

## Kansas Public Employees Retirement System

### RFP Questions

November 9, 2018

1. Q: The RFP states that KPERS serves as administrator of a death and disability OPEB that is a non-qualified trust. The FY2017 CAFR states that KPERS provides reporting for this OPEB as part of an agency fund. Has KPERS determined that the GASB No. 74 disclosures for the OPEB are not required based on their relationship with the OPEB? Has an analysis been performed based on the upcoming GASB No. 84 on fiduciary activities to determine if future reporting will be required? (RFP II. Background)

A: GASB Statement No. 74, establishes financial reporting requirements for defined benefit OPEB plans which are administered through a trust or equivalent arrangement that meets the criteria in paragraph 3 (a qualifying trust). After analysis of the statement, KPERS management determined the KPERS Death and Disability Plan does not meet the criteria and is a non-qualified trust. Therefore, there is no OPEB plan reporting (that is, a statement of fiduciary net position, a statement of changes in fiduciary net position, notes to basic financial statements, and required supplementary information for an OPEB plan) included in the KPERS 2017 CAFR. The Death and Disability Plan is classified as an agency fund. An analysis is planned on GASB Statement No. 84, fiduciary activities, to determine what effect this statement will have on KPERS.

2. Q: The FY2017 CAFR reports that the death and disability OPEB reporting and the related total OPEB liability are reported for the non-trusted OPEB by the participating employers. Does KPERS provide allocations of the OPEB elements to participating employers? If so, is this information audited?

A: No, because the death and disability plan is not administered through a qualified trust, a total OPEB liability at the Plan level is not calculated. Instead, separate actuarial valuations are provided for each employer for their individual audits which include the individual employer's total OPEB liability.

3. Q: The FY2017 CAFR footnotes report that KPERS contracts with 24 investment management firms and a global custodian. What is the nature of reporting provided by external investment managers and consultants? (CAFR 2017 p.30)

A: External managers provide holdings and transaction files to KPERS investment accounting staff and a manager reconciliation file to the custodian bank monthly. External consultants' report to the Board of Trustees semi-annually on performance.

4. Q: Has there been changes in the number of investment managers or a change in the custodian (State Street) since FY2017?

A: The number of external investment managers has decreased to twenty. In FY2017 some portfolios were transitioned to existing managers. There has been no change in the custodian.

5. Q: Please describe the method used by KPERS to gather census data from employers and providing census data to the actuary (Cavanaugh McDonald) providing valuations and GASB 68 measurements.

A: KPERS has over 1500 participating employers. Each employer reports their payroll information by pay cycle, per employee, to KPERS through the KPERS employer web portal. This information is

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posted to the members' accounts on a daily basis as information is received. The calendar year census files are derived from the KPERS data system and transmitted by KPERS to the actuarial firm.

6. Q: Regarding the SOC 1 Type 2 Audit: Can we obtain a copy of the most recent report to review the scope of work? Or can you provide copies of the control objectives defined by management and the number of internal control activities tested for each?

A: The first SOC1 type 2 report will not be issued until the summer of 2019. Please see the answer to Question 31 below.

7. Q: SOC 1 Type 2 Audit: Does KPERS leverage any other third-parties for services related to the achievement of the SOC 1 control objectives (for example, a datacenter used to backup-up system information)? If so, could you provide a list of these sub-service organizations?

A: Yes, KPERS uses Cavern Technologies as its disaster recovery data service center. Cavern Technologies has an annual audit of its financial statements as well as internal controls. Reports are prepared in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 18, Reporting on Controls at a Service Organization. Please see their website at: <https://caverntechnologies.com/kansascity-datacenter-features/compliance>

8. Q: Attachment A, Question #4: Is the minimum qualification of five (5) current DB plan clients with at least \$10 billion in assets a defining qualification for pursuing audit services with KPERS? Or will KPERS consider other experience and qualifications that may compensate for a lower number of DB clients of this size?

A: KPERS does consider this a minimum requirement for consideration of a proposal.

9. Q: Please describe management's and/or the internal auditor's procedures to determine the completeness and accuracy of employer census data for each plan. Does KPERS' current audit firm leverage work performed by the internal auditor or other internal controls performed at KPERS for census data testing?

A: As the payroll information for active members is received throughout the year from our employers, the information goes through edit checks in our system to ensure completeness and accuracy prior to posting to KITS (our member database). Throughout the year we also perform death match procedures to remove deceased members from our database. At year-end in support of the audit, the internal auditor gathers the information and performs the initial test work over the census data sample selected by the external auditors.

10. Q: Annual reviews of alternative investments: One of the engagements requested in the RFP (V. Statement of Needs, 2nd bullet) is an annual review of alternative investments with estimates of permanent impairments. Approximately how many alternative investments are included in the population for review? What is the expected scope for this review? What level of reporting does KPERS require on the estimated impairments or stability of alternative investments?

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A: Approximately seventy alternative investments are in the population for review. This population is expected to be emphasized in the audit each year, and that the audit firm performs adequate sample tests and communicates any finding with KPERS.

11. Q: What is the preferred audit timeline (pre-audit meeting, fieldwork begins, fieldwork ends, exit meeting etc)?

A: See answer to question 13 below.

12. Q: Page 4 of the RFP notes the audit opinion for the CAFR is due by November 1. What are the due dates for the other audit deliverables included in the Statement of Needs?

A: See answer to question 13 below.

13. Q: Timing: Does management expect fieldwork and drafts of reports/findings to be completed by certain deadlines for the financial statements, employer allocation schedules, SOC 1 Type 2 report, and alternative investment review? Is management agreeable to permit expanded interim testing prior to the 6/30 year-end of internal controls, census data, and other areas that are not dependent on year-end reported balances?

A: KPERS Defined Benefit Pension Plan:

Interim field work – mid-April to mid-May time frame

Final field work – mid to late September, all reviews of investment portfolio completed

First draft of MD&A and Financial Reports – October 1

Final draft of MD&A and Financial Reports- October 15

Final MD&A and Financial Report, completed audit, November 1

Audit firm to present MD&A and Financial Report to Legislative Post Audit (LPA) Committee, early December

CAFR published on KPERS website by December 20<sup>th</sup>, after presentation to LPA Committee

Audit firm to present to KPERS Audit Committee, January Board meeting

KPERS GASB 68 Report:

Selection of employers and selected employees from census data files – January-March

Review of payroll information provided by KPERS internal auditor – June 30

Issue KPERS GASB 68 report and audit opinion – December 31

Issue KPERS SOC1 type 2 Report on D&D Census data - June 30.

Yes, management would discuss expanded interim testing with the selected audit firm.

14. Q: How long has your current audit firm been engaged by KPERS? Does KPERS have a mandatory rotation policy for audit firms, or have they been invited to bid?

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A: The current audit firm has been engaged for five years by the Kansas Legislative Division of Post Audit. KPERS does not have a mandatory rotation policy. The current audit firm has been invited to submit a proposal.

15. Q: Has there been any significant turnover in the accounting staff over the past year or any changes you'd expect would impact fieldwork as compared to prior years?

A: No, there has been no significant turnover that would impact fieldwork.

16. Q: Has the current auditor performed interim testing?

A: See answer to question 17 below.

17. Q: Have the auditors historically been on-site to perform interim fieldwork? If so, when has interim fieldwork taken place, and how many auditors have been on site?

A: Yes, the auditors have been on site for interim fieldwork. The current firm has had three auditors on site for one week, during the mid-April to mid-May timeframe.

18. Q: When has final fieldwork historically taken place? How long and how many auditors have historically been on site during final fieldwork?

A: Three auditors on site, for one week, the last week of September.

19. Q: What, if anything, would KPERS like to see changed about their current audit process?

A: KPERS is satisfied with its current audit process.

20. Q: Section V. Statement of Needs – on page 4, the below 2 audit/attestation opinions are listed in the scope of work – can you please provide copies of these 2 deliverables from the prior year audit for review:

1 ) Annual review of alternative investments of KPERS with any estimates of permanent impairments to the value of such alternative investments reported by KPERS pursuant to KSA 74-4907, and amendments thereto.

A: This review is not a separate attest engagement, but rather a part of the financial audit. There is no separate report issued for this requirement.

2) Attestation engagements to examine the internal controls in the generation of calendar year census data for the Disability Program's annual valuations (SOC 1 Type 2).

A: The first SOC1 type 2 report on KPERS census data will not be completed until summer 2019.

21. Q: Does KPERS staff draft the Comprehensive Annual Financial Report, or does the audit firm?

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A: KPERS staff drafts the Comprehensive Annual Financial Report.

22. Q: Were there any journal entries proposed by the audit firm during 2017/2018 audit? Is there a list of these journal entries available?

A: No journal entries were proposed during either the fiscal year 2017 or 2018 audits.

23. Q: Was a management letter issued during the 2017/2018 audit, if so, is this available for review?

A: No management letter was issued during either the fiscal year 2017 or 2018 audits.

24. Q: Investments held by the plan – are audited financial statements available for the Real Estate investments and Alternative/Private Equities investments?

A: Yes, these statements are available.

25. Q: Will KPERS be continuing to use Cavanaugh Macdonald as its actuary for at least the first year of the scope of the audit work?

A: Yes, KPERS intends to continue to use Cavanaugh Macdonald as its actuary for the KPERS Defined Benefit pension plan.

Milliman, Inc. will continue to be the actuary for the KPERS Death and Disability plan.

26. Q: Is this RFP the first time KPERS has handled the bid process for audit services based on the proposed new State Legislation?

A: Yes, this is the first time KPERS has issued an RFP for the financial audit of the KPERS Defined Benefit pension plan. KPERS has issued RFPs for other services, including the KPERS 457 plan it administers. This contract was awarded in 2017.

27. Q: Does KPERS perform census/payroll audits on the contributing employers or has the audit firm traditionally gone to various employers to perform this testing?

A: See the question below.

28. Q: For the Cost-Sharing Plan, how many employer site audits or visits is the incumbent firm performing on an annual basis?

A: The incumbent firm has not done employer site visits or audits. KPERS has within its Fiscal Services Division an Employer Auditing Unit. These staff members regularly audit KPERS employers' payrolls to ensure compliance with Kansas state statutes. This unit, in collaboration with the KPERS internal auditor, contact selected employers and collect the information for the GASB 68 employer annual audits.

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29. Q: Is the audit of the 457 Deferred Compensation Plan Financial Statements covered under this RFP?

A: No, that is a separate contract.

30. Q: Scope of services includes the following requirement - "annual reviews of alternative investments of KPERS with any estimates of permanent impairments to the value of such alternative investments reported by the Kansas Public Employees Retirement System pursuant to K.S.A. 74-4907, and amendments thereto." – Will KPERS management complete the investment impairment analysis and is it our responsibility to audit the analysis in conjunction with the audit of the plan financial statements?

A: KPERS management analyzes investment impairment and yes, it will be the auditor firm's responsibility to audit this information

31. Q: Regarding the SOC1 type 2 attestation report, how many control objectives are included in the SOC report and what are they?

A: The draft control objectives on the census data file are as follows:

CO1: Controls provide reasonable assurance that the setup, update and maintenance of member records are performed completely, accurately and timely-(6 activities)

CO2: Controls provide reasonable assurance that the allocation of OPEB liability or assets is complete and accurate-(3 activities)

CO3: Controls provide reasonable assurance that the census data reported is complete and accurate-(10 activities)

CO4: Controls provide reasonable assurance that logical access to census data is restricted to authorized individuals-(6 activities)

CO5: Controls provide reasonable assurance that changes to systems and tools used to monitor and report census data are documented tested, approved and monitored-(7 activities)

CO6: Controls provide reasonable assurance that census data is backed up and available-(5 activities)

32. Q: What is the length of the SOC 1 Type II examination period?

A: Twelve months.

33. Q: How many systems/applications are in scope of the SOC 1 Type 2 examination?

A: KPERS' has contracted with Sagitec Solutions for its Neospin browser-based pension administration software. The KITS/Neospin software package is supported by Sagitec Solutions. See their website: <http://www.sagitec.com>

In addition, see the answer to question 7.

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34. Are the systems/applications custom developed by KPERS or does KPERS perform change management on the systems (i.e., access to source code)

KPERS controls change management for KITS. Changes to KITS/Neospin source code is performed by Sagitec Solutions as directed by KPERS.

35. Q: How many locations are in scope of the SOC 1 Type 2 examination?

A: One, KPERS headquarters.

36. Q: Have there been deviations in the prior year reports? If so, have the prior reports had qualified opinions?

A: No deviations or qualified opinions.