. Appropriate footnotes are also required.

MANAGEMENT LETTER

Management of the retirement system has the responsibility for establishing and maintaining internal controls and checks. The auditor should issue a separate letter containing suggestions and recommendations relating to opportunities for improvement in the systems accounting and financial controls.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER

- § 7501 It is the intent and purpose of the Legislature, in enacting this chapter, to safeguard the solvency of all public retirement systems and funds. The Legislature finds and declares that public agencies maintaining retirement systems can benefit from periodic and independent analysis of their financial condition. It is the purpose of * * * Sections 7502, 7503, and 7504 to enable the State Controller to gather information to compare and evaluate the financial condition of such systems and to make such comparisons and evaluations.
- § 7502 The State Controller shall review the annual financial report of each state and local public retirement system submitted pursuant to Section 7504 giving particular consideration to the adequacy of funding of each system. The State Controller shall also review the triennial valuation of each public retirement system submitted pursuant to Section 7504 and shall give particular consideration to the assumption concerning the inflation element in salary and wage increases, mortality, service retirement rates, withdrawal rates, disability retirement rates, and the rate of return on total assets.
- The State Controller shall establish an advisory committee which shall include enrolled actuaries, as defined in Section 7504, and state and local public retirement system administrators, to assist in carrying out the duties imposed by this section.
- § 7503 All state and local public retirement systems shall prepare an annual report in accordance with generally accepted accounting principles.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

§ 7504

(a) All state and local public retirement systems shall, not less than triennially, secure the services of an enrolled actuary. An enrolled actuary, for the purposes of this section, means an actuary enrolled under subtitle C of Title III of the Employee Retirement Income Security Act of 1974 and who has demonstrated experience in public retirement systems. The actuary shall perform a valuation of the system utilizing actuarial assumptions and techniques established by the agency which are, in the aggregate, reasonably related to the experience and the actuary's best estimate of anticipated experience under the system. Any differences between the actuarial assumptions and techniques used by the actuary which differ significantly from those established by the agency shall be disclosed in the actuary's report and the effect of such differences on the actuary's statement of costs and obligations shall be shown.

(b) All state and local public retirement systems shall secure the services of a qualified person to perform an attest audit of the system's financial statements. A qualified person means any of the following:

(1) A person who is licensed to practice as a certified public accountant in this state by the State Board of Accountancy.

(2) A person who is registered and entitled to practice as a public accountant in this state by the State Board of Accountancy.

(3) A county auditor in any county subject to the County Employees Retirement Law of 1937.

(4) A county auditor in any county having a pension trust and retirement plan established pursuant to Section 53216.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

§ 7504
(Cont'd)

(c) All state and local public retirement systems shall submit audited financial statements to the State Controller at the earliest practicable opportunity within six months of the close of each fiscal year. However, the State Controller may delay the filing date for reports due in the first year until such time as report forms have been developed which, in his judgment, will satisfy the requirements of this section. The financial statements shall be prepared in accordance with generally accepted accounting principles in the form and manner prescribed by the State Controller. The penalty prescribed in Section 53895 shall be invoked for failure to comply with this section. Upon a satisfactory showing of good cause, the State Controller may waive the penalty for late filing provided by this subdivision.

(d) The State Controller shall compile and publish a report annually on the financial condition of all state and local public retirement systems containing, but not limited to, the data required in Section 7502.

§ 53216

The Legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

The legislative body of a local agency may make participation in any plan under such pension trust optional with the officers and employees of the local agency or it may make participation in such pension trust plan compulsory for the officers and employees of such agency.

Officers and employees who participate in such pension trust plan, whether it is optional or compulsory, shall have their plan contributions deducted from their compensation.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

§ 53216 The legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

The legislative body of a local agency may make participation in any plan under such pension trust optional with the officers and employees of the local agency or it may make participation in such pension trust plan compulsory for the officers and employees of such agency.

Officers and employees who participate in such pension trust plan, whether it is optional or compulsory, shall have their plan contributions deducted from their compensation.

§ 53895 (a) An officer of a local agency who fails or refuses to make and file his or her report within twenty days after receipt of a written notice of the failure from the Controller shall forfeit to the state * * *

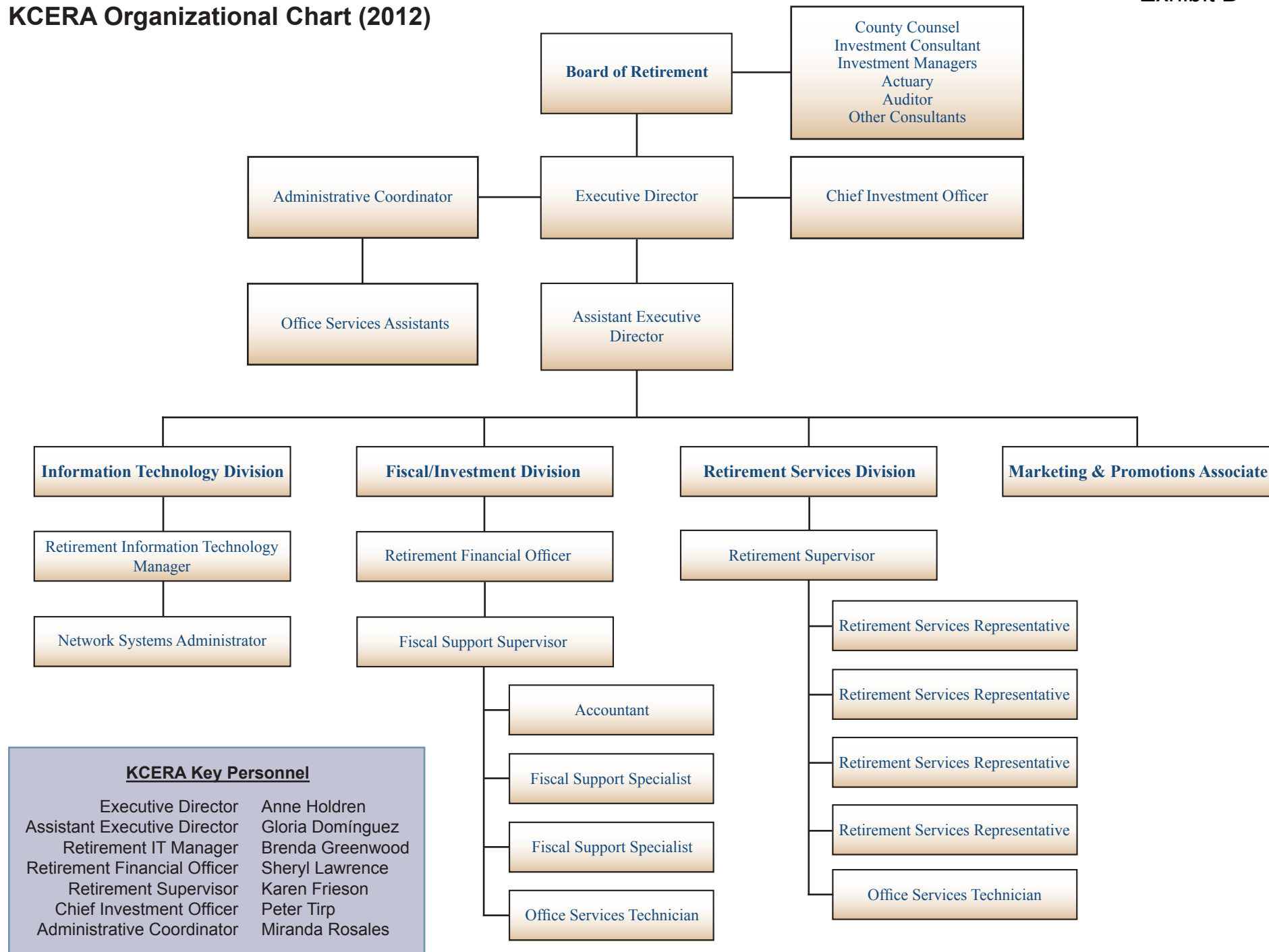
(1) One thousand dollars (\$1,000), in the case of a local agency with total revenue, in the prior year, of less than one hundred thousand dollars (\$100,000), as reported in the Controller's annual financial reports.

(2) Two thousand five hundred dollars (\$2,500) in the case of a local agency with total revenue, in the prior year, of at least one hundred thousand dollars (\$100,000) but less than two hundred fifty thousand dollars (\$250,000), as reported in the Controller's annual financial reports.

(3) Five thousand dollars (\$5,000) in the case of a local agency with total revenue, in the prior year, of at least two hundred fifty thousand dollars (\$250,000), as reported in the Controller's annual financial reports.

(b) Upon the request of the Controller, the Attorney General shall prosecute an action for the forfeiture in the name of the people of the State of California.

KCERA Organizational Chart (2012)



KCERA Key Personnel	
Executive Director	Anne Holdren
Assistant Executive Director	Gloria Domínguez
Retirement IT Manager	Brenda Greenwood
Retirement Financial Officer	Sheryl Lawrence
Retirement Supervisor	Karen Frieson
Chief Investment Officer	Peter Tirp
Administrative Coordinator	Miranda Rosales

INVESTMENT FUND MANAGER RISK ASSESSMENT PROGRAM

RISK ASSESSMENT PROCEDURES

- 1 Obtain an understanding of the organizational structure of the investment manager (IM) and reason for significant management changes during audit year, if any.
- 2 Obtain an understanding of the services of the investment manager, broker selection, and investment policy
- 3 Testing compliance with the investment guidelines and reporting requirements
- 4 Test Performance Reporting/Valuation
- 5 Recalculate management fees
- 6 Inquire regarding conflicts of interest and the investment manager's monitoring of conflicts of interest
- 7 Review the investment manager's certificate of insurance
- 8 Review disaster recovery plan
- 9 Review IM's monthly reconciliation report and its compliance with contract agreement

INTERNAL CONTROLS

- 1 Review Independent Auditor's Report on Internal Controls of the IM - SAS 70 Report.
- 2 Review trade process including authorization, allocation, execution and reconciliation
- 3 Review set-up of compliance rules in the pre-trade and post trade compliance systems, including system permissions and consideration of proper segregation of duties

TESTING AND REVIEW

- 1 Test ability to override compliance rules, and compliance rule violation reporting
- 2 Review income recording
- 3 Review process for handling corporate actions
- 4 Test performance reporting
- 5 Review reporting process to the investors
- 6 Review managing counterparty risks
- 7 Review cash disbursement processing
- 8 Review regulatory agency investigations
- 9 Review litigation settlements or pending
- 10 Examine best execution, directed brokerage and soft dollars
- 11 Review personnel policies and turnover
- 12 Review ADV Disclosures
- 13 Evaluate audited financial statements
- 14 Report to Board

Kern County Employees' Retirement Association
STATEMENT OF PLAN NET ASSETS
 AS OF JUNE 30, 2011 AND 2010

(In thousands)

	2011	2010
Assets		
Cash and Cash Equivalents	\$ 33,092	\$ 80,370
Receivables:		
Investments Sold	48,575	104,789
Interest and Dividends	5,789	7,393
Contributions and Other Receivables	2,174	1,785
Total Receivables	<u>56,538</u>	<u>113,967</u>
Investments at Fair Value:		
U.S. Debt Securities and Bonds	804,492	647,665
International Bonds	46,018	86,185
Domestic Equities	813,294	646,326
International Equities	700,319	538,418
Real Estate Investments	61,489	26,657
Alternative Investments	364,334	298,485
Swaps/Options	1,047	(270)
Collateral Held for Securities Lending	268,371	237,933
Total Investments at Fair Value	<u>3,059,364</u>	<u>2,481,399</u>
Capital Assets:		
Computer Software	3,541	2,568
Equipment/Computers	420	445
Accumulated Depreciation	(289)	(254)
Total Capital Assets	<u>3,672</u>	<u>2,759</u>
Total Assets	<u>3,152,666</u>	<u>2,678,495</u>
Liabilities		
Securities Purchased	78,700	136,551
Collateral Held for Securities Lent	268,371	237,933
Contributions and Other Liabilities	9,669	2,577
Total Liabilities	<u>356,740</u>	<u>377,061</u>
Net Assets Held in Trust for Pension Benefits	\$ 2,795,926	\$ 2,301,434

See accompanying notes to the financial statements.

Kern County Employees' Retirement Association
STATEMENT OF CHANGES IN PLAN NET ASSETS
 AS OF JUNE 30, 2011 AND 2010

(In thousands)

	2011	2010
Additions		
Contributions:		
Employer	\$ 177,444	\$ 151,127
Member	18,271	17,877
Total Contributions	<u>195,715</u>	<u>169,004</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	467,676	247,042
Interest	21,811	37,626
Dividends	17,287	13,033
Real Estate Investments	0	(1,582)
Other Investment Income	3,654	10
Total Investment Income	<u>510,428</u>	<u>296,129</u>
Less: Investment Expenses	<u>7,572</u>	<u>5,422</u>
Net Investment Income	502,856	290,707
Securities Lending Income:		
Earnings:	849	726
Less: Rebates & Bank Fees	<u>152</u>	<u>100</u>
Net Securities Lending Income	697	626
Total Additions	<u>699,268</u>	<u>460,337</u>
Deductions		
Retirement and Survivor Benefits	186,460	166,836
Supplemental Retirement Benefits	11,436	11,213
Refunds of Member Contributions	3,117	2,317
Administrative Expenses	3,763	3,207
Miscellaneous Expenses	0	547
Total Deductions	<u>204,776</u>	<u>184,120</u>
Net Increase	\$ 494,492	\$ 276,217
Net Assets Held in Trust for Pension Benefits At Beginning of Year	\$ 2,301,434	\$ 2,025,217
Net Assets Held in Trust for Pension Benefits At End of Year	\$ 2,795,926	\$ 2,301,434

See accompanying notes to the financial statements.

AGREEMENT FOR AUDIT SERVICES

(KCERA -)

THIS AGREEMENT is made and entered into this ____ day of _____, 2012, between the KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ("KCERA"), a public retirement system governed under the County Employees' Retirement Law of 1937 ("CERL") and _____, a (corporation, limited partnership, L.L.C.,) with its principal place of business in _____ ("Auditor").

W I T N E S S E T H :

WHEREAS, KCERA is obligated pursuant to Government Code section 7504(b) to secure the services of a qualified person or entity to perform an attest audit of the KCERA's financial statement and to submit the audited financial statement to the State Controller each fiscal year; and

WHEREAS, KCERA also wishes to engage the services of the Auditor to perform a compliance audit of the KCERA Administration's internal control structure and procedures to provide reasonable assurance that assets are safeguarded and that the KCERA is complying with applicable statutory requirements and policies set by the KCERA Board; and

WHEREAS, KCERA has conducted a search for a qualified and competent auditing firm and, after due deliberation and consideration of the qualifications and abilities of Auditor, has selected Auditor to provide necessary auditing services to the KCERA as provided herein; and

WHEREAS, Auditor holds itself out as specially trained, licensed, experienced and qualified to perform the required services.

NOW, THEREFORE, IT IS MUTUALLY AGREED AS FOLLOWS:

I. **SERVICES OF AUDITOR.** Auditor shall, during the term of this Agreement, for the fiscal years ending June 30, 2012, 2013, and 2014, provide the following services:

A. As required by Government Code sections 7504 and 31593, annually perform an independent financial and compliance audit of the KCERA and prepare an audit report, expressing an opinion as to whether the KCERA's financial statements are fairly presented in all material respects, in conformity with generally accepted accounting principles. The annual audits shall be conducted in accordance with standards for financial audits contained in *Government Accounting Standards*. The audits will include tests of the accounting records of KCERA, as well as such other procedures considered necessary by the Auditor to express such an opinion, all as more fully described in the attached Exhibit "A", which is incorporated herein by this reference.

Exhibit E

B. Arrange for special meetings with the KCERA staff and/or Audit/Actuarial Committee (“the Committee”) of the KCERA Board of Retirement whenever any problem is found during the field work which could materially affect the outcome of the audit.

C. Attend a minimum of one (1) regular meeting of the KCERA Board of Retirement to present the audit results and a minimum of three (3) meetings of the Committee at the request of the KCERA Executive Director.

D. Complete site visits to KCERA investment managers or service providers as directed by the Committee to determine compliance with contractual obligations by the investment managers and/or service providers and monitor the performance and practices of those companies providing services to the KCERA.

E. Report any and all instances of defalcation or misuse of funds or instances of serious noncompliance with applicable statutes or regulations that are encountered by the KCERA Board of Retirement.

F. Review and test KCERA’s internal controls in as complete a manner as deemed necessary by the Auditor, in its professional discretion, to provide KCERA with reasonable assurance that KCERA assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with the KCERA’s authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.

G. Prepare and present a draft audit report to the Committee no later than October 10 of each year services are rendered pursuant to this Agreement, and prepare and present a final audit report to the Board no later than November 1 of each such year.

H. Perform such additional services related to the preparation of the annual audits and site visits as requested by the KCERA.

II. KCERA'S RESPONSIBILITIES

A. KCERA shall provide information about its requirements for each audit and site visit.

B. KCERA shall provide all cash or other confirmations requested by the Auditor and will locate any invoices selected by the Auditor for testing.

C. KCERA staff shall meet with the Auditor upon reasonable notice to explain the design and operation of relevant internal controls.

D. KCERA staff and/or the Committee shall review draft reports prepared by Auditor and shall promptly render decisions pertaining thereto to avoid unreasonable delay in the progress of the annual audit.

F. KCERA shall furnish copies of existing information reasonably requested by the Auditor.

III. AUDITOR'S COMPENSATION

A. Auditor agrees to perform the professional services required by this Agreement and KCERA agrees to pay Auditor, for such service, a fixed fee of \$_____ for each of the three annual audits (covering fiscal years July 1, 2011 - June 30, 2012 July 1, 2012 - June 30, 2013, and July 1, 2013 - June 2014. The total payment for preparation of the annual audit reports during the term of this Agreement shall not exceed \$_____. KCERA shall pay to Auditor, for each site visit conducted by Auditor at KCERA's request, a fixed fee of \$_____ per site visit. In addition, KCERA shall pay to Auditor for the initial audit of the new pension administration system, CPAS Systems, a fixed fee of \$_____.

In addition to the fixed fees for the scope of services contemplated in this Agreement, KCERA shall reimburse Auditor for its necessary travel expenses incurred on behalf of KCERA at the travel and per diem rates applicable to Kern County employees. Auditor shall make every reasonable effort to control expenses, when possible. No additional compensation will be paid for secretarial, clerical support staff or overhead costs.

VI. PAYMENTS TO AUDITOR

A. Payments on account of Auditor's services rendered pursuant to Section I, herein, shall be made within thirty (30) days of receipt of an approved invoice. Auditor's written demand for payment shall include an itemized statement showing services to date. KCERA shall withhold ten percent (10%) from each payment, and the final payment shall be made after the Board approves the final audit report.

VII. TERM AND TERMINATION OF AGREEMENT

A. This Agreement shall commence as of June 13, 2012 and shall terminate upon completion of the audit for the period from July 1, 2013 - June 30, 2014; provided, however, this Agreement may be terminated or suspended by KCERA upon giving Auditor thirty (30) days prior written notice.

B. In the event of such termination, KCERA shall pay to Auditor, as full payment for all service performed and all expenses incurred under this Agreement, amounts not exceeding those set forth in Sections V and VI for services actually and satisfactorily rendered hereunder up to the date of termination of this Agreement. Consideration shall be given to both completed work and work in progress. Upon such termination, Auditor shall deliver to KCERA all data and documents reviewed or generated by Auditor, whether completed or not.

C. Following the termination of this Agreement, if KCERA should determine to complete the audit, then KCERA shall have the right to utilize any documents prepared under this Agreement by Auditor without additional compensation to Auditor.

VII. TIME SCHEDULE

It is agreed that time is the essence of this Agreement. Auditor shall comply with the following schedule for completion of the audit during each year of this Agreement:

Site Visits -	May/early June
Final field work	by September 15
Draft report	by October 15 (presentation to Committee)
Final report	by November 15 (presentation to Board)

The time during which Auditor is delayed in Auditor's work by the neglect of KCERA, by other public agencies having jurisdiction, or by acts of God which Auditor could not reasonably have foreseen and provided for and which are not caused by, or the continuance of which is not due to any fault or neglect on the part of Auditor, shall be added to the time for completion of the respective items of work described in this Section, but KCERA shall not be liable for any damages, and Auditor shall not be entitled to any additional compensation, on account of any such delay.

IX. REQUIRED INSURANCE

Auditor, in order to protect KCERA and its board members, officials, agents, officers, and employees against all claims and liability for death, injury, loss and damage as a result of Auditor's actions in connection with the performance of Auditor's obligations, as required in this Agreement, shall secure and maintain insurance as described below. Auditor shall not perform any work under this Agreement until Auditor has obtained all insurance required under this section and the required certificates of insurance and a copy of the completed endorsement have been filed with and approved by the KCERA. Auditor shall pay any deductibles and self-insured retentions under all required insurance policies.

A. Workers' Compensation and Employers Liability Insurance Requirement -- Auditor shall submit written proof that Auditor is insured against liability for workers' compensation in accordance with the provisions of section 3700 of the Labor Code.

In signing this Agreement, Auditor makes the following certification, required by section 1861 of the Labor Code:

"I am aware of the provisions of section 3700 of the Labor Code which require every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that code, and I will comply with such provisions before commencing the performance of the work of this Agreement."

Auditor shall also maintain employers' liability insurance with limits of one million dollars (\$1,000,000) for bodily injury or disease.

B. Liability Insurance Requirements:

1. Auditor shall maintain in full force and effect, at all times during the term of this Agreement, the following insurance:

(a) Commercial General Liability Insurance, including, but not limited to, Contractual Liability Insurance (specifically concerning the indemnity provisions of this Agreement), Products-Completed Operations Hazard, Personal Injury (including bodily injury and death), and Property Damage for liability arising out of Auditor's performance of work under this Agreement. Said insurance coverage shall have minimum limits for Bodily Injury and Property Damage liability of one million dollars (\$1,000,000) each occurrence and one million dollars (\$5,000,000) aggregate.

(b) Automobile Liability Insurance against claims of Personal Injury (including bodily injury and death) and Property Damage covering all owned, leased, hired and non-owned vehicles used in the performance of services pursuant to this Agreement with minimum limits for Bodily Injury and Property Damage liability of one million dollars (\$1,000,000) each occurrence and Five Million Dollars (\$5,000,000) aggregate. Such insurance shall be provided by a business or commercial vehicle policy.

(c) Professional Liability (Errors and Omissions) Insurance, for liability arising out of, or in connection with, the performance of all required services under this Agreement, with limits of not less than five million dollars (\$5,000,000) aggregate and a deductible of not greater than \$500,000.

(d) Proof of Workers' Compensation Insurance for insured against liability for workers' compensation in accordance with the provisions of section 3700 of the California Labor Code.

2. The Commercial General Liability and Automobile Liability Insurance required in this sub-paragraph B. shall include an endorsement naming the KCERA and KCERA's board members, officials, officers, agents and employees as additional insureds for liability arising out of this Agreement and any operations related thereto.

3. None of the insurance coverages required under this Agreement may be written on a claims-made basis.

4. Prior to Auditor commencing any of its obligations under this Agreement, evidence of insurance in compliance with the requirements above shall be furnished to the KCERA by Certificate of Insurance. Receipt of evidence of insurance that does not comply with above requirements shall not constitute a waiver of the insurance requirements set forth above. Auditor agrees to provide, and hereby authorizes its insurance carrier to provide, a copy of each policy of insurance required pursuant to this Agreement upon request by KCERA's Executive Director.

C. Cancellation of Insurance -- The above stated insurance coverages required to be maintained by Auditor shall be maintained until the completion of all of Auditor's

Exhibit E

obligations under this Agreement, and shall not be reduced, modified, or canceled without thirty (30) days prior written notice to KCERA. Also, phrases such as “endeavor to” and “but failure to mail such notice shall impose no obligation or liability of any kind upon the company” shall not be included in the cancellation wording of all Certificates of Insurance or any coverage for KCERA and KCERA’s board members, officials, agents, and employees. Auditor shall immediately obtain replacement coverage for any insurance policy that is terminated, canceled, non-renewed, or whose policy limits have been exhausted or upon insolvency of the insurer that issued the policy.

D. All insurance shall be issued by a company or companies admitted to do business in California and listed in the current “Best’s Key Rating Guide” publication with a minimum of a “A-;VII” rating. Any exception to these requirements must be approved by the KCERA.

E. If Auditor is, or becomes during the term of this Agreement, self-insured or a member of a self-insurance pool, Auditor shall provide coverage equivalent to the insurance coverages and endorsements required above. The KCERA will not accept such coverage unless the KCERA determines, in its sole discretion and by written acceptance, that the coverage proposed to be provided by Auditor is equivalent to the above-required coverages.

F. All insurance afforded by Auditor pursuant to this Agreement shall be primary to and not contributing to any other insurance maintained by COUNTY.

G. Insurance coverages in the minimum amounts set forth herein shall not be construed to relieve Auditor for any liability, whether within, outside, or in excess of such coverage, and regardless of solvency or insolvency of the insurer that issues the coverage; nor shall it preclude the KCERA from taking such other actions as are available to it under any other provision of this Agreement or otherwise in law.

H. Failure by Auditor to maintain all such insurance in effect at all times required by this Agreement shall be a material breach of this Agreement by Auditor. KCERA, at its sole option, may terminate this Agreement and obtain damages from Auditor resulting from said breach. Alternatively, KCERA may purchase such required insurance coverage, and without further notice to Auditor, KCERA shall deduct from sums due to Auditor any premiums and associated costs advanced or paid by KCERA for such insurance. If the balance of monies obligated to Auditor pursuant to this Agreement are insufficient to reimburse KCERA for the premiums and any associated costs, Auditor agrees to reimburse KCERA for the premiums and pay for all costs associated with the purchase of said insurance. Any failure by KCERA to take this alternative action shall not relieve Auditor of its obligation to obtain and maintain the insurance coverages required by this Agreement.

X. OWNERSHIP OF DOCUMENTS

All reports, documents and other items generated or gathered in the course of providing services to the KCERA under this Agreement are and shall remain the property

of the KCERA and shall be returned to the KCERA upon full completion of all services by Auditor or termination of this Agreement, whichever occurs first.

XI. SUCCESSORS AND ASSIGNS

It is mutually understood and agreed that this Agreement shall be binding upon KCERA and its successors and upon Auditor and Auditor's partners, successors, executors, and administrators. Neither this Agreement, nor any part thereof, nor any monies due or to become due thereunder, may be assigned by Auditor without the prior written consent of KCERA.

XII. INDEMNIFICATION

Auditor agrees to indemnify, defend (upon request of KCERA) and hold harmless KCERA and KCERA's agents, board members, elected and appointed officials and officers, employees, volunteers and authorized representatives from any and all losses, liabilities, charges, damages, claims, liens, causes of action, awards, judgments, costs, and expenses (including, but not limited to, reasonable attorneys' fees of County Counsel and counsel retained by KCERA, expert fees, costs of staff time, and investigation costs) of whatever kind or nature, which arise out of or are in any way connected with any intentional misconduct or negligent error, act or omission of Auditor or Auditor's officers, agents, employees, independent contractors, sub-consultants, or authorized representatives. Without limiting the generality of the foregoing, the same shall include bodily and personal injury or death to any person or persons; damage to any property, regardless of where located, including the property of KCERA; and any workers' compensation claim or suit arising from or connected with any services performed pursuant to this Agreement on behalf of Auditor by any person or entity.

XIII. INCORPORATION OF PRIOR AGREEMENTS AND AMENDMENTS

This document, including all attachments hereto, contains the entire agreement between the parties relating to the services, rights, obligations and covenants contained herein and assumed by the parties respectively. No inducements, representations or promises have been made, other than those recited in this Agreement. No oral promise, modification, change or inducement shall be effective or given any force or effect. This Agreement may be modified in writing only, signed by the parties in interest at the time of the modification. To the extent that any exhibit or attachment hereto is in conflict with the terms of this Agreement, the terms of the Agreement shall control.

XIV. AUDITOR'S RESPONSIBILITY KEY PERSONNEL

A. In the performance of the services under this Agreement, Auditor shall be, and acknowledges that Auditor is in fact and law, an independent contractor and not an agent or employee of KCERA. Auditor has and retains the right to exercise full supervision and control over the manner and methods of providing services to KCERA under this Agreement. Auditor retains full supervision and control over the employment, direction,

compensation and discharge of all persons assisting Auditor in the provision of services under this Agreement. With respect to Auditor's employees, if any, Auditor shall be solely responsible for payment of wages, benefits and other compensation, compliance with all occupational safety, welfare and civil rights laws, tax withholding and payment of employment taxes whether federal, state or local, and compliance with any other laws regulating employment.

B. In providing services under this Agreement, Auditor shall exercise the degree of skill and care customarily exercised by similar professionals in the State of California when providing similar services. Auditor understands and acknowledges that the value of its services is in large part derived from the trust and reliance that the Board places in key personnel assigned to KCERA's audit by Auditor. Auditor agrees that _____ shall be designated as KCERA's lead auditor. Auditor shall not make any change to the lead auditor except upon thirty (30) days' prior written notice to the KCERA.

XV. NOTICES

Notices to be given by one party to the other under this Agreement shall be given in writing by personal delivery, by certified mail, return receipt requested, or express delivery service at the addresses specified below. Notices delivered personally shall be deemed received upon receipt; mailed or expressed notices shall be deemed received five (5) days after deposit. A party may change the address to which notice is to be given by giving notice as provided above.

To KCERA: Kern County Employees' Retirement Association
 Attn: Anne M. Holdren, Executive Director
 11125 River Run Boulevard
 Bakersfield, CA 93311

To Auditor:

XVI. SIGNATORY AUTHORITY

Each party has full power and authority to enter into and perform this Agreement, and the person signing this Agreement on behalf of each party has been properly authorized and empowered to enter into this Agreement.

XVII. CONSTRUED ACCORDING TO CALIFORNIA LAW

The provisions of this Agreement shall be construed in accordance with the laws of the State of California.

XVIII. VENUE

This Agreement has been entered into, and is to be performed in Kern County, California. Accordingly, the parties agree that any action relating to this Agreement shall be brought in Kern County.

XIX. NO AUTHORITY TO BIND KCERA

It is understood that Auditor, in its performance of any and all duties under this Agreement, except as otherwise provided in this Agreement, has no authority to bind KCERA to any agreements or undertakings.

XX. NONWAIVER

No covenant or condition of this Agreement to be performed by Auditor can be waived except by written consent of KCERA. Forbearance or indulgence by KCERA in any regard whatsoever shall not constitute a waiver of any covenant or condition to be performed by Auditor. KCERA shall be entitled to invoke any remedy available to KCERA under this Agreement or by law or in equity despite any such forbearance or indulgence.

XXI. PARTIAL INVALIDITY

Should any part, term, portion or provision of this Agreement be decided finally to be in conflict with any law of the United States or the State of California, or otherwise be unenforceable or ineffectual, the validity of the remaining parts, terms, portions, or provisions shall be deemed severable and shall not be affected thereby, provided such remaining portions or provisions can be construed in substance to constitute the agreement which the parties intended to enter into in the first instance.

XXII. CONFIDENTIALITY

Auditor shall not, without the written consent of KCERA, communicate confidential information, designated in writing or identified in this Agreement as such, to any third party and shall protect such information from inadvertent disclosure to any third party in the same manner that they protect their own confidential information, unless such disclosure is required in response to a validly issued subpoena or other process of law. Upon completion of this Agreement, the provisions of this paragraph shall continue to survive. Any and all information related to individual members of the KCERA is designated as confidential.

XXIII. COMPLIANCE WITH LAW

Auditor shall observe and comply with all applicable state and federal laws, ordinances effective in the County of Kern, rules and regulations now in effect or hereafter enacted, each of which are hereby made a part hereof and incorporated herein by reference.

XXIV. ENFORCEMENT OF REMEDIES

No right or remedy herein conferred on or reserved to KCERA is exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy given hereunder or now or hereafter existing by law or in equity or by statute or otherwise, and may be enforced concurrently or from time to time.

XXV. CONFLICT OF INTEREST

The parties to this Agreement have read and are aware of the provisions of Section 1090 et seq. and Section 87100 et seq. of the Government Code relating to conflict of interest of public officers and employees. Auditor agrees that it is unaware of any financial or economic interest of any public officer or employee of the KCERA relating to this Agreement. It is further understood and agreed that if such a financial interest does exist at the inception of this Agreement, the KCERA may immediately terminate this Agreement by giving written notice thereof. Auditor shall comply with the requirements of Government Code section 87100 et seq. during the term of this Agreement.

XXVI. NONDISCRIMINATION

Neither Auditor, nor any officer, agent, employee, servant or subcontractor of Auditor shall discriminate in the treatment or employment of any individual or groups of individuals on the grounds of race, color, religion, national origin, age or sex, either directly, indirectly or through contractual or other arrangements.

XXVII. CAPTIONS AND INTERPRETATION

Paragraph headings in this Agreement are used solely for convenience, and shall be wholly disregarded in the construction of this Agreement.

No provision of this Agreement shall be interpreted for or against a party because that party or its legal representative drafted such provision, and this Agreement shall be construed as if jointly prepared by the parties.

XXVIII. AUDIT, INSPECTION AND RETENTION OF RECORDS

Auditor agrees to maintain and make available to KCERA accurate books and records relative to all its activities under this Agreement. Auditor shall permit KCERA to audit, examine and make excerpts and transcripts from such records, and to conduct audits of all invoices, materials, records or personnel or other data related to all other matters covered by this Agreement. Auditor shall maintain such data and records in an accessible location and condition for a period of not less than five (5) years from the date of final payment under this Agreement, or until after the conclusion of any audit, whichever occurs last. The State of California and/or any federal agency having an interest in the subject of this Agreement shall have the same rights conferred upon KCERA herein.

XXIX. NON-COLLUSION COVENANT

Auditor represents and agrees that it has in no way entered into any contingent fee arrangement with any firm or person concerning the obtaining of this Agreement with KCERA. Auditor has received from KCERA no incentive or special payments, nor considerations not related to the provision of services hereunder.

XXX. NO THIRD PARTY BENEFICIARIES

It is expressly understood and agreed that the enforcement of this Agreement and all rights of action relating to such enforcement, shall be strictly reserved to KCERA and Auditor. Nothing contained in this Agreement shall give or allow any claim or right of action whatsoever by any other third person. It is the express intention of KCERA and Auditor that any such person or entity, other than KCERA or Auditor, receiving services or benefits under this Agreement shall be deemed an incidental beneficiary only.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

Exhibit E

IN WITNESS WHEREOF, this Agreement has been executed as of that date first herein above appearing.

APPROVED AS TO CONTENT:
Kern County Employees' Retirement
Association

KERN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

By _____
Anne M. Holdren
Executive Director

By _____

Chairman, Board of Retirement

“KCERA”

APPROVED AS TO FORM:
OFFICE OF COUNTY COUNSEL

By _____
, Deputy

By _____

Signature

Typed Name and Title

“Auditor”

{INSERT - ACCOUNTING FIRM'S LETTERHEAD}

Anne M. Holdren
Executive Director
Kern County Employees Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Dear Anne Holdren:

NOTIFICATION OF INTEREST

Our Firm is interested in submitting a proposal for the annual independent audits of the financial statements of the Kern County Employees Retirement Association (KCERA) for the three fiscal years 2011-12 through 2013-14 as set forth in the Request for Proposals (RFP) dated February 1, 2012.

Very truly yours,

{AUDIT FIRM}

KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012

QUALIFICATIONS AND EXPERIENCE CERTIFICATION

The Bidder must submit a description of "Qualifications and Experience," that includes the following items:

- a. A description of the firm's qualifications and experience relevant to the minimum qualifications contained in **Attachment 1 – Minimum Qualifications Certification** and any necessary substantiating information (Proposal Attachment ____).
- b. Copy of the firm's license from the California State Board of Accountancy (Proposal Attachment ____).
- c. Resumes describing the professional qualifications and experience of the engagement partner, engagement manager, engagement supervisor (senior) listed in the cover letter, including audit experience with large retirement systems, (Proposal Attachment ____).

The selected Contractor shall not substitute members of the team without prior approval from KCERA. Resumes and required certifications of the proposed substitute personnel must be submitted to KCERA at the time the request to change team members is made.

- d. Copies of Engagement Partner, Manager and On-Site Supervisor Certified Public Accountant (CPA) licenses (Proposal Attachment ____). The Engagement Partner must submit a CPA license from the California State Board of Accountancy. The Manager and the On-Site Supervisor must submit CPA licenses from a state of the United States.

Signature of Individual Authorized by Firm to
Submit Response to Request for Proposal

Title

Printed Name

Date

**KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012**

MINIMUM AND DESIRABLE QUALIFICATIONS CERTIFICATION

Minimum Qualifications	Yes	No
1. The firm must be a professional public accounting firm, organized at least on a regional basis that provides audit and other attest services. For purposes of responding to questions pertaining to activities of the "firm" during the past (5) years, the term "firm" includes any entities that became part of the firm by merger, acquisition, or otherwise.		
2. The firm must have conducted, within the last five (5) years, at least five (5) audits of defined benefit pension plans with assets that exceeded five billion dollars (\$1,000,000,000).		
3. The firm must have experience in auditing the following classes of investments: equity securities (domestic and foreign), fixed income securities, real estate, alternative investments, commodities, and securities lending.		
4. The firm must have an established office located within the United States.		
5. The firm must be independent, licensed by and in good standing with the State of California under the "Accountancy Act" (California Business and Professions Code, Division 3, Chapter 1, Article 4, Section 5072).		
6. The Principal/Partner (Engagement Partner) responsible for the KCERA account, and the partner who signs the audit opinion (if different), must be located in the United States and have at least ten (10) years of experience in public accounting. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by and in good standing with the State of California.		

**KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012**

MINIMUM AND DESIRABLE QUALIFICATIONS CERTIFICATION

Minimum Qualifications (Continued)	Yes	No
7. The Audit Manager (Engagement Manager) responsible for the KCERA account must be located in the United States and have at least five (5) years of experience in public accounting. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by and in good standing with a state in the United States.		
8. The On-Site Audit Supervisor (Engagement Supervisor) directly overseeing the KCERA account must be located in the United States and have at least three (3) years of professional auditing experience. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by and in good standing with a state in the United States.		
9. The Engagement Manager and Engagement Supervisor shall be available for consultations and in-person meetings throughout the year.		
Desirable Qualifications	Yes	No
1. The firm, Engagement Partner, Engagement Manager and Engagement Supervisor, must not currently (i) be a defendant in any State or federal court action (in the United States or in any country in which the Bidder is doing business) for fraud, malpractice, misrepresentation, or negligence, or (ii) be the subject of any investigation, examination, complaint, disciplinary action or other proceeding before any State or federal governmental agency (in the United States or in any country in which the Bidder is doing business) licensing or regulating the accounting profession or any profession in which the firm's clients are engaged.		

**KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012**

MINIMUM AND DESIRABLE QUALIFICATIONS CERTIFICATION

Desirable Qualifications (Continued)	Yes	No
2. The Principal/Partner (Engagement Partner), Audit Manager (Engagement Manager), must have conducted, within the last five (5) years, at least two (2) audits of defined benefit pension plans with assets that exceeded five billion dollars (\$1,000,000,000).		
3. The Audit Manager (Engagement Manager) responsible for the KCERA account shall be a Certified Public Accountant licensed by and in good standing with the State of California.		
4. The AUDITOR (firm) must not be the subject of any investigation, examination, complaint, disciplinary action, judicial, administrative, or other proceeding relating to or affecting AUDITOR's ability to perform its duties under contract with KCERA or involving any professional employed by AUDITOR who has performed any service with respect to this Agreement, by any of the following: (i) the Securities and Exchange Commission of the United States ("SEC"); (ii) the Public Company Accounting Oversight Board; (iii) any Attorney General or any regulatory agency of any state of the United States; (iv) any U.S. Government department or agency, or (v) any governmental agency regulating the accounting industry or accountants in any country in which AUDITOR is doing business. Except as otherwise required by law, KCERA shall maintain the confidentiality of all such information until the investigating entity makes the information public.		

**KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012**

MINIMUM AND DESIRABLE QUALIFICATIONS CERTIFICATION

Re-certification Concerning Minimum Qualifications

AUDITOR certifies that each of the statements set forth in the Minimum Qualification Certification ("MCC") submitted by AUDITOR to KCERA as part of its proposal submitted in response to KCERA's Request for Proposals for Annual Audits of the Financial Statements is true and accurate as of the date of this Agreement. AUDITOR will notify KCERA in writing within three (3) business days after any statement in the MCC is not longer true or accurate.

I hereby certify that my firm meets all of the minimum qualifications listed above.

Signature of Individual Authorized by Firm to
Submit Response to Request for Proposal

Printed Name

Title

Date

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012**

DOLLAR COST BID

NOT-TO-EXCEED MAXIMUM PRICE

	Year 1	Year 2	Year 3	Total
Independent Audit of Financial Statements (Not-to-Exceed Maximum Price)	\$ _____	\$ _____	\$ _____	\$ _____
Audit of New Pension Administration System (Not-to- Exceed Maximum Price)	\$ _____	\$ _____	\$ _____	\$ _____
Cost per Manager On-site Visit (Not-to-Exceed Maximum Price)	\$ _____	\$ _____	\$ _____	\$ _____

**Kern COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
MARCH 2012**

BACKGROUND AND REFERENCE CHECKS

The Bidder (audit firm) shall provide at least four (4) business references including clients or persons knowledgeable of the firm's work performed within the last five (5) years. References shall include the business name, address, a contact person, telephone number, fax number and e-mail address. At least two (2) of the references shall be defined benefit pension plans meeting the minimum requirements. References for two (2) years of the same defined benefit pension plan audit will meet this requirement.

Defined Benefit Pension Plan Audits

Company Name _____

Street
Address _____

City, State, Zip Code _____

Contact Person _____

Telephone Number _____

Fax Number _____

E-mail Address _____

Description of Service
Provided _____

