

**STATE BOARD OF ADMINISTRATION
REQUEST FOR QUOTE
POOL OF FIRMS TO PROVIDE REAL ESTATE AUDIT, TAX AND OTHER AGREED UPON
PROCEDURES SERVICES
QUESTIONS WITH ANSWERS IN ITALICS**

General Questions

1. Are any of the real estate title holding entities included in a group audit?

Answer:

The title holding entities listed in Exhibit A are not grouped with other title holding entities for audits. Although, they may have combined parent or subsidiary entities.

2. What do you currently feel that you are lacking from your existing audit firms in terms of service?

Answer:

We do not feel that services from our existing audit firms are lacking.

3. Section III, item #3 – Can you please provide some examples of the Agreed Upon Procedures reports that you have received in the past?

Answer:

Any agreed upon procedures requested depends on context and circumstances, and it will be discussed at the time they may be requested. In the past, agreed upon procedures included items such as verification of authorized signatories, expenses, payments to consultants, etc.

4. Section V, item #2 – You have stated that the Respondent agrees to the active and onsite participation of its principal or partner and senior level staff. Given the geographic dispersion of the investment advisors, we are considering structuring our audit team with a primary team contact for the SBA and then utilizing offices located throughout the country based on the locations of the applicable investment advisors. Would this type of team structure be agreeable or is your preference to work only with one audit team?

Answer:

This structure is acceptable.

5. Section V, item #7 – You have made a request that the Respondent will provide copies of the workpapers to the SBA upon request. We typically do not provide our workpapers to our clients, which is in accordance with professional standards. Can you please provide more information on the circumstances in which you would want to receive our working papers?

Answer:

The SBA may want to review records that justify or support the fees and expenses associated with the services performed.

6. Do any of your investment advisors or property management companies currently receive SSAE 18 reports (Controls of a Service Organization)?

Answer:

We are aware of at least one Investment Advisor that receives an SSAE 18 report and one other that is making this consideration moving forward for itself. Further, some property managers receive an SSAE 18, but not all. SSAE 18 reports may be (but are not always) received by Investment Advisors from other third party service providers.

7. Who typically signs the management representation letters for the individual audits of the wholly owned title holding entities? Are all management representation letters signed by representatives of the SBA, or do individuals employed by the investment advisors and/or property managers sign the management representation letters as well?

Answer:

Typically, the Investment Advisors sign the management representation letters.

8. We are aware that the SBA owns 58.6% of the total assets of the Jennison Institutional Growth Equity Fund - Collective Trust, in which the firm's employee pension plan also invests. Does the SBA have either control and/or significant influence, as defined by the SEC, over the Jennison Institutional Growth Equity Fund - Collective Trust?

Answer:

- 1) *The FRS Investment Plan (IP) has assets in Jennison Growth Equity CIT around \$632 million as of 5/31/21. Jennison is one of several managers in the FRS US Stock Fund (28% allocation). All the assets invested in Jennison come from FRS Investment Plan members' investment selections. The target allocation for Jennison was developed by our consultants based on risk return attributes relative to other managers in the FRS US Stock Fund.*
 - 2) *Although the SBA is a large percentage of the AUM of the Jennison Growth Equity Fund, neither SBA nor any other investor has any influence over the investment or proxy vote decision making or operations of the Fund.*
 - 3) *Jennison's \$632 million is only 4.4% of the \$14.5 billion in the FRS Investment Plan. Since the Jennison Growth Equity Fund is a growth fund there are no dividends or income generated for the SBA from investing in the fund.*
 - 4) *The Real Estate Title Holding entities are owned or controlled by the FRS defined benefit plan, which is a different retirement plan from the FRS Investment Plan. The SBA invests for both plans.*
9. Is the SBA's investment in the Jennison Institutional Growth Equity Fund - Collective Trust material to the SBA's investment portfolio, as defined by the SEC (greater than 5% of the SBA's consolidated total assets or 5% of the SBA's consolidated income from continuing operations before income taxes)?

Answer:

See previous answer.

10. Are any of the wholly owned title holding entities REITs or do any of the entities consolidate REITs in their structure?

Answer:

There are no REITs included in this scope.

Interview, Selection, and Bid Process

11. If interviews are needed, will they be conducted virtually or in person? Who usually is part of these meetings?

Answer:

We plan to conduct interviews in person. Attendees for the SBA will be Procurement and the Evaluation Team, including members of SBA senior leadership, real estate asset class, accounting, internal audit, and the SBA Audit Committee.

12. If selected in the pool, and the real estate investment advisor requests quotes from Pool members, what is the general time frame that a bid is expected?

Answer:

Response time may vary depending on the number of investments included in the bid process. Bids will be required by date to provide timely evaluation, recommendation and approval process.

13. Exhibit A lists the current wholly owned title holding entities. Can you please clarify if all these entities are going to be up for bid shortly after the selection of your auditor pool? Would any other entities aside from these listed (i.e. joint ventures) be up for bid as well?

Answer:

The earliest engagement would be for years ending 2021. The Investment Advisors will manage the process for assets under management. Joint Ventures are governed by the Venture Documents and may or may not be included in the bid process.

14. When requested for a quote of services, are they annual quote requests, multi-year quotes, or is this left up to the real estate investment advisor or BOD?

Answer:

The Investment Advisor may request annual or multi-year quotes. SBA's preference would be to engage for multi-year.

Taxes

15. What value-add tax services are you seeking from a tax provider?

Answer:

Please refer to Section III, item #2 of the RFQ.

16. Certain of the wholly owned corporate entities in Exhibit A are noted to file a federal tax return while many others do not. What is the distinction between those wholly owned corporate entities that file a separate federal income tax return versus those that do not?

Answer:

The SBA's wholly owned entities that do not file federal tax returns are recognized as tax exempt organizations and are not required to file a tax return or a Form 990. The SBA's wholly owned entities that file federal tax returns have not received an exemption determination letter from the IRS.

17. For the corporate entities that file a separate federal income tax return, do these entities subject themselves to U.S. federal income tax?

Answer:

No. These entities file tax returns, but rely on Section 115 of the Internal Revenue Code as an exemption from the obligation to pay federal income taxes.

18. For entities that are not filing their own separate federal income tax return, are pro-forma federal income tax calculations needed by the SBA for any reason?

Answer:

We are not aware of any Pro-Forma income tax calculations.

19. Is a single chart of accounts used or does it vary by property manager and/or asset type?

Answer:

The Investment Advisors provide the financial reports. The Advisors have a single chart of accounts.

20. Who maintains tax depreciation and amortization records for the corporate entities?

Answer:

The Investment Advisors maintain all records.

Agreements and Contracts

21. Appendix I, item S – You state that the MSA will not include binding arbitration provisions. Elsewhere, it states that separate engagement letters will be entered into with each individual title holding entity. Would those engagement letters have binding arbitration provisions? These terms are common in our firm's engagement letters

Answer:

We do not anticipate including a binding arbitration provision in the engagement letters.

22. We reviewed the draft engagement letter included within the RFQ at Appendix D. We would need to utilize the standard firm engagement letter; however, certain terms of our engagement letter can be negotiated if necessary. Would this be agreeable?

Answer:

We expect to use the draft engagement letter attached to the RFQ as Appendix D as the engagement letter. We do not intend to utilize the standard engagement letters of audit firms.

23. I'd like to get started on working through the MSA and EL now to ensure we have enough time to reach agreement, hopefully starting from the version that we left off on in 2017 as the SBA had already agreed to certain modifications proposed by us. Can you please let me know if we can start discussing the MSA and EL and who the right contact is?

Answer:

We do not intend to start negotiating the MSA and EL prior to the final round of the RFQ process or the actual selection of the auditors. For those firms that have previously entered into a MSA and EL with the SBA, those documents may be used to inform the negotiation of the new agreements.

Fees

24. Section VII, item #3 – You state that all fees and charges, as proffered in the response to the RFQ, must be guaranteed for the term of the MSA. With the term of the MSA being 5 years, we would typically state our current hourly rates and build in annual percentage increases to those base rates. We would not anticipate holding a flat rate over the entire 5-year term of the MSA. We would like to confirm that this is your understanding as well.

Answer:

The fees are market driven, and we will evaluate the proposed fees as part of the evaluation process compared to all responses.

25. For the legal entities in Exhibit A, can you please provide your current average or range of audit fee costs?

Answer:

The cost of audits have historically varied, depending on the number of investments held, the complexity, and the nature of investments.