

1. Why are you going out for bid?

Request for Proposals for auditing services are issued every five years. A contract is executed for one year with an option to renew the contract for each of the next four years.

2. Were there any disputes with the prior auditor (Finley & Cook)? If so, please describe.

No, there have never been any disputes with the previous auditors.

3. Is the prior auditor being asked to bid? If not, why not?

Yes, we expect the prior auditor to bid.

4. How many others do you expect to propose on the RFP?

At this time, we cannot determine how many proposals can be expected.

5. What is the amount of time the prior auditors spent on-site for the audit, and with how many auditors present?

The previous firm had two staff members for approximately three and a half weeks on site.

6. What is the amount of the prior year audit fee, if available? For fiscal year ended June 30, 2012 and 2011?

The total cost of auditing services for the fiscal year ended June 30, 2011 was \$26,180 and fiscal year ended June 30, 2012 was \$27,750. These fees were inclusive of all out-of-pocket expenses including travel, report production, etc.

7. What is the type of accounting system in use?

Financial Statements are combined through a spreadsheet application from information recorded in a Sage 50 Accounting software and PeopleSoft (an Oracle based software).

8. What is the number of journal entries made as part of the prior year audit?

There were no audit adjusting entries for FY12.

9. It does not appear that the Fund receives Federal funds, but just to verify – Will the audit involve a single audit during the 2013 audit or would one ever be expected in the future?

No, a single audit will not be required and we do not expect a requirement for a single audit in the future.

10. Are there significant changes in operations or balances since last year?

No, there are no significant changes in operations or balances since last year.

11. Was a management letter issued? If so, were the issues resolved?

Yes, however there were no issues.

12. Is the general ledger maintained on a cash or accrual basis? If cash, who does the conversion to the accrual basis?

It is maintained on cash basis. Combining entries recognize all accruals for financial statement purposes and are made by the Treasurer's staff.

13. Do you have any bookkeeping services provided by external sources?

No, we do not contract for any bookkeeping services.

14. Is there any fraud or any unusual situations that we need to be aware of? If yes, please describe.

No, there is no known fraud or any unusual situations you need to know.

15. Per the RFP, the audit must be completed by September 30. When will you be ready for the audit to begin? Date expected to be ready for planning to be performed. Date expected to be ready for audit fieldwork.

Staff will be available for planning the audit on July 1, 2013 and fieldwork would be anticipated to begin around the first of August.

16. What were the audit hours for FY12 and FY11?

This information is unavailable since the audit services were contracted on a flat annual fee basis.

17. When did the interim work occur for the audit? How many auditors were out in the field during interim and for how many days?

Prior year's interim work was performed during the month of July after fiscal year end. There were 2 auditors in the field for about a week.

18. When did final fieldwork occur for the audit? How many auditors were out in the field during final fieldwork and for how many days?

The final field work was completed as close to August 30 as possible and involved two staff members for approximately two and a half weeks on site.

19. If the Oklahoma Tobacco Settlement Endowment Trust could change one thing about the audit process, what would that be?

Currently we don't see any need for changes in the audit process.

20. Assuming each bidders proposed fees are equal, what is the next most important thing to you?

We value experience in Government Audits including the experience of assigned audit staff and the experience in the auditing of Alternative Investments.

21. What transition issues would the County be concerned about if the audit is awarded to new auditors?

The new auditor's ability to meet the statutory report deadline of September 30, 2013 would need to be considered.

22. Will the state prepare draft financial statements including management's discussion and analysis and notes to financial statements? If so when will these draft financial statements be available to the selected auditors?

Yes, the Treasurer's staff prepares a draft of the financial statements including the MD&A and the notes to the financial statements. Due to a tight timeline, the draft is usually provided near the end of fieldwork.

23. Will you be able to provide SSAE16 examination reports and gap letter as required from Bank of Oklahoma that covers the period through June 30, 2013?

Yes, Bank of Oklahoma provides a SSAE16 examination with a period ending date of September 30 inclusive of the appropriate gap letter.

24. Has the OTSET utilized auditors other than Finley & Cook since its inception in 2002? If not, is there any plan to effect for periodic rotation of independent auditors for OTSET?

The Oklahoma Tobacco Settlement Endowment Trust has utilized Finley and Cook as the independent auditors since 2002. Requests for auditing services have been issued every five years in a competitive bid proposal environment. Currently, there is no planned policy of a periodic rotation of independent auditors.

25. We were able to obtain a copy of the audit communications letter issued on September 26, 2012 by Finley & Cook from the OTSET web site. The content of the letter indicated that there were "no uncorrected misstatements"; however, an uncorrected misstatement was attached to the audit communications letter. Can you please clarify whether or not there was an actual uncorrected misstatement in the 2012 audit?

Subsequent to the execution of the Management Representation Letter but before the issuance of the report, the Treasurer's staff was notified of the completed sale of all the Trust's positions in Lehman Brothers Bankruptcy claims. These positions were held in the Cash Collateral Securities Lending Pool and the loss was estimated in the footnotes of the report as an unrealized \$487,000. The auditors amended their communications letter to reflect the realized loss of \$486,884 as supplemental information.

26. Where and by whom are the books of OTSET maintained and where has audit work historically been conducted?

The report is the result of combining the financial records of the Board of Investors maintained by the Treasurer's staff and the financial records of the Board of Directors maintained by Agency Business Services, a division of the Office of Management and Enterprise Services

(OMES) of the State of Oklahoma. Fieldwork is coordinated by the Treasurer's staff and the majority of fieldwork is conducted at the State Capitol.

27. How many different fund managers are used by the OTSET, and are these managers' co-fiduciaries of OTSET?

Currently, the portfolio consists of a 24% asset allocation to Domestic Core Fixed income invested with 2 managers, a 10% asset allocation to Hi Yield Fixed income invested with 1 manager, a 20% asset allocation to Domestic Large Cap invested with 2 managers, a 5% asset allocation to SMID cap invested with 1 manager, a 15% asset allocation to International Equity invested with 1 manager, a 10% asset allocation to Global Fixed Income invested with 1 manager, a 30 million dollar commitment to Senior Direct Lending invested with 2 managers, and a 20 million dollar proposed commitment to Core Real Estate with 1 manager hired and another in contract negotiations. Each contract is negotiated separately but in general they do serve in a fiduciary capacity.

28. Has the prior auditor presented any deficiencies, significant deficiencies or material weaknesses in internal control in the last three years? If so, can you elaborate on the items presented?

No, the auditor has not presented any deficiencies, significant deficiencies, or material weakness in internal control in the last three years.

29. For alternative investments, do you, or can you, prepare a schedule that rolls the alternative investments forward from the prior year, showing beginning balance, purchases, redemptions, fees and income for each alternative investment?

For the period ending June 30, 2012, the portfolio only included alternative investments in the Senior Direct Lending asset allocation. Both those managers are partnerships and have reported the Trust's allocation of contributions, unfunded commitments, distributions, fees and income in a spreadsheet format. These spreadsheets include the total transaction activity from the inception of the relationship. The Core Real Estate asset allocation was not funded until late in FY13.

30. Are audited statements received for each alternative investment? If so, what period end are the audited statements and if not your June 30 year end, how do you account for the difference between your year-end and the audited statements year-end.

No, we have not received audited statements for the current alternative investments.

31. Have any of the following occurred since June 30, 2012 with respect to each of your alternative investments: suspension of redemptions, 2) closure to new subscriptions, 3) significant changes in key terms, and 4) significant redemptions.

No, there have been no suspension of redemptions, closure to new subscriptions, significant changes in key terms, or significant redemption in the alternative investments since June 30, 2012 held in the portfolio.

