



**MUNICIPAL EMPLOYEES' ANNUITY AND BENEFIT
FUND OF CHICAGO**

**REQUEST FOR PROPOSAL – AUDIT SERVICES
FOR FISCAL YEARS 2012-2016**

September 10, 2012

MEABF
Municipal Employees' Annuity and Benefit Fund of Chicago
321 North Clark Street, Suite 700
Chicago, IL 60654
Tel 312.236.4700
www.meabf.org

MUNICIPAL EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

Request for Proposals for Audit Services

I. INTRODUCTION

A. General Information

The Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF" or the "Fund") is requesting proposals ("RFP") from qualified firms of certified public accountants to audit the Fund's financial statements for the fiscal year ending December 31, 2012 with the option of auditing its financial statements for each of the four subsequent fiscal years. A firm submitting a proposal is referred to as "Auditor" or "Respondent(s)" or "the firm".

To be considered, a total of four (4) hard copies **and** an electronic copy of a proposal must be received by the Fund by 4:30 P.M. on Friday, October 19, 2012. All hard copies of the proposal must be sent to:

Fund Comptroller
Municipal Employees' Annuity and Benefit Fund of Chicago
321 N. Clark Street, Suite 700
Chicago, IL 60654

The electronic copy of the proposal must be emailed separately by the deadline to comptroller@meabf.org. MEABF reserves the right to reject any and all proposals submitted. The Fund will evaluate proposals submitted and may interview finalist candidates. A Selection Committee will evaluate proposals submitted.

During the evaluation process, MEABF reserves the right to request additional information or clarification from Respondents, and to allow corrections of errors or omissions.

Respondents shall be solely responsible for any expenses incurred in preparing proposals in response to this request and MEABF will not reimburse any costs incurred.

Respondents are advised that proposal materials are subject to the Illinois Freedom of Information Act (5 ILCS 140). After completion of the RFP, selection by the Fund and successful negotiation of a contract, if any, proposals submitted may be viewed and copied by any member of the public, including news agencies and competitors. Respondents claiming a statutory exception from the Illinois Freedom of Information Act for information within the Respondents' proposals must identify relevant language as confidential, and identify in the email transmission of the proposal whether confidential information is included. Further, each page of confidential documentation must be labeled as such. Respondents must also specify which statutory exemption applies for each piece of confidential information. The Freedom of Information Act can be found at the Illinois General Assembly's website (<http://www.ilga.gov/>).

MEABF reserves the right to make determinations of confidentiality. If MEABF disagrees with a Respondent's confidential designation, it may either reject the proposal or discuss its interpretation of the exemptions with the Respondent. If agreement can be reached, the proposal will be considered. If agreement cannot be reached, MEABF will remove the proposal from consideration.

MEABF reserves the right to retain all proposals submitted and to use any idea in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the Respondent of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between MEABF and the firm selected.

It is anticipated the selection of a firm will be completed by November 15, 2012. Following the notification of the selected firm, it is expected that a written agreement for auditing services will be executed between both parties following the November 15, 2012 meeting of the Retirement Board of Trustees.

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B. Term of Engagement

1. Contract Period - A five-year contract period is contemplated, subject to an annual review and satisfactory negotiation of terms (including a price acceptable to both MEABF and the selected firm) and the concurrence of the Retirement Board.
2. Termination of Contract – Following implementation, MEABF reserves the right to terminate the agreement. The firm may be liable for damages from any breach of contract including reasonably foreseeable incidental and consequential damages. The firm shall provide the MEABF at least 180 days prior written notice of its intent to terminate any agreement.

C. Qualification of the Auditor

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 governmental accounting.
- ❖ Have sufficient knowledge of pension accounting and actuarial science.
- ❖ Have sufficient knowledge of statements issued by the Governmental Accounting Standards Board (GASB) particularly those relating to pension accounting and reporting.
- ❖ Have a license to practice in the State of Illinois.

D. Subcontracting

No subcontracting will be permitted.

II. DESCRIPTION OF ENTITY AND NATURE OF RECORDS TO BE AUDITED

A. Entity

MEABF is the administrator of a single employer defined benefit plan that was established in 1921 to provide retirement annuities and disability benefits for covered employees and for survivors and other beneficiaries of such employees. The MEABF is administered under Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes. Detailed information on MEABF and a copy of our latest audited financial report can be found on our website at www.meabf.org.

MEABF collects, deposits, invests, and manages retirement trust funds solely in the interest of, and for the exclusive purpose of providing benefits to eligible participants and their beneficiaries. As of December 31, 2011, there were approximately 31,976 active members, 23,382 retirees and beneficiaries and 12,762 terminated employees entitled to benefits or a refund of contributions. MEABF acts as fiduciary agent for the accounting and control of member and employer contributions and investment income. MEABF had assets of approximately \$4.9 billion as of June 30, 2012.

MEABF is administered under the direction of the Retirement Board responsible for the oversight, management and administration of MEABF. To help carry out governance responsibilities, the Retirement Board appoints the Executive Director and retains consultants for investment, actuarial, legal and other provisional services necessary for the transaction of business. The Executive Director and his staff of 46 are responsible for all the day-to-day operational management tasks.

B. Investments

The Retirement Board is responsible for oversight as to all investments of MEABF assets and oversees the investments of fifty-four external investment managers. The Retirement Board utilizes the services of an investment consultant. MEABF does not perform any internal management of investments. MEABF staff monitors performance of the external investment managers and does investment reconciliation accounting. MEABF currently

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engages in a securities-lending program through its master custodian, The Northern Trust Company.

C. Accounting and Reporting

MEABF is a component unit of the City of Chicago and as such, it is included in the City of Chicago's financial report as a pension plan.

MEABF follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines. Financial records are maintained on a hybrid cash/accrual basis during the year and converted to full accrual at year-end.

D. Systems Applications

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

1. Disbursement Functions

- ❖ Benefit Payroll Disbursement is contracted with The Northern Trust Company using its Benefit Payment Services.
- ❖ Vendor Payments are processed using The Northern Trust's Web Cash Movement module.

2. Pension Administration

MEABF uses a customized pension administration database system, Pension Benefit System (PBS).

3. Contributions Accounting

Active member's periodic payroll information is imported from the City of Chicago and Board of Education payroll files and loaded into MEABF's Pension Benefit System (PBS) and credited to each participant record.

4. Local Area Network (LAN)

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

5. Accounting Applications

MEABF uses an accounting software package – Microsoft Dynamics GP 10.0 as its main general accounting recordkeeping and financial reporting. This program runs on the MEABF server.

E. Administrative Expenses

MEABF's Retirement Board annually adopts the operating budget for the administration of MEABF. Funding for these expenses comes from the employer contributions as mandated in the Illinois State Statutes Chapter 40, Section 5/8-190.

F. Actuarial Services and Information

To monitor the funding status of the Fund, MEABF engages an independent actuarial firm to conduct actuarial valuations annually and to perform an experience study usually every five years. The December 31, 2011 valuation determined the funding ratio to be 45.2%. The annual valuation was done using the entry age normal cost method, and an actuarial value of assets smoothed over a 5-year period. The current valuation uses an 8.0% assumed investment rate of return as the discount rate and a 4.5% salary increase assumption.

G. Internal Audit Function

None

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H. Availability of Prior Audit Reports and Working Papers

Interested respondents who wish to review prior year's audit reports and management letters should email their request to comptroller@meabf.org. Audited financial statements for the last three years are available at the Fund's website.

III. NATURE OF SERVICES REQUIRED

A. General

MEABF is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal year ending December 31, 2012 and the four (4) subsequent fiscal years. These audits are to be performed in accordance with the provisions contained in this request for proposals. Firms submitting a proposal must have the following qualifications:

- Have sufficient knowledge and training to enable them to comply with generally accepted auditing standards.
- Have an adequate knowledge of governmental accounting.
- Have sufficient knowledge of pension accounting and actuarial science.
- Have sufficient knowledge of statements issued by the Governmental Accounting Standards Board (GASB) particularly those relating to pension accounting and reporting.
- Have a license to practice in the State of Illinois.

B. Scope of Work to be Performed

MEABF requires the Auditor to conduct an independent audit of the financial statements of the Fund in accordance with generally accepted auditing standards and to express an opinion on the fair presentation of the financial statements in conformity with generally accepted accounting principles accepted in the United States of America. 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 shall perform testing of the accounting and other supporting documentation and records as deemed necessary by the Auditor in order to express such an opinion.

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

The Auditor will review and audit MEABF's current pension administration system. Areas to review and audit include, but may not be limited to, the accuracy of member information, benefit calculations, and actuarial information.

C. Auditing Standards to be followed

To meet the requirements of this RFP, the audit shall be performed in accordance with generally accepted auditing standards applicable in the United States of America as set forth by the American Institute of Certified Public Accountants.

D. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of five (5) years, unless the firm is notified in writing by MEABF of the need to extend the retention period. The Auditor will be required to make working papers available, upon request to MEABF.

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IV. REPORTS TO BE ISSUED

A. Independent Auditor's Report

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 of America.

B. Required Communication to the Board and Management

The Auditor shall communicate significant deficiencies and material weaknesses identified in the audit, in writing, to management. A significant deficiency is a control or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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 Comptroller, the Executive Director and the President of the Retirement Board.

D. Presentation to the Retirement Board

The Auditor is expected to make a presentation to the Retirement Board on the results of the audits at its May meeting of each year.

V. TIME REQUIREMENTS FOR THE ANNUAL AUDIT

The Auditor must be able to meet the following deadlines for the annual fiscal year audit:

1. Detailed Audit Plan

The Auditor shall provide MEABF a detailed plan and a list of all schedules to be prepared by MEABF prior to the audit by no later than January 31 of each year.

2. Fieldwork

The Auditor shall begin the fieldwork portion of the audit by the second week of March of each year.

3. Draft Reports

The Auditor shall supply draft copies of the Auditor's report, financial statements, notes to the financial statements, required supplementary schedules and other schedules no later than April 5th of each year. The Comptroller will complete the review as expeditiously as possible. The Auditor shall also supply draft copy of Auditor's recommendations to management no later than April 15th of each year.

4. Final Reports

Ten (10) copies of the final signed report must be delivered to:

Fund Comptroller
Municipal Employees' Annuity and Benefit Fund of Chicago
321 N. Clark Street, Suite 700
Chicago, IL 60654

An electronic copy in a PDF format is to be emailed to: comptroller@meabf.org. It is anticipated that this process will be completed and the final report delivered by mid-April of each year.

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VI. ASSISTANCE TO BE PROVIDED TO THE AUDITOR

Assistance During Engagement

1. MEABF will prepare year-end closing entries, draft financial statements, notes, all required supplementary schedules, and statistical data. The Auditor will provide to the Executive Director and Comptroller all recommendations, revisions and suggestions for improvements to the Financial Statements early April of each year.
2. MEABF will provide access to necessary staff during audit to assist Auditor by providing information, documentation and explanations. MEABF will assist in the preparation of confirmations.
3. MEABF will arrange for reasonable office space, desks, tables and chairs.

VII. PROPOSAL REQUIREMENTS

A. General

Inquiries concerning the RFP must be directed to: comptroller@meabf.org. Responses to inquiries will be shared on the Fund's website. Respondents must review the Q & A document posted on the Fund's website to receive answers to all questions submitted. No oral inquiries will be allowed.

B. Submission of Proposals

Four (4) hard copies and one electronic copy of the proposal must be delivered no later than 5:00 PM on Friday, September 28, 2012 to:

Fund Comptroller
Municipal Employees' Annuity and Benefit Fund of Chicago
321 N. Clark Street, Suite 700
Chicago, IL 60654

The electronic copy of the proposal must be e-mailed to comptroller@meabf.org.

C. Technical Proposal

The technical proposal should address all the points outlined in the RFP. The proposal should provide 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 must be included. They represent the criteria for evaluating and analyzing material included in the proposal.

1. Independence

Include an affirmative statement regarding the firm's independence of MEABF as defined by the generally accepted auditing standards.

2. License to practice in Illinois

Include an affirmative statement indicating that the firm and all assigned key professional staffs are properly licensed to practice in the State of Illinois.

3. Firm qualifications and experience

The proposal should state

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

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- o The firm's EEOC policy; indicate whether the firm qualifies as a "minority-owned business", "female-owned business", or "business owned by a person with a disability" as those terms are defined in the (30 ILCS 5/75) Business Enterprise for Minorities, Females, and Persons with Disabilities Act.
- o Information on the circumstances and status of any current disciplinary action taken or pending against the firm with state or federal regulatory bodies or professional organizations; and information on the circumstances and status of any pending litigation that has taken place against the firm during the past three (3) years.
- o The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements and of specific employee benefit plan engagements.

4. Partner, supervisory and staff qualifications and experience

The firm 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 certified public accountant in Illinois.

The firm should provide a statement of the qualifications of the key individuals so identified, including the 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) and relevant continuing professional education.

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 also be changed for other reasons with the permission of MEABF. However, in either case, MEABF retains the right to approve or reject replacements.

5. Similar Engagements with other public retirement systems

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements performed in the last four years that are similar to the engagement described in this RFP. Indicate the scope of work, date, engagement partners, total hours and the name, e-mail address and telephone number of the principal client contact.

6. Conflicts of Interest

Identify any potential conflicts of interest issue the firm might have in auditing MEABF. Indicate any professional relationships the firm has with the City of Chicago or legislative bodies within the past three years.

7. Specific audit approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed.

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

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

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- Approach to be taken to identify and audit the significant risk areas of MEABF's operations,
- Approach to be taken to gain and document an understanding of MEABF's internal control structure,
- Sample size and the extent to which statistical sampling is to be used,
- Type and extent of analytical procedures to be used,
- Approach to be taken with regard to the actuarial information reported.

8. Procedures for resolving potential audit problems

The proposal should identify and describe the firm'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 MEABF.

D. Pricing Information

1. Total not-to-exceed Maximum Price

The proposal shall contain all pricing information relative to performing the audit engagement as described in the request for proposal on a "not to exceed" basis for the fiscal years ending December 31, 2012 through 2016. The total-not-to-exceed maximum price to be bid is to contain all direct and all indirect costs including all out-of-pocket expenses.

MEABF will not be responsible for expenses incurred in preparing and submitting the proposal. Such cost should not be included in the proposal.

Adjustment in the contract price may be negotiated between the Auditor and MEABF if the cost of the time required to perform the audit is increased pursuant to a change in scope requested by MEABF or required by State or Federal agencies.

2. Special projects

Provide guaranteed hourly rates for various staff levels that would be charged if MEABF decided to retain certain levels of staff for specific, short-term projects to be conducted with the audits.

3. Authority to contract

Provide certification that the person signing the proposal has the authority to represent the firm and sign a contract with MEABF.

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

5. 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 firm.

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VII. EVALUATION AND SELECTION PROCEDURES

A. General

MEABF Selection Committee will evaluate proposals submitted.

B. Evaluation Criteria

The Selection Committee will evaluate the proposals to determine that all criteria outlined in the request have been met. The Committee will consider technical quality, experience and expertise of the firm, the audit approach and the fees proposed.

C. Oral Presentation

During the evaluation process, the Selection Committee may, at its discretion, request firms to make oral presentations.

D. Final Selection

After the Selection Committee completes its evaluation process, it will determine which firm offers, if any, the best combination of technical qualifications and cost.

It is expected that the Retirement Board will consider final acceptance of the proposal, under the recommendation of the Selection Committee and the Executive Director, at its regular meeting on November 15, 2012.

Following notification of the firm selected, it is expected a contract will be executed between both parties following the November 15, 2012 Retirement Board meeting.

E. Terms and Conditions

MEABF reserves the right to reject any or all proposals or any portion thereof, that it feels is the best interest of MEABF and to negotiate with any one or more of the respondents. MEABF reserves the right to cancel this procurement.

VIII. CRITICAL DATES IN RFP PROCESS

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

| | |
|--|--------------------|
| Request For Proposal issued | September 10, 2012 |
| Due date to Submit Written Questions | September 28, 2012 |
| Q&A Document Posted | October 5, 2012 |
| Due Date for Proposal | October 19, 2012 |
| Oral Presentations (by invitation) | November 15, 2012 |
| Date for Notifying Firm Awarded Contract | T.B.D. |
| Engagement Letter due date | T.B.D. |

*****The timeline is subject to change. Any changes to the timeline will be communicated to all known Respondents and posted on the Fund's website*****