

**POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**  
**Request for Proposals - Auditing Services**

**The Retirement Board of the Policemen's Annuity and  
Benefit Fund of Chicago**

**Request for Proposals**

**Auditing Services**

**October 27, 2016**

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**Introduction**

**General Information**

The Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago (PABF or the Fund) is requesting proposals (RFP) from firms of certified public accountants to audit its financial statements for the fiscal year ending December 31, 2016. The contract may be renewed each year, annually, at the pleasure of the Board of Trustees. The Board of Trustees consists of eight members, which includes three elected police officers (consisting of one police officer, one sergeant and one lieutenant), one elected annuitant and four mayoral appointments. The audits are to be performed in accordance with generally accepted auditing standards applicable in the United States.

PABF is a public employee defined benefit plan serving police officers of the City of Chicago, their widows and children. As of December 31, 2015, there were over 12,000 active members, approximately 12,500 retiree and widow annuitants, and approximately 300 officers receiving disability benefits. At December 31, 2015, the Fund had approximately \$3.1 billion in net assets, with an investment portfolio of approximately \$2.5 billion. The Fund is considered to be a component unit of the City of Chicago (the City). The Fund's financial statements are part of the City's financial reporting entity and are included in the City's Statement of Fiduciary Net Position. The Fund has been in existence since 1887 and was codified in Illinois State statutes in 1921. The Fund is governed under Illinois State Statutes, "the Act", Chapter 40 Article 5 Section 5 (40 ILCS 5/5) as well as the general provisions for public pension funds in Illinois, contained in Section 1 of Chapter 40 Article 5 (40 ILCS 5/1). This RFP is being issued in accordance with Illinois Public Act 096-0006. All of the governing statutes for the Fund can be accessed online at the State of Illinois Legislative site, <http://www.ilga.gov/>.

There is no expressed or implied obligation for PABF to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. PABF reserves the right to reject any or all proposals submitted. The Audit and Actuarial Committee of PABF, which consists of three members of the Board of Trustees of PABF, will evaluate the proposals submitted. The process and subsequent selection of an external auditing firm will be conducted in accordance with Illinois Public Act 096-0006 dealing with procurement of professional services.

Fourteen copies of your proposal must be received by PABF by 3:00pm on Wednesday, November 30, 2016. An electronic copy of your proposal, in a pdf format, should be emailed separately by this deadline. The proposers bear sole responsibility for ensuring that their proposals are delivered on time. To be eligible for consideration, the completed proposal, both in print copies as well as the electronic copy, must be delivered by the deadline to:

Regina Tuczak, Executive Director  
Policemen's Annuity and Benefit Fund of Chicago  
221 N. LaSalle Street, Suite 1626  
Chicago, IL 60601

Email for electronic delivery: [rtuczak@chipabf.org](mailto:rtuczak@chipabf.org)

During the evaluation process, the Audit and Actuarial Committee of PABF and senior staff of PABF, where it may serve the Fund's best interest, may request additional information or

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clarifications from proposers. PABF may also allow corrections of errors or omissions. At the discretion of PABF, firms submitting proposals may be asked to make oral presentations as part of the evaluation process.

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

It is anticipated that the selection of a firm will be completed by January 31, 2017. Following the notification of the selected firm, it is expected that a mutually satisfactory engagement letter will be executed between both parties by February 16, 2017.

**Term of Engagement**

An annual contract is contemplated, subject to a satisfactory negotiation of terms (including a price acceptable to both PABF and the selected firm), and the concurrence of the PABF Audit and Actuarial Committee and the Board of Trustees.

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**Nature of Services Required**

**General**

PABF is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal year ending December 31, 2016. To be qualified, the firm must be licensed to practice in the State of Illinois and have audited public pension plans with globally invested assets. The audit is to be performed in accordance with the provisions contained in this request for proposals.

**Scope of Work to be Performed**

PABF desires the auditor to conduct an independent annual audit of the financial statements of the Fund in accordance with generally accepted auditing standards and to express an opinion as to whether the financial statements present fairly, in all material respects, the net position held in trust for pension benefits of the Fund and the changes in its net position held in trust for pension benefits of the Fund in accordance with accounting principles generally accepted in the United States. The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the Government Accounting Standards Board as mandated by generally accepted auditing standards. The audit shall include testing of the accounting and other supporting documentation and records as deemed necessary by the independent auditor in order to express such an opinion.

PABF also requires that certain agreed-upon procedures be performed in conjunction with the financial statement audit every two years to satisfy certain requirements of the State of Illinois Department on Insurance. The nature of these procedures is outlined in Appendix A of this RFP. These procedures will be required in 2016, 2018 and every other year thereafter.

Additionally, PABF desires the auditor to conduct independent annual audits of the financial statements of the Richard J. Jones Annuitant's Assistance Fund (RJJAAF) for the years ended December 31, 2016 and 2015. RJJAAF is an organization exempt under section 501(c) (3) of the Internal Revenue Code and is classified as a public charity. RJJAAF began operations in 2009 and was issued a tax exemption letter by the Internal Revenue Service on December 28, 2010. A copy of the Form 990 filed for 2014 is provided as Appendix B. RJJAAF receives contributions from PABF and the public, and distributes monies to minimum annuitants of PABF. Each gift provided by RJJAAF to minimum annuitants for 2014 and 2015 was \$500. RJJAAF incurs minimal administrative fees from financial institutions, however, does not maintain any employees or incur any payroll-related costs.

**Auditing Standards to be Followed**

The audits shall be performed in accordance with generally accepted auditing standards applicable in the United States as set forth by the American Institute of Certified Public Accountants.

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**Reports to be Issued**

Following the completion of the audits of the 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.

The auditor will also furnish a letter detailing the results of the agreed-upon procedures performed in conjunction with the financial statement audit every two years (beginning in 2016).

The auditor will communicate significant deficiencies and material weaknesses identified in the audit to senior staff and the Audit and Actuarial Committee. A significant deficiency is a control, or 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.

Auditors shall be required to make an immediate, written report of all irregularities and illegal acts of which they become aware to the following parties: the Comptroller, the Executive Director, and the Audit and Actuarial Committee of the Board of Trustees.

Auditors shall assure themselves that the PABF Audit and Actuarial Committee is informed of each of the following:

- The auditor's responsibility under generally accepted auditing standards
- Management judgments and accounting estimates
- Audit adjustments and uncorrected mistakes
- Significant accounting policies
- Critical accounting policies and practices
- Alternative accounting treatments
- Other information in documents containing audited financial statements
- Disagreements with management
- Management consultation with other accountant
- Major issues discussed with management prior to retention
- Significant difficulties encountered in performing the audit
- Other material written communications
- Auditor independence.

**Special Considerations**

PABF will send its Comprehensive Annual Financial Report to the Government Finance Officers Association of the United States and Canada for review in its Certificate of Achievement for Excellence in Financial Reporting program. It is anticipated that the auditor will not be required to provide special assistance to PABF to meet the requirements of that program. PABF most recently was awarded the Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended December 31, 2014. The Fund anticipates receipt of the same Certificate for 2015.

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**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 seven (7) years, unless the firm is notified in writing by PABF of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to PABF or its designees.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

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**Description of PABF**

**Contact Persons**

The auditors' principal contacts with PABF will be:

Regina Tuczak, Executive Director, [rtuczak@chipabf.org](mailto:rtuczak@chipabf.org)  
James Dollard, Comptroller, [jdollard@chipabf.org](mailto:jdollard@chipabf.org)  
Anthony Madonia, Assistant Comptroller, [anthony.madonia@chipabf.org](mailto:anthony.madonia@chipabf.org)

All contacts can be reached at 312-744-3891.

**Background Information**

PABF is a public pension fund governed by the Illinois Pension Code (40 ILCS 5/5) providing retirement, survivor, death and disability benefits to any employee of the City of Chicago employed under the provisions of the municipal personnel ordinance as police service. Through December 31, 2016, PABF provides a health insurance supplement plan to annuitants and their eligible dependents. Premiums are established by the City, with the City paying the claims of the annuitants. Premiums are paid by the City and the annuitants, with the Fund providing a fixed subsidy on behalf of each enrolled annuitant, through December 31, 2016.

Currently, PABF pays to the City on behalf of each of the annuitants who chooses to participate in any of the City's health care plans, a supplement of \$95 per month for non-medicare eligible annuitants or \$65 per month for medicare eligible annuitants. Per the Illinois Pension Code, the Fund's subsidy will be discontinued at December 31, 2016. PABF is not subject to the Employee Retirement Income Security Act (ERISA). As of December 31, 2015, PABF has net assets of approximately \$3.1 billion invested in a diversified portfolio of U.S. and foreign stocks, fixed income securities, collective funds, real estate, venture capital, infrastructure and other alternative investments. The Northern Trust serves as PABF's master trustee. In this capacity, the Northern Trust is the custodian of investments and reports on investment transactions.

More detailed information on PABF and its finances can be found in the 2015 Comprehensive Annual Financial Report and the Actuarial Valuation Report for the year ending December 31, 2015. Both of these reports are posted on the Fund's website at [www.chipabf.org](http://www.chipabf.org).

**Fund Structure**

PABF uses one pension trust fund in its financial reporting.

**Budgetary Basis of Accounting**

PABF prepares its budgets on a basis consistent with generally accepted accounting principles.

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**Magnitude of Finance Operations**

The finance and accounting function is headed by James Dollard, Comptroller, who is assisted by Anthony Madonia, Assistant Comptroller. The finance operations include general ledger maintenance, accounts payable, payroll, investment accounting, treasury, finance systems, and budget management.

**Computer Systems**

Essentially all record keeping and processing is automated. Benefit calculations are performed on a pension administration system, using customized software. In general, all member and most employer data are maintained on the mainframe. Some member data prior to 2000 is stored in microfiche records. The general ledger, accounts payable, payroll, and investment accounting is done on networked PCs. Member documents received from the outside are imaged on an imaging system.

**Software**

<b>Vendor</b>	<b>Major Applications</b>	<b>PC/Mainframe</b>
Microsoft GP (Beginning 9/1/16)	General ledger/accounts Payable	PC
SubjectWills (Ended 8/31/16)	General ledger/accounts Payable	PC
ADP	Payroll	PC
PABF	Benefit calculations	Mainframe
PABF	Wage reporting	Mainframe
Northern Trust	Pension disbursements	Web

**Other Information**

PABF does not maintain an internal audit function.

Actuarial services are provided annually by Gabriel, Roeder, Smith and Company.

Benefit disbursements are paid by the Northern Trust Company, which acts as a pay agent for PABF. PABF staff input all benefit disbursement information into a web-system administered by the Northern Trust Company.

Board of Trustee meetings are held monthly. Investment Committee meetings are also held monthly, with the exception of December. All other committee meetings are held as necessary.

A management letter was not issued in 2015 or 2014.

**Master Trustee and Investment Consultant**

The Northern Trust Company serves as PABF's master trustee. SAS 70 reports are available from Northern. NEPC, LLC serves as PABF's investment consultant and also provides performance evaluations on a monthly basis. Currently PABF employs approximately 45 professional investment management firms to manage its investment portfolio.

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**Availability of Prior Year Auditors' Work Papers**

PABF's independent auditors for the past several years have been Mitchell & Titus, LLP (M &T). The primary contact at M&T is Ms. Irene Davis (312-325-7422).

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**Time Requirements**

**Proposal Calendar**

Request for proposals issued	October 27, 2016
Due date for proposals	November 30, 2016
Oral Presentations (by invitation)	TBD - if necessary

**Notification and Contract Dates**

Selected firm notified	By January 31, 2017
Engagement letter due date	February 16, 2017

**Date Audit May Commence**

PABF will have all records ready for audit and all management personnel available to meet with the firm's personnel as of March 31, 2017. As many of PABF's alternative investment managers do not submit audited financial statements until late April, May or June, the alternative investment portion of the financial statements will most likely be based upon estimated results, with a several month lag in investment manager reporting. Any material adjustments due to the lag in reporting will be appropriately reflected in the year-end financial statements.

**Schedule for the 2016 Fiscal Year Audit**

- Interim work will be scheduled at a mutually agreeable time.
- The auditor shall provide PABF with a written detailed audit plan; including preliminary, progress and exit conferences; and be prepared to present its 2016 audit plan to the Audit and Actuarial Committee in early 2017 if determined necessary.
- The auditor shall present a list of all schedules to be prepared by PABF by February 28, 2017. The finance department will prepare draft financial statements, footnotes, all required supplementary schedules, and statistical data by May 1, 2017. Many of the alternative investments do not provide audited year-end statements until late April, May or June. Thus, the financial statement balances for these investments are based upon the most recent investment manager reports available when the general ledger and accounting records are closed for 2016. Any material adjustments due to the estimation process will be appropriately reflected in the year-end financial statements.
- The auditor shall provide all recommendations, revisions, and suggestions for improvements for the financial statements, if necessary, to the Comptroller by May 31, 2017.
- The auditor shall give PABF the signed opinions by May 31, 2017.
- The audit firm is expected to make a brief presentation to the Audit and Actuarial Committee on the results of the audits in early June, 2017.

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**Assistance to be Provided to the Auditor and Report Preparation**

**Finance Department and Clerical Assistance**

The Comptroller, Assistant Comptroller and other necessary staff will be available during the audit to assist the firm by providing information, documentation, and explanations. PABF staff will assist in the preparation of confirmations. In addition, limited clerical support will be made available to the auditor.

**Information Services Assistance**

PABF Information Services personnel will be available to load and run audit firm software. Software must be compatible with PABF's software and hardware environment. Batch requests using the auditing firm's programs can be run with overnight turnaround as long as they do not interfere with normal PABF processing. No PABF staff will be available to write special programs for the audit. PABF information services staff will be available to provide systems documentation and explanations. All electronic and hard copy database information that includes personal information of members or general ledger accounting details must remain on site at PABF and cannot, under any circumstances, be copied onto a firm's computer system, laptop computers of partners or staff of the firm, or be otherwise be removed from PABF's offices.

**Statements and Schedules to be Prepared by the Staff of PABF**

PABF staff will provide any required statements and schedules to the extent that the data is available.

**Work Area, Telephones, Internet, Photocopying, FAX Machines and Printers**

PABF will provide the auditor with reasonable workspace, desks and chairs. The auditor will also be provided with access to telephone, internet, photocopying, FAX machines and printers.

**Report Preparation**

Report preparation and editing shall be the responsibility of PABF. Final formatting and printing of audited financial statements will be requested of the firm.

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**Proposal Requirements**

**General Requirements**

Inquiries concerning the request for proposals and the audits must be submitted in written form to:

Regina Tuczak  
Executive Director  
Policemen's Annuity and Benefit Fund of Chicago  
221 N. LaSalle Street, Suite 1626  
Chicago, IL 60601  
[rtuczak@chipabf.org](mailto:rtuczak@chipabf.org)

In an effort to clarify any issues in this RFP, questions concerning the RFP must be submitted in writing via e-mail to the undersigned by 4pm CDT on November 15, 2016. Responses to the properly submitted questions will be consolidated in a single Q & A document and posted on the Fund's website by 4pm CDT on November 18, 2016. The source of the questions will not be disclosed in the document

The following material must be received by November 30, 2016 for a proposing firm to be considered (an electronic copy is acceptable):

Fourteen hard copies of the proposal and one electronic copy in pdf format, to include the following:

- Title page showing the firm's name; the name, address and telephone number of a contact person and the date of the proposal
- Table of Contents
- A transmittal letter briefly stating the firm's understanding of the work requested, the required 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
- The detailed proposal should follow the order set forth in the Technical Proposal section of this request for proposals
- Executed copies of Proposer Guarantees and Warranties, attached to this request for proposals
- Schedules of Professional Fees and Expenses

Proposers should send or e-mail the completed proposal to the following address:

Regina Tuczak  
Executive Director  
Policemen's Annuity and Benefit Fund  
221 N. LaSalle Street, Suite 1626  
Chicago, IL 60601  
[rtuczak@chipabf.org](mailto:rtuczak@chipabf.org)

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**Technical Proposal**

**General Requirements**

The purpose of the technical proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to undertake an independent audit of the Policemen's Annuity and Benefit Fund in conformity with the requirements of this request for proposals. As such, the substance of proposals will carry more weight than their form or manner of presentation. The technical proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It should also specify an audit approach that will meet the request for proposal requirements.

The technical proposal should address all the points outlined in the request for proposals. The proposal should be prepared simply and economically providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the request for proposals. While additional data may be presented, the following subjects must be included. They represent the criteria against which the proposal will be evaluated.

**Independence**

The firm should provide an affirmative statement that it is independent of the Policemen's Annuity and Benefit Fund as defined by generally accepted auditing standards.

**License to Practice in Illinois**

An affirmative statement should be included indicating that the firm and all assigned key professional staff are properly licensed to practice in Illinois.

**Firm Qualifications and Experience**

The proposal should state

- The size of the firm,
- The size of the firm's governmental audit staff,
- The size of the firm's employee benefit plan audit staff
- The location of the office from which the work on this engagement is to be performed, the number and nature of full-time professional staff to be employed in this engagement,
- The number and nature of part-time professional staff to be employed in this engagement, if any, and
- The circumstances and status of any current disciplinary action taken or pending against the firm with state regulatory bodies or professional organizations.
- A brief explanation of any litigation or regulatory proceedings currently pending against the firm or which have been concluded within the past five (5) years. Please provide a brief explanation and include status.
- Provide a copy of the firms EEOC disclosure statement and description of any initiatives or guidelines your firm has on the inclusion of women and minorities. Whether you have an EEOC disclosure statement or not, each Proposer must fill out and provide the chart located in this RFP. Please note that per the law effective January 1, 2015 [40 ILCS 5/1-113.21], the employee diversity of senior staff must be delineated. (Please provide as an additional exhibit).

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As provided by 40 ILCS 5/1-113.21 an applying firm must provide the following disclosures to be considered: (1) The number and percentage of staff who are minority, female, or disabled; (2) The number of contracts, oral or written, for services that the applying entity has with a minority owned business, a female owned business, or business owned by a person with a disability; and (3) The number of contracts for services that the applying entity has with businesses other than a minority owned business, female owned business, business owned by a person with a disability, if more than 50% of the services under that contract are performed by a minority person, a female, or a person with a disability. (Please provide as an additional exhibit).

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.

**Partner, Supervisory and Staff Qualifications and Experience**

The firm should identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement and indicate whether each such person is licensed to practice as a certified public accountant in Illinois. Biographies for the principal supervisory and management staff who would be assigned to the engagement should be included. Such biographies should indicate experience with public sector audits, employee benefit plan audits or investment management company audits, along with their work on Comprehensive Annual Financial Reports (CAFRs) and the Government Finance Officers Association (GFOA) requirements.

The firm should provide as much information as possible regarding the number, qualifications, experience and training including relevant continuing professional education, of the specific staff to be assigned to this engagement. The firm also should indicate how the quality of staff and staff continuity over the term of the agreement would be assured.

As a public employee retirement system, PABF reports under standards set by the Government Accounting Standards Board and therefore requires governmental and employee benefit plan expertise from its auditors. As the holder of a large, diverse portfolio, PABF also requires significant investment expertise from its auditors. While both are important, the investment expertise and employee benefit plan expertise is more critical than the governmental expertise. The firm should describe how the audit team assigned would meet these three needs.

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 PABF. However, in either case, PABF retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same or better qualifications or experience.

**Similar Engagements with Other Pension Plans**

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements performed in the last five years that are similar to the engagement described in this request for proposals. Indicate the scope of work, date, engagement partners, and the

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name and telephone number of the principal client contact. Indicate whether any of these engagements participated in the GFOA Certificate of Achievement Program.

**Subcontracting**

Disclose as to whether or not the firm plans to use subcontractors. If so, disclose the name(s) of the subcontractor(s), the service(s) to be subcontracted and how the contractor controls cost, quality, timeliness, and confidentiality of these service(s).

**Conflicts of Interest**

Please identify any potential conflicts of interest issues the firm might have in auditing PABF. Please also indicate any professional relationships the firm has with the City of Chicago, Board of Trustees, or legislative oversight bodies within the past three years.

**Ethics**

- Please provide an affirmative statement that your firm is aware of the existence of the Fund's Ethics Policy (the "Ethics Policy"), has read the Ethics Policy, and is aware of its responsibilities to adhere to the Ethics Policy (Note: The Ethics Policy is available on the Fund's website)
- Please provide an affirmative statement that your firm is in full compliance with the Ethics Policy and that it has not directly or indirectly violated the Ethics Policy, whether through itself or through its directors, employees, agents, affiliates, or otherwise (each a "Broker Party"), and that neither your firm nor any Broker Party has caused or assisted any person or entity to directly or indirectly violate the Ethics Policy.
- Please provide an affirmative statement that your firm is aware of the existence of the Illinois State Officials and Employees Ethics Act (5 ILCS 430) and the Illinois Government Ethics Act (5 ILCS 420) and that neither your organization nor any Broker Party has directly or indirectly caused or assisted any person or entity to directly or indirectly violate either such Act.

**Specific Audit Approach**

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed, to perform the services required by this request for proposals.

- Proposed segmentation of the engagement
- Level of staffing and number of hours to be assigned to each proposed segment of the engagement by level of staff
- Approach to be taken to identify and audit the significant risk areas of PABF's operations
- Approach to be taken to gain and document an understanding of PABF's internal control structure
- Sample size and the extent to which statistical sampling is to be used in the engagement
- Extent of use of software in the engagement
- Type and extent of analytical procedures to be used in the engagement
- Approach to be taken with regard to the actuarial information reported

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**Identification of Anticipated Potential Audit Problems**

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems and any special assistance that will be requested from PABF.

**Proposed Engagement Letter**

The proposal must include an example of an engagement letter your firm would require covering this arrangement assuming your firm were the successful bidder.

**Dollar Cost Bid**

Please submit separate bids for the financial statement audit of PABF, the financial statement audit of RJJAAF, and the requested agreed-upon procedures work. It is PABF's belief that much of the agreed-upon procedures work would be directly beneficial to the financial statement audit. Thus we would expect the dollar cost bid for the agreed-upon procedures to only reflect the incremental costs of completing that work. The dollar cost bids should indicate the following:

- The total all-inclusive maximum price to be bid is to contain all direct and indirect costs including all out-of-pocket expenses for the first year (2016). PABF will not be responsible for expenses incurred in preparing and submitting the technical proposal. Such costs should not be included in the proposal.
- Indicate how the cost of the work for all subsequent years will be determined.