



MENDOCINO COUNTY EMPLOYEES  
RETIREMENT ASSOCIATION

## **Request for Proposal for Actuarial Audit Services**

**November 1, 2017**

Proposal Submission Deadline  
Friday, December 1, 2017

## **I. INTRODUCTION**

Mendocino County Employees Retirement Association (MCERA or the Association) is a public retirement system organized under and governed by the County Employees Retirement Law of 1937 (1937 Act), codified as California Government Code §31450 et seq. Under provisions of the 1937 Act, management of MCERA, including general administration, disability matters and control of investment assets, is vested in the Board of Retirement (Board). The Board is composed of nine members and one alternate. MCERA funding is generated from three sources: earnings on investments, employer contributions, and employee contributions.

Members of MCERA are the retired and active employees of the County of Mendocino; Mendocino County Superior Court of California, and the Russian River Cemetery District. Members are classified as General, Safety or Probation members. The 1937 Act provides for a defined benefit retirement system and the benefits are set by statute. The types of benefits provided to members are service retirement, disability retirement (both service and non-service connected), death benefits, and survivor's benefits.

As of June 30, 2017 there were 1,123 active members, 479 inactive members, and 1,462 retired members and beneficiaries. MCERA administered 10 retirement tiers, each with slightly different benefit factors. As of June 30, 2017, market value of MCERA's net assets was \$484 million. Further information is available at the MCERA web site, [www.mendocinocounty.org/retirement](http://www.mendocinocounty.org/retirement).

## **II. PROJECT BACKGROUND**

MCERA invites proposals from actuarial firms familiar with public employee retirement systems to perform an audit of the current MCERA consulting actuary – Segal Consulting (Consulting Actuary or Segal). The firm selected will serve as Auditing Actuary for MCERA on a limited term engagement as described below.

The actuarial audit (Audit) is a component of the Association's overall plan with respect to actuarial services. The June 30, 2017 valuation was presented and finalized in November 2017, and the Experience Study for the three years ended June 30, 2015 was presented in April, 2017.

Segal has served as consulting actuary to MCERA since July 2010. The most recent actuarial audit was completed in 2011 for the Experience Study for the three years ended June 30, 2008 and the June 30, 2009 annual valuation. The most recent actuarial audit reviewed the work of the MCERA consulting actuary prior to the engagement of Segal.

The Board adopted the "Actuarial Funding and Practices Policy" in April, 2017 to supersede the previous "Statement of Actuarial Funding Policy" adopted in July, 2013. The "Actuarial Funding and Practices Policy" states that the MCERA Board will provide for an actuarial audit at least once every six years. The policy can be found on the MCERA website at the following address: <https://www.mendocinocounty.org/home/showdocument?id=7304>.

## Schedule of Events

MCERA reserves the right to modify this schedule at any time.

| <b>Deliverables</b>               | <b>Date</b>       |
|-----------------------------------|-------------------|
| Release of RFP                    | November 1, 2017  |
| Questions from Vendor Due         | November 13, 2017 |
| Answer to Vendor Questions Posted | November 17, 2017 |
| RFP Submission Deadline           | December 1, 2017  |
| Interview (if needed)             | December 13, 2017 |
| Vendor Selection                  | December 13, 2017 |

### III. SCOPE OF SERVICES

#### A. Audit of Triennial Experience Study

Auditing Actuary will assess the actuarial assumptions and funding methodology. The purpose of the audit is to provide an opinion regarding the reasonableness and accuracy of the actuarial assumptions and methodologies employed by Consulting Actuary. The audit will not include a parallel experience analysis. Rather, the audit will focus on comparing MCERA adopted assumptions to industry norms as well as reviewing the structure and application of the assumptions upon the test lives. The review of actuarial methods should be based upon industry standards as well as auditing firm's experience with similar retirement system.

The Auditing Actuary will consult with Segal and MCERA staff in the course of the engagement. Both MCERA and Segal will supply data to the Auditing Actuary for the valuation period. The experience study can be found on the MCERA website at the following address: <https://www.mendocinocounty.org/home/showdocument?id=7312>.

#### B. Audit of Annual Actuarial Valuation

Auditing Actuary will conduct a valuation audit for the years ended June 30, 2016. The audit will be a full replication valuation audit of the June 30, 2016 actuarial valuations and a review of detailed output on certain select test lives from the valuation group.

Auditing Actuary will consult with Segal and MCERA staff in the course of the engagement. MCERA and the Consulting Actuary will supply data to the Auditing Actuary for the valuation periods. The annual actuarial valuation can be found on the MCERA website at the following address:

Such audit shall include but not be limited to:

- a) Evaluation of the available data for the performance of the experience study and valuation, the degree to which such data is sufficient to support the conclusion of the

investigation, and the use and appropriateness of any assumptions made regarding such data.

- b) Evaluations of the results and reconciliation of any discrepancies between the findings, assumptions, methodology, rates, and/or adjustments of the Auditing Actuary and Consulting Actuary.
- c) Valuation to be performed using assumptions, methodologies and funding methods used by Consulting Actuary in its performance of the valuation. Auditing Actuary shall reproduce all work and not rely on the work of Consulting Actuary.

#### **IV. TIMELINE**

The proposed timeline for the actuarial audit is as follows:

- January-February, 2018 – Segal and MCERA Staff provide data and exchange information with Auditing Actuary
- March-April, 2018 – Auditing Actuary provides comments on the Triennial Experience Study; Segal provided an opportunity to respond. Auditing Actuary to provide comments on June 30, 2016 Actuarial Valuation.
- May 9, 2018 – Auditing Actuary makes presentation to MCERA Board with the final audit report of the experience study and the June 30, 2017 valuation.

#### **V. ACTUARIAL FIRM QUALIFICATIONS**

The actuarial auditing firm should meet all of the qualifications listed below. The term “Senior Auditor” refers to the lead and most senior actuary to provide direct services to MCERA. The term “Supporting Auditors” refers to less senior actuaries that will support the Senior Auditor in providing direct services to MCERA. The term “Auditing Actuaries” refers to the Senior Auditor and all Supporting Auditors to be assigned to and provide direct services to MCERA.

1. The firm must be a professional organization that provides actuarial valuations, experience studies, actuarial audits and public pension consulting services.
2. The firm must have performed actuarial services for a minimum of 10 years.
3. Liability, professional errors and omissions insurance in the amount of at least \$10,000,000 must be in effect at the time the proposal is submitted and throughout the term of the engagement.
4. Within the past three years, the firm must have had at least three public pension clients (preferably 1937 Act agencies), serving at least 5,000 active members and 5,000 retired and/or survivor members, who used the firm as primary actuarial consultant for valuations, experience studies and/or actuarial audit tasks.
5. The Senior Auditor performing the work must be a Fellow of the Society of Actuaries and an enrolled actuary. Any Supporting Auditor must be either a Fellow, enrolled, or have five years of public pension consulting experience.
6. The Senior Auditor performing the services must have a minimum of ten years of experience

as an actuary providing public pension consulting services, experience analysis, valuations, and actuarial audit assignments for multi-employer public retirement systems with memberships of at least 2,500 members and annuitants.

7. Any Supporting Auditor performing services must have five years of experience as an actuary providing public pension consulting services, experience analysis, valuations, and actuarial audit assignments for multi-employer public retirement systems with memberships of at least 7,500 members and annuitants.
8. The firm must provide its own work facilities, equipment, supplies and support staff to perform the required services.

## **VI. GENERAL CONDITIONS OF PROPOSAL SUBMISSION**

- A.** All proposals submitted become the property of MCERA. Should a Proposer wish to withdraw its proposal, a written letter must be received by MCERA.
- B.** There is no expressed or implied obligation for MCERA to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. Costs for developing proposals are entirely the responsibility of the Proposer and will not be chargeable to or reimbursable by MCERA.
- C.** All proposals submitted in response to this RFP shall become the exclusive property of MCERA and shall be subject to public disclosure pursuant to the California Public Records Act (Cal. Govt. Code Section 6250 et. seq.). The Act provides that access to information concerning the conduct of the public's business is a fundamental and necessary right of every person in the state. Public records are defined as any writing related to the conduct of the public's business. Public records are open to inspection during normal business hours.
- D.** There are specific exceptions to the Public Records Act. In the event MCERA receives a request for inspection of any proposal submitted pursuant to this RFP, it is the responsibility of the organization whose proposal has been requested to assert any right of confidentiality that may exist. MCERA will not make that assertion on behalf of the Proposer. Absent a judicial determination that the documents are exempt from disclosure, they will be subject to inspection.
- E.** Submission of a proposal constitutes a complete waiver of any claims whatsoever against MCERA and its agents, officers or employees, that MCERA has violated a Proposer's right to privacy, disclosed trade secrets or caused any damage by allowing the proposal to be inspected.
- F.** All proposals must remain valid for a period of not less than 90 days from the submission. This includes pricing as well as nominated engagement staff.
- G.** MCERA reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected.
- H.** MCERA may, in its sole discretion, enter into contracts with multiple providers.
- I.** MCERA reserves the right to contact current and former clients of the Proposer for information at any time during the proposal process.
- J.** MCERA reserves the right to accept or reject any or all proposals and may waive any requirements of this Request for Proposal if it deems it in the best interests of MCERA.

**K.** MCERA reserves the right to contact individual Proposers for clarifying information at any time during the proposal process.

**L.** MCERA may modify the RFP prior to the fixed date for submission of proposals by issuance of an addendum.

## **VII. PROPOSAL CONTENTS**

### **A. Background and Financial Information**

1. Describe the proposing organization's structure. Include the following:
  - a. Ownership information of the firm. Describe any material changes in organizational structure, or ownership that have occurred in the past 5 years. Provide names of all entities with ownership stakes. Detail affiliated companies and/or joint ventures.
  - b. Background information. How long has the firm been providing actuarial consulting services to public pension clients?
  - c. What is the importance (percentage) of actuarial services within the firm? What percentage of revenue comes from actuarial services?
2. List the locations of each office that provide actuarial services within the firm. Which office would be responsible for work performed for MCERA? What is the staffing for that office?
3. Provide the latest two years' audited financial reports for the firm. Provide additional information necessary to demonstrate financial stability, including total revenue, net income / (loss), assets, liabilities, and net worth for each year.
4. Discuss the firm's competitive advantage over other firms in the actuarial audit service area. Why should MCERA hire your firm?
5. Over the past five years, has your organization or any officer or principal been involved in any litigation or other legal proceedings related to any actuarial consulting activities or actuarial auditing services? If so, provide a brief explanation and indicate the current status.
6. Has your firm, within the last ten years, been censured or fined by any regulatory body? If so, please indicate the dates and describe the situation.
7. Has any litigation been brought against the firm by any entity for fraud, malpractice, misrepresentation, negligence, or similar cause of action? If so, please document this information.
8. Is the firm affiliated with any other firm(s) offering non-actuarial services to MCERA or Segal that could represent conflicts of interest? If yes, briefly describe your firm's policies and procedures for doing business with these affiliates while safeguarding against conflicts of interest. .
9. Do you, your parent company, or any affiliated company have any business

relationships with Segal? If so, describe that relationship.

10. List and describe any professional relationship your firm or any of your actuarial consulting group staff have with any member of the MCERA Board of Retirement, staff or plan sponsors.
11. Has anyone in your firm provided any gifts, travel expenses, entertainment, or meals to any member of the MCERA Board of Retirement, or MCERA staff in the last twelve months? If yes, describe the expense and the purpose.
12. Have any of the personnel that will be assigned to this audit previously performed an audit of Segal?

**B. Personnel Information**

1. How many actuaries does your firm employ?
2. Describe the background of the professionals in the firm's actuarial consulting services group:
  - What percentage are currently Fellows of the Society of Actuaries? Enrolled actuaries?
  - What ongoing educational programs are supported and/or required?
3. For the key executives and professionals in the actuarial auditing consulting group assigned to MCERA, including the Senior Auditor and Secondary Auditor(s), please provide resumes (or biographies) that include the following information:
  - Name
  - Title
  - Responsibilities within the firm. If a person has multiple responsibilities, indicate the percentage of time spent on each function in a footnote to the table.
  - Years of relevant experience.
  - Years with the firm.
  - Degrees and professional designations.
  - Institution awarding each degree and designation.
  - Publications authored and/or presentation summary.
4. How long has your actuarial consulting group worked as a team?
5. For the Senior Auditor and all Secondary Auditors, list their public fund actuarial audit assignments for the past five years. Include for each assignment the date of the final audit report, whether the auditor served as the Senior or Secondary Auditor, and the client's name and size (number of pension plan members and annuitants). Include

reference clients' contact information.

6. For the Senior Auditor and all Secondary Auditors who may provide services to MCERA, state the role each would play in accomplishing the required services.
7. For the Senior Auditor and each Secondary Auditor, please state the total number of clients currently assigned to these individuals; are the assignments for general actuarial services or actuarial audit services? What is the accessibility to the actuaries assigned to MCERA?
8. Are there any potential conflicts of interest with the proposed Senior and/or Supporting Actuaries within the MCERA assignment? Are there any potential conflicts of interest related to other client relationships? If so, provide details on the entity or activity.
9. Does the firm have a transition plan to deal with the possible sudden departure of key professionals assigned to MCERA's actuarial auditing project? Describe the plan.

In the event an actuary must be replaced, the replacement must meet the same standards as outlined in this proposal and be acceptable to MCERA. Failure to provide a new replacement acceptable to MCERA will constitute a breach of the firm's agreement.

#### **C. Proposed Actuarial Auditing Methods**

1. Describe the specific methodology to be used for the required scope of services identified in Section III. Scope of Services.
2. Provide a timeline for completion of the work identified Section III. Scope of Services.
3. Describe your firm's theory and methodology used in recommending an appropriate actuarial cost method for a public pension fund.
4. Describe your firm's theory and methodology for actuarial assumptions development (except for the interest rate assumption, which is addressed separately).
5. Describe the methodology used to formulate a pension fund's actuarial interest rate assumption. How may this methodology differ from client to client? Under what circumstances would you recommend MCERA change its interest rate assumption?
6. Describe your firm's approach to recommendations regarding the amortization of unfunded liabilities.
7. Describe your approach to measuring funded status and funding progress in order to facilitate the assessment of trends over several valuations of a client.
8. Describe the capabilities of your valuation system(s) and your computer system support.
9. Describe your quality control processes for actuarial audit reports and recommendations. How are these services monitored and reviewed?
10. Provide an example of one recent actuarial audit report for an existing client.



#### **D. Actuarial Auditing Experience and References**

1. Please list client relationships where **only** actuarial auditing services similar to this RFP have been or are being provided.
2. For all **current** public pension plan full-service actuarial clients, state the client's name, and their asset and membership size. Designate by asterisk which of these clients are multi-employer plans. In addition, describe the nature of the consulting relationship with:
  - A full-service actuarial consulting client that has been assigned for at least two years to the Senior Auditor proposed for the MCERA account.
  - The client with the longest full-service actuarial consulting relationship with your firm.
  - The former client who most recently terminated your firm's full-service actuarial consulting contract.
  - A multi-employer public pension plan client for whom your firm has provided full service actuarial consulting for at least three years.
3. Please provide the name, title, address, and telephone number for at least three client references for whom your firm has provided actuarial audit services similar to this Request for Proposal. Include the following detail:
  - The client for whom the firm most recently completed an actuarial audit.
  - The scope of the actuarial auditing services required for these referenced clients.
  - The client for whom the Senior Auditor most recently completed an actuarial audit.
4. List all pension plan clients that have terminated their actuarial service contracts with your firm in the last five years. Include the client firm's name, size (number of pension plan members and annuitants), date of contract termination, and reason(s) for contract termination.
5. Within the last five years, has your firm been notified by any actuarial consulting services client that your firm is in default of its contract, or that conditions exist jeopardizing continuation of that contract? If so, state the client firm's name, year the notice was received, reasons for the notice, and resolution or current status of the relationship.
6. Have your firm's actuarial consulting service products been audited by another actuarial firm within the last five years? If so, state the number of such audits and whether any resulted in revisions to your clients' annual valuation results, actuarial assumptions, or actuarial cost methods. Which firm(s) audited your actuarial product?

#### **E. Additional Required Information**

1. Will subcontractors be used in providing the required MCERA services? If so, describe the specific services that would be subcontracted, the name of the subCONSULTANT,

the cost to your firm of these services, and how you would control the quality of services provided.

2. Please describe your firm's legal resources, both in-house and external consultants, if retained.
3. Do you have plans/arrangements for business continuity? Briefly describe your business recovery plans. Include plans related to client data files in your description.
4. Please describe the coverage levels for errors and omissions insurance and any fiduciary or professional liability insurance your firm carries. Is the coverage on a per-client basis, or is the dollar figure applied to the firm as a whole? List the insurance carriers.
5. How does the firm monitor and measure actuarial client satisfaction and actuarial audit satisfaction?
6. Describe the resources your firm has that specifically address the needs of public fund clients.
7. Provide one recent valuation audit report and one recent triennial experience study audit report as provided to an existing or former client.

#### **F. Actuarial Audit Fee Proposal**

1. Describe the fee you propose for the actuarial audit engagement described above and how the proposed fee will be billed. The proposed fee should be all-inclusive, as no additional charges for actuarial audit services will be allowed. The fee will be paid on a fixed fee basis.
2. Following the fee schedule provided in Appendix A, please provide a maximum fee assuming video conference presentation of the final audit and the additional cost of an on-site presentation of the final audit.
3. Additionally, please provide hourly rates for additional services, as may be requested by MCERA, beyond the scope of services described above. Any additional services will be agreed upon in writing before the conduct of any additional work.

#### **G. Proposed Contract Amendments**

1. A sample contract is attached to indicate the type of agreement contemplated and to set forth some of the general provisions that MCERA anticipates including in the final agreement(s). In submitting a proposal, the Proposer will be deemed to have agreed to each clause unless the proposal identifies an objection, sets forth the basis for the objection, and provides substitute language to make the clause acceptable to the Proposer. Any proposed revision is subject to additional review and may not be added unless MCERA determines in its sole discretion that the performance of the services under the contract is dependent upon such changes. The sample contract provisions are contained in Appendix B.

### **VIII. PROPOSAL SUBMISSION AND EVALUATION PROCESS**

#### **A. Contact**

Judy Zeller  
Mendocino County Employees Retirement Association  
625-B Kings Court  
Ukiah, CA 95482  
[retirementassociation@mendocinocounty.org](mailto:retirementassociation@mendocinocounty.org)

- B. Need to Modify RFP.** If any ambiguity, conflict, discrepancy, omission or other error is discovered in this RFP, notify MCERA, attention Judy Zeller, in writing. If MCERA deems it necessary, modifications will be made by addenda issued to all participating respondents and posted on MCERA's website.
- C. Proposal Submission.** Proposals must be received by: 12:00 p.m., Pacific Time on December 1, 2017. Late proposals will not be accepted. On the outside of the sealed response package, clearly mark:

**Response to RFP for Actuarial Auditing Services**

Please submit 2 printed sets of the proposal and related information plus a USB Flash Drive containing a complete electronic copy of the proposal and related information to:

Judy Zeller  
Mendocino County Employees Retirement Association  
625-B Kings Court  
Ukiah, CA 95482

Additionally, proposers should e-mail an electronic version of the proposal and related information to [retirementassociation@mendocinocounty.org](mailto:retirementassociation@mendocinocounty.org).

- D. Proposal Organization.** Proposals should be organized in the following manner:
1. Cover Letter stating that the proposal is complete as submitted. All prices, cost schedules, and/or other factors contained in the proposal are valid for 90 days from the proposal closing date and must include the signature of the representative(s) who are authorized to legally bind the proposer.
  2. Table of Contents
  3. Executive Summary
  4. Background and Financial Information
  5. Personnel Information
  6. Proposed Actuarial Auditing Methods
  7. Actuarial Auditing Experience and References
  8. Additional Required Information
  9. Actuarial Audit Fee Proposal
  10. Proposed Contract Amendments

## 11. Attachments

**E. Proposal Review.** MCERA will review and evaluate the proposals. MCERA anticipates selecting one or more firms as finalists in December 2017. The evaluation criteria will be the following:

- Qualifications – Firm’s ability to meet the qualifications.
- Ability – The firm’s ability to provide the requested services.
- Related Experience – The firm’s demonstrated, related experience in providing services comparable to the Board’s needs. Expertise in all aspects of actuarial auditing, preferably as it relates to public entities and the 1937 Act.
- Assigned Individuals – The credentials and experience of the person(s) who would be assigned to MCERA’ account.
- Fee Proposal – The fee structure proposed by the firm.
- General quality and adequacy of response, including completeness of response, conformity to terms and conditions.
- Quality of references – Level of satisfaction of present and/or former clients.
- Other Factors – Any other factors that would be in the best interest of the Board to consider which were not previously described.

**F. Interviews.** MCERA may schedule presentations of the finalists. Note that there may not be any oral presentations; each proposal is expected to be complete in and of itself.

**G. Notification of Contract Award and Start Date Notification** of MCERA’ decision to award a contract for actuarial audit services will be by e-mail in December, 2017.

**APPENDIX A  
FEE SCHEDULE**

The Auditor must state a firm, fixed price for the audit to provide audit services as described herein, in accordance with the terms and conditions of this document.

| Audit Services  | Proposed Fee |
|---|--------------|
| Maximum Fee<br>(Assuming video conference presentation of final audit report.)        |              |
| Additional cost for on-site presentation of final audit report (if elected by MCERA). |              |

| Additional Professional Services                                       | Rate/ Hour |
|--|------------|
| <b>A. Professional Personnel</b><br>(proposer may change titles below) |            |
| Actuarial Audit Partners   |            |
| Actuarial Audit Manager  |            |
| Actuarial Audit Senior   |            |
| Actuarial Audit Secondary  |            |
| <b>B. Support Personnel</b>  |            |
| Clerical   |            |
| Other  |            |

**APPENDIX B  
CONTRACT REQUIREMENTS**

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