



## **PROCUREMENT AND SERVICE PROVIDER SELECTION**

### **I. PURPOSE**

This policy is intended to establish guidelines by which the Sonoma County Employees' Association will procure goods and services.

### **II. OBJECTIVES**

A. The objectives of this policy are to ensure that:

1. The acquisition of goods and services are made in the best interests of SCERA and its members and beneficiaries.
2. The process of screening and selecting providers is diligent, fair and open.
3. Quality goods and services are obtained at reasonable cost.
4. All contracting activities are performed by qualified individuals delegated the authority, responsibility and accountability for those activities, using sound and ethical business practices, in consideration of applicable law.

### **III. PRINCIPLES**

- A. The Retirement Administrator or Retirement Administrator's designee is responsible for the purchase of goods and the execution of contracts for SCERA and for keeping the Board apprised of such actions when they are material. In the procurement of goods and selection of service providers requiring Board approval, the Retirement Administrator or designee will provide sound research and analysis concerning potential providers, to develop clear and rigorous screening criteria, and to make recommendations to the Board. The Retirement Administrator shall also seek advice and counsel from the Board as required.
- B. In accordance with its fiduciary duty, the general role of the Board in the procurement process is to establish appropriate procurement policies and satisfy itself that the recommendations and accompanying analysis provided by the Retirement Administrator have been prepared with the requisite level of skill, diligence and care, and reflect the mission and goals of the SCERA. The Board is responsible for approving, as appropriate, on recommendation of the Retirement Administrator, Core service provider and procurement contracts in excess of \$50,000.

- C. SCERA staff and members of the Board shall not be directly or indirectly involved in a procurement decision involving a conflict of interest pursuant to the Board's Conflict of Interest Policy or Conflict of Interest Code.
- D. Service providers can be divided into two broad categories: Core service providers and non-core service providers. Core service providers include, but are not limited to:
  - 1. The actuary;
  - 2. The auditor;
  - 3. The custodian/Trustee;
  - 4. The general investment consultant;
  - 5. Investment managers, including securities lending managers, directed commission managers, transition managers, prime brokers, etc.;
  - 6. External legal counsel; and
  - 7. Other service providers, where the cost of providing the service in question is expected to exceed \$50,000.
- E. Examples of non-core service providers include, but are not limited to:
  - 1. Ad hoc consultants;
  - 2. Graphic designers;
  - 3. Building maintenance; and
  - 4. Architectural services.
- F. Procurement contracts can be divided into two basic categories: Contracts requiring an expenditure of \$50,000 or less and those requiring an expenditure of more than \$50,000. The Retirement Administrator has the authority to enter into and responsibility for entering into contracts requiring an expenditure of \$50,000 or less without Board authorization. The Retirement Administrator has authority to execute contracts in excess of \$50,000 if the contracting authority or specific expenditure has been approved by the Board.

#### IV. GUIDELINES

- A. General Provisions
  - 1. All goods and services shall be selected in the best interests of SCERA and its members and beneficiaries.

2. The selection of all goods and services shall be subject to a level of due diligence that is commensurate with the importance and materiality of the services and/or goods in question.
3. Contracts or similar arrangements clearly defining the terms of engagement and the expectations of SCERA will be established for all goods acquired and all service providers engaged by SCERA.
4. All service providers hired by SCERA shall be subject to periodic review in order to ensure that each provider complies with the terms of engagement and continues to meet the needs and expectations of SCERA. The frequency and depth of such reviews shall be commensurate with the risks presented to SCERA by each provider.
5. Each year, the Retirement Administrator will present to the Board a multi-year time-line depicting all scheduled performance reviews of and due diligence visits to SCERA service providers, and will report to the Board annually on progress achieved.

B. Core Service Providers

1. The search for a core service provider shall generally be initiated by an action of the Board, on the recommendation of the Retirement Administrator or Chief Investment Officer. Throughout the process provided below, the Retirement Administrator may utilize and act through designees.
2. Where it is deemed that a new service provider is required, the Board shall delegate responsibility for overseeing the search process to the Investment Committee for investment-related service providers or to another Committee as appropriate, depending on the nature of the service provider. Alternatively, the Board may elect to oversee the search process itself.
3. The Retirement Administrator, with the assistance of consultants and advisors as required, shall develop sound and rigorous screening criteria to ensure that all candidates are accorded a fair and thorough review. Screening criteria may include, but are not limited to:
  - a. Company experience and track record;
  - b. Caliber of people assigned to work with and provide service to SCERA;
  - c. Client references;
  - d. Costs;
  - e. Sound business and ethical practices;

- f. Liability coverage; and
  - g. SCERA satisfaction with past service, in the case of incumbent providers.
4. Prior to conducting a search, the Retirement Administrator shall present the following items to the Board or designated Board Committee for approval:
  - a. Screening criteria;
  - b. Timeline for completion of the search process;
  - c. Recommendation concerning the use of a search consultant;
  - d. Recommendation concerning the need for due diligence visitations; and
  - e. Recommendation concerning the means by which service providers will be invited to participate in the search process (e.g. Request for Proposal, Request for Information, etc.).
5. Trustees may suggest names of potential candidates to the Retirement Administrator. These candidates may be invited to participate in the search process and will be subject to the same rigorous and objective screening process applied to all other potential suppliers. When such suggestions are made, both the Trustees in question and the Retirement Administrator shall provide disclosure to the Board at the next regularly scheduled Board meeting.
6. The Retirement Administrator shall provide the Board or Committee with periodic reports on the status of all search processes.
7. Based on the approved screening criteria, the Retirement Administrator shall select a short list of potential candidates. The Retirement Administrator shall interview the short-listed candidates and may conduct due diligence visits in order to identify the most suitable candidate. The Retirement Administrator will inform the Board of the interview schedule; interested Board members are encouraged to attend as observers.
8. The Retirement Administrator shall prepare a report for the Board or Board Committee which will include:
  - a. The criteria used to screen potential candidates;
  - b. A list of candidates that were considered; and
  - c. A recommendation as to the candidate who would best fulfill the needs identified by SCERA, and the rationale behind the recommendation.

9. The Board or Board Committee shall consider the analysis and recommendation of the Retirement Administrator. In reviewing the recommendation, the Board or Board Committee shall satisfy itself that the rationale behind the recommendation is sound and that a diligent search process was conducted in accordance with the agreed upon search criteria. Where members of the Board or Board Committee have special and pertinent knowledge concerning a particular candidate that may not have come to light in the search process, they shall bring such knowledge to the attention of the Retirement Administrator to ensure that it is brought to bear in the recommendation.
10. The Board or Board Committee may, at its option, interview the Retirement Administrator's recommended candidate.
11. If a Board Committee is satisfied with the Retirement Administrator's analysis, it shall accept the Retirement Administrator's recommendation and in turn recommend the selected candidate to the Board for approval.
12. If the Board or Board Committee is not satisfied with the Retirement Administrator's analysis or the search process undertaken, the Board or Board Committee shall direct the Retirement Administrator to address any areas of concern regarding the analysis or the search process. Once such additional efforts are complete, the Retirement Administrator shall resubmit a recommendation.

C. Guidelines for the Use of Requests for Proposal

1. Requests for Proposal (RFPs) shall generally be used in searching for goods and services where the project is significant in scope or financial costs.
2. All SCERA RFPs shall clearly state that contracts will not necessarily be awarded to the lowest bidder.
3. When an RFP is issued, SCERA shall ensure that all candidates are provided with identical information and service or product requirements. Additional information requested by a particular candidate shall be shared with all respondents to the RFP.

D. Non-Core Service Providers and Contracts up to \$50,000

1. The Retirement Administrator may approve the hiring of non-core service providers or purchase of goods up to a contract value of \$50,000 without the approval of the Board.
2. The Retirement Administrator shall inform the Board of any non-core service providers whose services have been engaged by SCERA, including the amount of the expenditures involved and the impact on SCERA's budget. The Retirement Administrator shall inform the Board of any

expenditure for goods or services that may cause the budget to be exceeded.

E. Services of Sonoma County

1. It is the intention of the Board of Retirement that when seeking particular service providers (e.g. building maintenance, printing services, architectural services, etc.), the County of Sonoma will be considered as a potential supplier as other suppliers are considered. Accordingly, SCERA will purchase services from the County of Sonoma if:
  - a. The County of Sonoma is able to provide services that meet the requirements of SCERA;
  - b. The County of Sonoma is willing to provide the services in question; and
  - c. The services offered by the County of Sonoma are cost-competitive and in the best interests of SCERA and its members and beneficiaries.

F. Black-Out Periods

1. The Board will initiate a “black-out” period when:
  - a. The Investment Committee or the Board is presented with a list of potential candidate firms for consideration in a search process; or
  - b. A current service provider is placed on an official “watch status” signifying that the service provider’s performance has fallen below expectations or other issues have arisen that warrant closer scrutiny; or
  - c. The Board deems it is in the best interest of SCERA to require that, for a limited period of time, communications between Trustees and specified service providers be restricted to Board and Committee meetings only.
2. During black-out periods, Board members shall not communicate with the specified service providers on matters pertaining to SCERA, except during Board or Committee meetings. Furthermore, during black-out periods, staff, individual Board members or groups of Board members will not meet with specified service providers for entertainment or social purposes. Exceptions may be made in the case of industry conferences such as SACRS, where staff and SCERA Board members may socialize with specified service providers during open social events that are also attended by Trustees or staff of other systems, provided staff and SCERA Board members do not discuss matters pertaining to SCERA business.

3. Staff or Board members who need to communicate with such service providers for reasons unrelated to SCERA business agree to disclose such need in writing to the Retirement Administrator and the Board prior to undertaking such communications. Disclosure to the Board shall be made in writing at a meeting of the Board. If time does not permit timely disclosure to the Board, the staff or Board member shall then also provide disclosure of the intended communication to the Chair, or to the Vice Chair if the Board member in question is the Chair.
4. For the purpose of black-out provisions, communications include telephone conversations, letters, and e-mail.
5. Black-out periods will cease when:
  - a. The Board authorizes staff or the investment consultant to negotiate a contractual arrangement with a successful bidder, or the search process is otherwise ended by the Board; or
  - b. When the service provider is removed from watch-status; or
  - c. When the black-out period is otherwise ended by the Board.
6. All SCERA service providers shall be provided with a copy of the Black-out Policy provisions and shall be asked to agree in writing to comply with its provisions.
7. All RFPs shall include the Black-out Policy provisions and require that prospective service providers comply with its provisions during the selection process.
8. Nothing in this section is intended to prevent necessary staff members from engaging in needed communications with service providers or potential service providers.

#### V. REVIEW

The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

#### VI. HISTORY

The Board adopted this policy on 7/15/2004.

Reviewed on 4/21/2005.

Reviewed and revised 4/17/2008.

Reviewed on 6/16/2011.

Reviewed and revised 9/18/2014 and 10/26/17.