



Commonwealth of Pennsylvania

Date: **12/17/2012**
Subject: **Questions/Answers**
Solicitation Number: **PSERS RFP 2012-6**
Opening Date/Time: **January 8, 2013 at 1:30 PM**
Addendum Number: **1**

To All Suppliers:

The Commonwealth of Pennsylvania defines a solicitation "Addendum" as an addition to or amendment of the original terms, conditions, specifications, or instructions of a procurement solicitation (e.g., Invitation for Bids or Request for Proposals).

List any and all changes:

Questions and Answers.

For electronic solicitation responses via the SRM portal:

- Attach this Addendum to your solicitation response. Failure to do so may result in disqualification.
- To attach the Addendum, download the Addendum and save to your computer. Move to 'My Notes', use the "Browse" button to find the document you just saved and press "Add" to upload the document.
- Review the Attributes section of your solicitation response to ensure you have responded, as required, to any questions relevant to solicitation addenda issued subsequent to the initial advertisement of the solicitation opportunity.

For solicitations where a "hard copy" (vs. electronic) response is requested:

- Attach this Addendum to your solicitation response. Failure to do so may result in disqualification.
- If you have already submitted a response to the original solicitation, you may either submit a new response, or return this Addendum with a statement that your original response remains firm, by the due date to the following address:

Except as clarified and amended by this Addendum, the terms, conditions, specifications, and instructions of the solicitation and any previous solicitation addenda, remain as originally written.

Very truly yours,

Name: **Terrianne P. Mirarchi**
Title: **Purchasing and Contracting Manager**
Phone: **717-720-4604**
Email: **tmirarchi@pa.gov**

RFP for Financial Audit December 10, 2012

Questions submitted:

1. Will the current auditor be permitted to issue a proposal – if so, how long have they been handling the audit?

Response: No. Clifton Larson Allen held the contract for two 5 year terms. PSERS requires that we rotate auditors after two contract periods.

2. Can the auditor perform interim testing prior to June 30

Response: Yes. We try to schedule the audit team to come in the April-June time frame.

3. When are the books closed and available for audit?

Response: We close the books the last week in August and typically provide a trial balance to the auditor that same week.

4. Does PSERS complete the financial statements, footnotes and MD&A

Response: Yes.

5. Was a management letter issued for the past audit.

Response: No. PSERS did not receive any management letter comments last year.

6. How many audit adjustments were required for the most recent audit.

Response: There were not audit adjustments.

7. The RFP indicates the availability of files in electronic format – would this include

- o General ledger
- o Investment activity
- o Participant files
- o Employer reporting

Response: Yes.

Next list of questions submitted:

1. Were any audit adjustments booked or passed as a result of the last year's audit?

Response: No.

2. Who prepares the financial statements?

Response: PSERS . When are the draft statements completed? **Response:** Draft statements are typically available by approximately September 5.

3. Can we get an organizational chart of the Finance Function?

Response: Yes. See attachment 1

4. Can we obtain a copy of the most recent SAS 114 letter and Management letter?

Response: Yes. See attachment 2.

5. Can you provide a list of workpapers prepared by management to assist the external auditor?

Response: We are not certain what you are actually asking. PSERS does not complete the auditors workpapers.

6. Is there any internal audit hours provided to support the audit? **Response:** Yes. If so, what functions are performed by internal audit? **Response:** PSERS' Internal Audit will provide assistance in obtaining information from the benefit system, V-3, and will provide assistance during the auditors testing and recalculation of benefits.

7. Are you aware of any accounting areas of concern for the 2013 audit?

Response: No.

8. What additional services was the audit firm engaged for besides the core audit?

Response: None

9. Please describe the process followed by management to conclude on the accuracy of the valuation of alternative investments as of balance sheet date.

Response: PSERS Investment Accounting compares the June 30 NAV when provided by the partnership to the March 31 valuation plus cash flows through June 30 for reasonableness. They also review the portion of the change in NAV for the quarter that is not cash flow-related to the trend in such changes for other partnerships in the same class, i.e. Private Equity, Real Estate, etc. In addition to this, they inquire of the managing partner and obtain support for those partnerships which experience significant fluctuations in the value of their underlying portfolio investments.

10. Do you receive SOC1 reports from all Trustees / Custodians?

Response: We receive a SOC1 from Mellon Bank, that has the contract to perform the custodial duties for the Treasurer.

11. Who is actuary? What is the timing of the report?

Response: Buck Consultants. The valuation is for June 30 and the most recent report was just issued in December, 2012.

Next list of questions submitted:

- 1) Why is PSERS soliciting proposals for audit services at this time?

Response: Clifton Larson Allen held the contract for two 5 year terms. PSERS requires that we rotate auditors after two contract periods.

- 2) How many years has PSERS been with the current auditor?

Response: 10.

- 3) Will PSERS provide copies of all deliverables from the prior year?

Response: No.

- 4) Have there been any findings, weaknesses or deficiencies noted by the current auditor?

Response: No.

- 5) Please describe assistance provided by PSERS during the audit process.

Response: PSERS Internal Audit will provide assistance in obtaining information from the benefit system, V-3, and will provide assistance during the auditors testing and recalculation of benefits.

- 6) What were the number, nature and amount of audit adjustments posted?

Response: None.

- 7) What were the fees incurred in the prior five years in connection with the audit services covered by the RFP?

Response:

2008-\$100.000.00, 2009-\$105,000.00, 2010-\$110.000.00, 2011-\$115.000.00, 2012-\$120.000.00

Next list of questions submitted:

1. Who is trustee/custodian of the investments and derivatives? Is a SOC1 report available?

Response: The State Treasurer is the official custodian for the Commonwealth's investments. Mellon Bank currently holds the contract with the Treasurer, to perform the custodial duties.

2. Do the 3rd party healthcare administration providers (CoreSource, Rx Solutions and ViTech Systems) have a SOC1 report?

Response: CoreSource is our third party administrator for the Health Options program. They provide a

SOC1 report. We do not have a SOC1 report for RxSolutions, our pharmaceutical benefits manager. ViTech is not a healthcare administrations provider and we do not have a SOC1 for them.

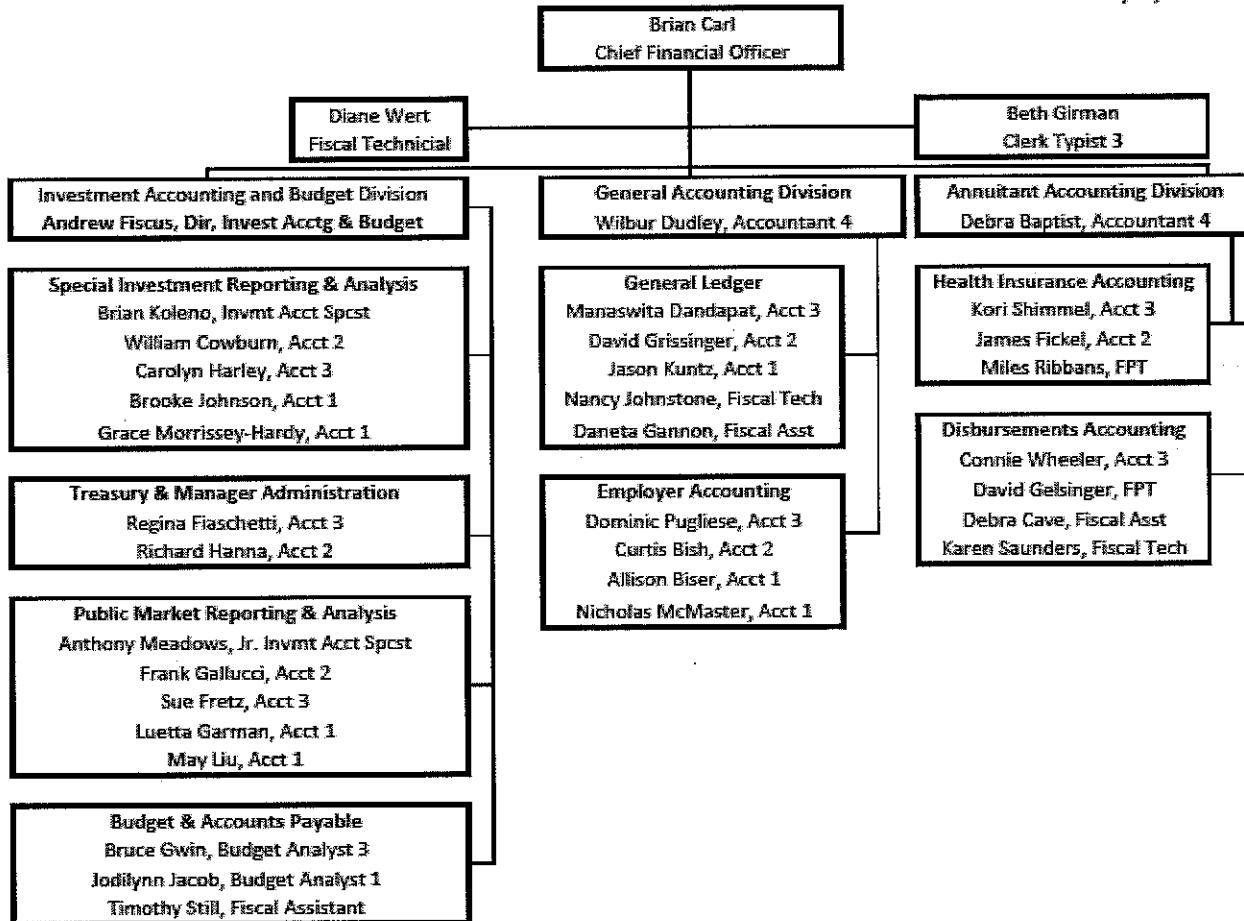
3. Is there an internal audit function of the PSER that can be relied upon or utilized during the audit?

Response: Yes. PSERS Internal Audit will provide assistance in collecting requested information, setting up a work area and coordinating with PSERS staff the auditor needs to meet with. Internal Audit will help specifically with obtaining information from the benefit system, V-3, and will provide assistance during the auditor's testing and recalculation of benefits.

Attachment 1.

**ORGANIZATIONAL CHART
OFFICE OF FINANCIAL MANAGEMENT**

As of July 16, 2012





CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

September 18, 2012

Audit Committee
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17108-0125

This letter is to provide you with information about significant matters related to our audit of the financial statements of the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) for the year ended June 30, 2012. It is intended solely for the use of the Audit Committee, members of the Board and PSERS' management and should not be used by anyone other than these specified parties.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Significant Issues Discussed with Management Prior to Retention. We discuss various matters with management each year prior to retention as the PSERS' auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations with Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Qualitative Aspects of Accounting Practices.

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by PSERS are described in Note 2 to the financial statements.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were significant accounting estimates in the financial data regarding member contributions, benefits payable, the actuarial liability and the fair value of certain alternative investments and real estate investments.

As member contributions for all reporting school districts are not received within the established reporting deadlines, management uses an estimate to record member contributions receivable at year end. This estimate utilizes payroll information for the same quarter of the prior year as well as an inflationary increase. The estimated salaries for the school districts are then multiplied by a blended contribution deferral rate based upon the average rate for all members. Our audit procedures included reviewing this approach and we believe that the estimate calculated by management is reasonable.

Benefits payable identifies the obligations of PSERS, on an accrual basis, at the end of the fiscal year. It includes the estimated retirement and death benefits payable, premium assistance benefits payable, and the HOP IBNR claims for its participants. Our audit approach included reviewing this estimate as well as testing a sample of payments that were pending at year end and then paid after year end as well as reviewing benefit expense in total. Based upon the aforementioned we believe that management's estimate is reasonable.

Alternative investments including real estate investments are primarily based on amounts established by investment manager valuation committees. The values for these investments are reported based on the most recent financial data as adjusted for cash flows through June 30, 2012. Our audit procedures validated this approach through confirmations sent directly to a sample of investment managers as well as review of recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 7.50% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of June 30, 2011 as required by the Retirement Code. The valuation is the basis for the contribution rate for the Commonwealth of Pennsylvania's 2012/2013 fiscal year. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Audit Committee
Commonwealth of Pennsylvania
Public School Employees' Retirement System
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Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit.

Disagreements with Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to PSERS' financial statements or our report on those financial statements.

Please contact Thomas Rey if you have any questions regarding the matters included in this letter.

CliftonLarsonAllen LLP