

**STATE BOARD OF ADMINISTRATION (SBA)
INVITATION TO NEGOTIATE (ITN)
FINANCIAL STATEMENTS AUDIT SERVICES
QUESTIONS WITH ANSWERS IN ITALICS**

According to the ITN Section V.D, all questions must be for “clarification of any requirement, standard, or question in this ITN because of any ambiguity, conflict, discrepancy, omission, or other error.” Only questions meeting this criteria are answered below. Any requests for data or documents will be forwarded to the SBA’s General Counsel’s office for processing.

1. Is it typical for the audit to be performed on-site or remote?

Historically and prior to the pandemic, the audit was performed on-site.

2. Why is the Florida Hurricane Catastrophe Fund (FHCF) going out for bid (i.e. mandatory auditor rotation, 5-year bid cycle, etc.)?

The FHCF entered into a 5- year contract in accordance with the SBA procurement policy. The current contract expires on February 28, 2022.

3. How long has the current audit firm performed the audit? Are they invited and given their intention to bid on this ITN?

The current auditing firm has been engaged for ten years and there are no restrictions on what firms may submit a response.

4. Are there any disagreements with the current auditors?

No

5. What weeks have auditors been on-site conducting the audit, both for interim, and final fieldwork? How many auditors have been involved throughout each phase of the audit? Please confirm that all work historically has been onsite in Minneapolis MN and if not, the time onsite in Tallahassee.

Typically, the on-site testing begins in August, the auditors spend 2 weeks on-site in Minneapolis, MN, over the course of the audit and the statements are issued in November. Multiple auditors are involved at different levels of work performed and reviewed.

6. Were there any journal entries proposed by the audit firm for the June 30, 2020 audit or June 30, 2021 audit if known? If so, could you please provide the number and nature of these audit adjustments, including both recorded entries and those unrecorded due to materiality?

No journal entries were proposed by the audit firm during the fiscal year-end 2020 audit and none are known at this time for the fiscal year-end 2021 audit since it is currently in process.

7. Were there any internal control deficiencies communicated as a part of the 2020 or 2021 audit?

No internal control deficiencies were found in the fiscal year-end 2020 audit; the fiscal year-end 2021 audit is ongoing.

8. Are there any anticipated changes in the reporting entity during the contract period?

No.

9. Have there been any changes in key personnel from the prior year?

Relating to the FHCF, the Chief Operating Officer (COO) retired in January 2021, and the former Senior Director of Operations and Examinations was promoted to the position of COO. The former Director of Examinations was promoted to Senior Director of Operations and Examinations and a new Director of Examinations was hired. Our administrator had no changes in key personnel.

10. Are there any requirements to issue statutory financial statements?

No.

11. Are there ongoing reinsurance recoverable or reduction of reserves from reinsurance? If so, can we get an executive summary of your historical reinsurance programs?

No.

12. Please explain how the data from the participating insurers is aggregated and what would be available to help aid in auditing the reserving buildup and methodology from a data or modeling perspective?

Modeler indications, historical event payout patterns and loss data reported by participating companies are used by the FHCF's independent actuary to develop loss reserves, which is documented in memos and supporting documents.

13. Will the successful auditor have access to working papers annually that relate to the SOC 1 of Paragon to potentially reduce testing in certain areas?

The successful auditor may request the SOC 1 report of the FHCF administrator to reduce testing in certain areas, but an additional non-disclosure agreement may be required as the report is identified as confidential. However, the related working papers are the property of the auditor performing the SOC 1 review. Supporting documentation (not including the

auditor's working papers) needed as a part of the normal course of the financial statement audit may be requested from Paragon and/or the SBA.

14. How many onsite SBA and/or SBA audit committees have historically the auditor attended onsite? Is this the same expectation during this contract term?

Typically the auditor participates in one SBA audit committee meeting per year to present their audit results. Participation has been virtual when meetings/circumstances allow for it.

15. Please explain the process that the SBA/FHCF utilizes in preparing the initial draft of the audited financial statements and what is expected of the auditors in this process?

The FHCF will prepare the initial draft audited financial statements in FYE2022 using Wdesk through a contract with Workiva. The FHCF may ask questions related to any changes in standards or pronouncements and how they relate to the statements throughout the audit.

16. Can you estimate and provide the number of hours incurred by the incumbent auditor in the performance of the annual financial statement audit?

The number of hours incurred by the auditors is not known.

17. Any significant operational changes during FY21 or expecting during FY22 that would have a material impact on the FY22 financial statements or audit process?

There are no significant operational changes during FY21 or expected during FY22 that would have a material impact on the FY22 financial statements. The FHCF has contracted with Workiva and will use Wdesk to prepare the financial statements beginning with the FY22 financial statements.

18. What are the IT systems that are significant in the accounting and financial reporting areas? Specifically, what systems are used for the listed areas below, and are these SBA systems or Paragon systems.

- a. General ledger
- b. Underwriting/Premiums
- c. Claims/Reserves

The SBA uses PeopleSoft Financials and Paragon uses QuickBooks for the financials and other proprietary systems for administrative work conducted for the FHCF.

19. When is a review of the IT controls performed by the current auditor, and is that in FL or MN or both?

The current auditor does not have a separate review of IT controls as a part of the FHCF financial statement audit. However, the FHCF would be open to a proposal that includes an

IT control review in the methodology if it results in efficiencies in performing year-end testing. IT controls may be located in both Minnesota and Florida. Further, IT resources used by the FHCF are part of the State Board of Administration, which undergoes regular IT audits in Tallahassee, FL, including both internal and external audits of IT general controls. The FHCF administrator also obtains an annual SOC 1 review in Minnesota, which includes IT-related controls.

20. Is it possible for the auditor to get read-only access to any of the systems referenced above?

Read-only access is provided during the on-site visit only.

21. Does Management prepare the financial statements and disclosures, or does the auditor draft them and Management take responsibility?

The financial statements and disclosures are prepared by management.

22. If management drafts, when is the first draft of the FS typically available?

The first draft of the financial statements are typically available in late September.

23. What are the experience levels of those at Paragon with financial reporting and accounting responsibilities, and how long have they worked with the Fund?

The experience levels of those at Paragon with financial reporting and accounting responsibilities is mixed, with some dating back to the start of the FHCF in 1994.

24. Section III: Deliverables of the ITN mentions providing progress reports to the FHCF, can you please describe these in more detail?

The ITN should be read as written.

25. Who is the investment custodian?

Bank of New York Mellon

26. Does FHCF have an internal actuary or engage a third-party actuary to opine on its reserves? If so, what is the general timing of receiving these reports?

The FHCF engages with a third-party actuary to establish reserves and to provide additional reserve analysis as needed.

27. Did the external auditor use their own actuary?

Yes, the external auditor used their own actuary.

28. What period of coverage is Paragon's SOC-1 report?

The SOC 1 Review is an annual review.

29. General understanding of timelines/expectations of financial statement drafting and review process. When is the due date of completion of the financial statements? Generally, when are the Audit Committee meetings for pre-audit and post-audit communications?

The FHCF audited financial statements are presented at a regularly scheduled audit committee meeting, typically in November each year. The financial statements must be completed approximately 2 weeks prior to that meeting. The State of Florida reporting requirements for the Annual Comprehensive Financial Report impacts the timing of the financial statements audit.

30. Is there an internal audit function? If so, is internal audit used to assist the external audit?

The State Board of Administration (SBA), which administers the FHCF, has an Office of Internal Audit which does not assist in the engagement.

31. Any anticipated changes to debt structure for 2022? Any new debt arrangements, including issuance of event bonds?

No anticipated changes to debt structure for 2022.

32. Was reinsurance purchased for the fiscal year end June 30, 2021?

Reinsurance was not purchased in fiscal year end June 30, 2021.

33. Has GASB 84 been reviewed to determine applicability for OPEB plan(s)?

Yes, GASB 84 is not applicable.

34. Have there been any significant changes in the make-up of the investment portfolio since the most recent audit (Investment type, level, etc.)?

The only significant event since the last audit was the issuance of \$3.5 billion in Pre-event Revenue bonds. These funds are being invested similar to existing investment guidelines.

35. Are there any additional reporting requirements (the state, etc.) beyond the audited financial statements?

The State of Florida has a comprehensive set of financial statements.

36. Have the prior auditors performed procedures at both the Minneapolis and Florida locations or just Minneapolis?

The prior auditors have typically performed procedures in person in Minneapolis not Florida.

37. The ITN and financial statements reference bonds issued by the Fund and those outstanding. Does the Fund expect to issue additional bonds during the contract period and what role is the auditor expected to play in those issuances (consent letters, comfort letters, etc.)?

The auditor has not had a role in the issuance of bonds.

38. Have there been any issues (delays, etc.) related to obtaining the information from the state for the pension and OPEB plans?

There have been no issues beyond some delays during implementation.

39. Were there any audit adjustments or issues identified in the audit not reported in the *Government Auditing Standards* report?

No.