



Karen Bass
Mayor of the City of Los Angeles

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LACERS External Auditor RFP Q&A

1. Question:

a. Financial Reporting and Accounting Policies: Are there any significant changes in accounting policies or practices in the current year?

i. **Answer: None, other than the implementation of applicable New GASB rules for Retirement Plans**

b. Internal Controls: Have there been any significant changes to internal controls during the year?

i. **Answer: Based on Internal Audit's approved Work Plan, we conduct audits of LACERS' operations and provide recommendations for enhancements to improve LACERS' processes. However, there is nothing major/significant noted as a result of those audits; overall LACERS has a strong internal control system.**

c. Risk Assessment: Are there any unusual financial and operational risks facing LACERS at this time?

i. **Answer: Internal Audit conducts a risk assessment every two years, and the Controller's Office does the same periodically. There were no financial risks nor significant operational risks noted as a result of those surveys.**

d. Compliance and Regulatory Requirements:

i. What are the key regulatory requirements that LACERS must comply with?

1. Answer: LACERS is governed by certain provisions in the California Constitution and Government Code, the Los Angeles City Charter and Administrative Code, LACERS' own policies and procedures which are subject to the review and approval of our Board, and provisions in certain Federal regulations that apply to governmental pension plans. For financial reporting, LACERS follows applicable GASB requirements, and our External Auditor provides implementation guidance on this matter.

ii. Have there been any compliance issues or regulatory changes in the current year?

1. Answer: No.

e. Actuarial Assumptions and Valuations: Have there been any changes in actuarial assumptions or methods?

i. Answer: You can access our Annual Valuation Reports (<https://www.lacers.org/reports>) and compare those valuations. Segal has recently completed the 2024 valuation report (with assumptions included in the report for both Retirement and Health). Also, every three years, an experience study is conducted to review our actuarial assumptions. The most recent Experience Study is also posted on the LACERS website. Based on the results of the Experience Study, our actuarial assumptions are adjusted accordingly.

f. Fraud Risk: Have there been any instances of fraud or suspected fraud during the year?

i. Answer: None

g. Previous Audit Findings: Were there any significant findings or recommendations from the previous audit?

i. Answer: None, aside from the Annual External Audit of our Financial Statements, the City's Controller Office conducts Management Audits of LACERS. This is every five years and the last one was issued in 2022. The Management Audit found that LACERS has a sound internal control system.

2. Question:

a. Portfolio Composition: Have there been significant changes to the composition of investments?

i. **Answer: LACERS has not made any significant changes to the composition of investments. You can access our Annual Comprehensive Financial Reports that show the composition of our investments year-over-year. These ACFRs are posted on LACERS website (<https://www.lacers.org/reports>). The LACERS Board complies with established policies for reviewing and adopting asset allocation and changes to portfolio composition. LACERS Investment Policy Statement is posted on LACERS website (<https://www.lacers.org/board-manual>).**

b. Valuation Methods:

i. Have there been any changes to the valuation methods used for different types of investments?

1. **Answer: For Financial Reporting purposes, we always use the Market Valuation method. For Actuarial purposes, our Actuary uses the Actuarial Valuation Method wherein gains and losses are smoothed out over the period of 7 years.**

ii. How are hard-to-value investments, such as private equity or real estate, appraised?

1. **Answer: For Private Equity, each fund has its own internal valuation process, and these valuations are subject to External Audits. For private Real Estate (RE), core open-end funds are subject to quarterly appraisals by third parties (not disclosed), while non-core funds are subject to each funds' own internal valuation process. RE funds are also subject to annual External Audits. LACERS does not hold individual real property as stand-alone assets.**

LACERS has its own processes for vetting the valuations of Private Equity funds. For one, on a periodic basis the Internal Audit Unit samples Private Equity funds and requests valuation methodologies from the Fund Managers/General Partners. We also ask our own External Auditors to sample funds for valuation verifications (e.g., through External Audit's in-house appraisers).

iii. Are there any third-party valuation services used, and if so, who are they?

1. Answer: Please refer to 2.b.ii.1 above; the Funds did not provide the names of their third-party appraisers.

c. Internal Controls and Processes:

i. Have there been any controls deficiencies over internal controls that ensure accurate and consistent valuation of investments?

1. Answer: We have a process in place to check the valuations of our investment portfolios as reported by our Custodian Bank. This involves comparing valuations with public exchange sites like Bloomberg.

ii. How often are valuations reviewed and updated?

1. Answer: Valuations are reviewed by Fiscal staff on a quarterly basis

d. Compliance and Regulatory Requirements: Have there been any compliance issues or regulatory changes affecting the portfolio?

i. Answer: No.

e. Fraud Risk: Have there been any instances of fraud or suspected fraud related to the investments?

i. Answer: No.

f. Previous Audit Findings:

i. Were there any significant findings or recommendations from previous audits of the investment portfolio?

1. Answer: No.

ii. What actions have been taken to address these findings?

1. Answer: Not Applicable

3. Question: Has there been any turnover in management during the past year?

Answer: No; next year our General Manager will be retiring and one of our Assistant General Managers will serve as Acting General Manager.

4. Question: Has there been any turnover in accounting staff during the past year?

Answer: No.

5. Question: What accounting software do you use? Any plans for change?

Answer: We use a Citywide financial accounting and reporting application called FMS (Financial Management System) and there has been no change over the years.

6. Question: How many journal entries were proposed by the auditor in the prior year?

Answer: None.

7. Question: Are any management letter comments outstanding from the prior year?

Answer: No; we issue an annual management representation letter to our External Auditor.

8. Question: May we receive a copy of last year's management letter?

Answer: Please see links below.

<https://lacers.app.box.com/s/yrg3n9ievg6kjycq7qf97c26ysfah89y>

<https://lacers.app.box.com/s/2trsgxrcmx3sx9gqiyam5v0c69cv8ns6>

<https://lacers.app.box.com/s/l4kbfypizle6x6a9jasbm4fxoky6t9p>

9. Question: How many major programs are subject to a Single Audit?

Answer: We are not subject to Single Audit as we do not receive any forms of Grants.

10. Question: Any known or suspected fraud?

Answer: No.

11. Question: When will the books be ready for the audit?

Answer: For Interim - 2nd week of July

For Final - 2nd week of September

For the 977 building audit and GASB 68/75 allocation audits, those can be as early as July.

12. Question: Are financial records available electronically?

Answer: Yes, for the most part. However, access to our Retirement System (PGold), where our members' benefits information is maintained, can only be accessed in person or on-site (read-only). Our external auditors have been using the time during the 2nd week of July (Interim) and 2nd week of September (Final Audit) to access our Retirement System/Application.

13. Question: Is remote auditing acceptable to the City?

Answer: We are open to a hybrid audit approach. However, we expect the auditors to be in our office/onsite during the following audit phases:

- **Interim - (2nd week of July) to access our Retirement System application for sampling purposes.**
- **Final Audit - (2nd week of September) to access our Retirement System application for sampling purposes.**
- **First week of December - to present the results of your audits before the LACERS Board/Audit Committee (in person)**

For actuarial audit, it may also be on a hybrid schedule, and we expect the report to be presented before the LACERS Board in person.

14. Question: Who prepares the financials?

Answer: For LACERS operations - our Fiscal/Accounting team

For 977 operations - our property manager, Cushman & Wakefield. All 977 information is eventually reported in the LACERS ACFR (Annual Comprehensive Financial Report).

15. Question: Were there any significant transactions (e.g., bond issuance, leases) during the year?

Answer: We do not have bond issuances. For our 977 building, we use this building as our office and we have 1 tenant AT&T (solely to hold their satellite equipment on the top of our building).

16. Question: Significant changes to operations or funding sources?

Answer: No.

17. Question: Significant construction or capital projects?

Answer: We acquired the 977 building back in 2018 and renovated it in 2022-2023. We are now occupying the building, having moved into the building April 2023. Other than the 977 building, we do not have other construction or capital projects.

18. Question: Any audits or inspections by regulatory agencies?

Answer: No.

19. Question: Any changes to the governance structure of the organization?

Answer: No.

20. Question: Is the incumbent auditor invited to bid?

Answer: It is open to everyone registered in RAMPLA. Consistent with LACERS' Ethical Contract Compliance Policy, all bidders, including the incumbent auditor, are restricted sources. Outside of this formal RFP process, LACERS staff and Board members may not have direct marketing discussions with any bidder about this contract or the process to award it.

21. Question: What were the audit fees for the prior year?

Answer: For LACERS' financial audits – total audit fees amounted to \$128,000.

For Actuarial one-time audit –we paid \$74,000 in audit fees back in 2020.

22. Question: The RFP says that a complete replication is needed for the last three fiscal periods (pages 4 and 7) – are these replications to be done and presented in three separate reports or in one report?

Answer: The RFP is in two parts: (1) to Audit the June 30, 2024 Actuarial Valuation, and (2) to review the Experience Study made that covered July 1, 2019 through June 30, 2022. We expect the results of your audits on the valuation and experience study in one report or combined. The bid should be for both parts of the actuarial audit, but proposers may bid for either contract or for both the financial statement audit and the actuarial audit.

23. Question: Prior actuarial audits only cover one year's results, is there a reason this audit is targeting three years?

Answer: It is an Audit of the June 30, 2024 Actuarial Valuation (one year) and Review of the Experience Study from July 1, 2019 through June 30, 2022 (three years). So, it only covers one year for the audit of Actuarial Valuation and three years for the Experience study. Both the Actuary's 2024 Valuation Report and the Experience study reports are posted or may be accessed on the LACERS' website (<https://www.lacers.org/reports>).

24. Question: Cheiron completed the last two actuarial audits (2012 and 2019), are they permitted to bid on this audit?

Answer: It is open to everyone registered in RAMPLA. Consistent with LACERS' Ethical Contract Compliance Policy, all bidders, including the incumbent auditor, are restricted sources. Outside of this formal RFP process, LACERS staff and Board members may not have direct marketing discussions with any bidder about this contract or the process to award it.

25. Question: Is the fee proposal intended to be for a one-year replication or all three years?

Answer: It is for the Audit of the 2024 Actuarial Valuation and the review of the Experience study that covered 2019 through 2022 actuarial assumptions. The fee proposal is for both of these services mentioned.

26. Question: The last actuarial audit on the LACERS website is dated April 2020 but the RFP references one completed in 2023 (page 15), please provide a copy of the 2023 actuarial audit.

Answer: In section IV.D of the RFP, at the top of page 16, the reference to "...the last [actuarial] audit conducted in 2023" should say "2020." The last actuarial audit conducted was in 2020.

27. Question: Is the fee proposal to be submitted under separate cover or as part of the technical proposal?

Answer: You may submit a separate cover for the fee proposal or you may include it under Section IV (D- Fee proposal).

28. Question: Under the Minimum Qualifications section (b), would a proposed Engagement Partner who does not have a California CPA license but is allowed to practice in California under CPA Mobility Law meet the Engagement Partner minimum qualification "must be licensed to practice in the State of California"?

Answer: The CPA mobility law applies to California. This law allows CPAs to practice in multiple jurisdictions with a single state license. To practice in California, out-of-state licensees must meet certain requirements:

- a. Holding a valid license from another state.
- b. Practicing public accountancy for four of the last 10 years.
- c. Having a license from a state with substantially equivalent requirements.
- d. Meeting the CBA's education, examination, and experience requirements.

Most jurisdictions have uniform licensing standards, e.g., 150 hours of education, professional experience, and a national exam. Also, you may be ineligible if you have a criminal conviction, or if your license has been suspended, revoked or disciplined.

29. Question: Does LACERS maintain participant census data, along with payroll related information? Does LACERS staff maintain access to payroll records needed for testing or does the external auditor need to coordinate with City staff?

Answer: LACERS maintains participant census data, and LACERS staff (Internal Audit) have access to payroll records.

30. Question: How many auditors have historically worked on the engagement during interim and year-end fieldwork and or how many days?

Answer: Approximately 6 auditors or more at a time and they go to our office for one week for Interim (2nd week of July) and another week for Final Audit (2nd week of September). The GASB allocation audit may be conducted prior to beginning of interim as its scope is for prior fiscal year. For the 977 building operations audit, this may be done simultaneously with the LACERS FS audit.

31. Question: Are the current auditors allowed to bid?

Answer: It is open to everyone registered in RAMPLA. Consistent with LACERS' Ethical Contract Compliance Policy, all bidders, including the incumbent auditor, are restricted sources. Outside of this formal RFP process, LACERS staff and Board members may not have direct marketing discussions with any bidder about this contract or the process to award it.

32. Question: Is the scope of work and deliverables of this RFP consistent with the last audit services contract?

Answer: Yes, it is consistent with the last service contract. The financial statement audit and the actuarial audit were separated as part of the last contract as well.

33. Question: Are the basic financial statements and ACFR prepared by LACERS staff?

Answer: Yes, the financial statements and ACFR are all prepared by LACERS staff.

34. Question: What was the nature of any LACERS post-close entries after providing the trial balances to the external auditor?

Answer: Post close entries initiated by LACERS fiscal/accounting staff are mostly for accruals, valuation adjustments for Private Equity funds, and depreciation entries for the 977 building operations.

35. Question: Describe the nature of any auditor proposed adjustments after the trial balances were provided.

Answer: There were no audit-proposed adjustments.

36. Question: What, if anything, would LACERS like to see changed about their current audit process?

Answer: The current audit process works fine and is generally effective.

37. Question: Please provide a copy of the most recently issued audit reports for the 115 Trust, the LACERS 977 Building Operations, and audit of schedules related to GASB 68 and GASB 75, as described in the scope of the RFP.

Answer: We don't have a separate audit report for the 115 Trust Account, all we require is to show the 115 Trust account as a separate item within the LACERS financial statements.

We will provide the audit report for the 977 building and the GASB 68/75 allocation audit report in the links below.

<https://lacers.app.box.com/s/xy48v7m9rf7okmtr5fsd2x2hp3etj0x8>

<https://lacers.app.box.com/s/663qbs7zujwndsi8wibvkoz9yn37di95>

<https://lacers.app.box.com/s/2trsgxrcmx3sx9gqiyam5v0c69cv8ns6>

38. Question: Investments held by the plan – how soon after year-end are audited financial statements available for your harder to value investments? Also, please describe LACERS’ accounting procedures related to investments reported at net asset value and level 3.

Answer: By September, the fund values, as of June 30, are provided by the Fund Managers and General Partners. The Funds’ audited financial statements are also available during this time. On a quarterly basis, accounting staff verify asset valuations and dividend income with outside public exchange sites like Bloomberg.

39. Question: When are the GASB 68 and GASB 75 valuations available for completion of the GASB 68/75 audits?

Answer: Usually by June of the current year, the audit for GASB 68/75 may be started which covered (scope) the prior fiscal year.

40. Question: For the prior year fee described in the proposal. Can you provide a fee breakdown by segment of the scope of work?

Answer: LACERS FS audit - \$74,000

115 Trust Account audit - \$10,000

GASB 68/75 Allocation Audit - \$ 12,500

977 building audit (only 1 tenant & occupied by LACERS since 2023) - \$31,500

The description of scope of work is in the RFP we issued—total of the above fees is \$128,000 for FY 2024 and currently budgeted for the coming FY 2025 is \$140,000.

41. Question: Is LACERS open to a hybrid audit approach (combination of onsite and remote work)?

Answer: We are open to a hybrid audit approach. However, we expect the auditors to be in our office/onsite during the following audit phases:

- Interim - (2nd week of July) to access our Retirement System application for sampling purposes.
- Final Audit - (2nd week of September) to access our Retirement System application for sampling purposes.
- First week of December - to present the results of your audits before the LACERS Board/Audit Committee (in person)

For actuarial audit, it may also be on a hybrid schedule, and we expect the report to be presented before the LACERS Board in person.

42. Question: Were there any material weaknesses or significant deficiencies in internal controls reported for 2024?

Answer: None

43. Question: Our process also includes a requirement to sign an annual engagement letter on commercially reasonable terms. Is LACERS amendable[sic] to signing that? Should we include a sample engagement letter in our response?

Answer: Please include a sample engagement letter; LACERS is amenable to signing an annual engagement letter, subject to approval by our City Attorney.

44. Question: Our firm requires a reasonable limit of liability and a hold harmless/indemnification provision in all of its services contracts. Would this requirement prevent our proposal from being considered?

Answer: This requirement will not preclude consideration of any proposal. Please include with your RFP response a redline markup that shows any desired changes to the City's Standard Contract Provisions for liability and indemnification.

45. Question: For any questions that pertain to the financial audit, rather than the actuarial audit, should we state "N/A" as our response? Such as:

- a. "Provide your policy regarding the rotation of partners and Audit Managers on financial statement audits."
- b. "Provide a description of the overall approach to be used for the work, including your approach to making the transition from LACERS' prior auditor, if applicable."
- c. "Describe in detail your firm's experience or ability in accounting/auditing for international currency matters, derivative type of instruments, pooled real estate and private equity investments. List your resources for auditing these areas, such as in-house, outside consultants, etc."
- d. "Describe your firm's ability in assisting clients to comply with GASB requirements, including the GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments, GASB Statement No. 72 Fair Value Measurement and Application, GASB 87 on leases, GASB 28 and 40 on participation in Securities Lending Program, and other recent GASB statements such as GASB 99 on Conduit Debt related to leases, GASB 100 on Accounting Changes and Errors Correction, and GASB 101 on Compensated Absences."
- e. "LACERS does not maintain an investment subsidiary ledger. Investment advisors direct investment trades and reconcile monthly security positions and investment income received with the custodian bank, Northern Trust. LACERS accounting staff performs a quarterly random sample audit of dividend and bond interest income. How would you review this process?"
- f. "With some specificity, please discuss your approach to auditing information technology systems including cybersecurity."

- g. “With some specificity, please discuss your approach to auditing the year-end valuations of Private Equity Funds.”
- h. “Provide a general discussion of how you would evaluate internal controls.”
- i. “Provide a general discussion of how you assist your clients with their ACFR.”
- j. “Describe how you would audit compliance with the investment policy adopted by a governing board.”

Answer: Yes, please respond N/A to the above questions, when responding for the RFP for Actuarial Audit.

46. Question: May we please receive a copy of the last actuarial audit report?

Answer: Please access the report below.

<https://lacers.app.box.com/s/b1yscxu53rmtmybr8jn8zie0ttzxh7tm>

47. Question: What level audit was the last actuarial audit (i.e., was a full replication of the actuary’s valuation results performed)?

Answer: We will provide the last actuarial audit where you can find the scope of the audit—yes, it is a full replication of the Actuary’s valuation procedures.

<https://lacers.app.box.com/s/b1yscxu53rmtmybr8jn8zie0ttzxh7tm>

48. Question: Have there been any significant changes to the System since the last actuarial audit?

Answer: No.

49. Question: Has the requested scope changed from the last actuarial audit?

Answer: No, it is the audit of the June 30, 2024 Actuarial Valuation and Review of the Experience Study (July 1, 2019 through June 30, 2022). Both parts of the requested scope were stated separately for the last actuarial audit as well.

50. Question: When does the Board anticipate the project (actuarial audit) to start and when does it expect to have delivery of the final results?

Answer: The actuarial Valuation audit is for fiscal year ended June 30, 2024 and is expected to start immediately after the contract is awarded (May or June of 2025). We expect the products of these audits within 6 months from the start of the audit. The contract will be for one year.

51. Question: What are some things you would like to see improved in the financial audit process compared to previous years?

Answer: Historically, our financial audit process has always been smooth.

52. Question: Can you provide the prior year financial statements of the Section 115 Trust Account?

Answer: The Section 115 Trust financial statements are included in the Postemployment Health Care Plan financial statements which can be found in the ACFR on LACERS' website (<https://www.lacers.org/reports>).

53. Question: Can you provide the prior year financial statements of LACERS 977 Building Operations?

We will provide the audit report for the 977 building and the GASB 68/75 allocation audit report in the links below.

<https://lacers.app.box.com/s/xy48v7m9rf7okmtr5fsd2x2hp3etj0x8>

<https://lacers.app.box.com/s/663qbs7zujwndsi8wibvkoz9yn37di95>

<https://lacers.app.box.com/s/2trsgxrcmx3sx9gqiyam5v0c69cv8ns6>

54. Question: Were there any management letters issued in prior years' audits? If so, could you please provide an example?

Answer: Please see links below.

<https://lacers.app.box.com/s/yrg3n9ievg6kjycq7qf97c26ysfah89y>

<https://lacers.app.box.com/s/l4kbfypizle6x6a9jasbm4fxoky6t9p>

55. Question: Were there any uncorrected misstatements in prior years' audits?

Answer: No.

56. Question: Are there any plans to implement a new pension administration system or general ledger system during the contract period?

Answer: No, LACERS upgraded the retirement system application in 2018.

57. Question: When did the prior audit firm typically perform their interim fieldwork and for how many weeks? When did they perform their final fieldwork and for how long?

Answer: Interim (on site for 1 week around 2nd week of July) and they continue gathering information and asking follow-up questions beyond this time.

For Final audit (on site for 1 week around 2nd week of September) and they continue with follow up requests and questions through November or until the ACFR is finalized and issued.

58. Question: Was any part of the prior year audits performed remotely? Is LACERS open to remote or hybrid audits in the future?

Answer: We are open to a hybrid audit approach. However, we expect the auditors to be in our office/onsite during the following audit phases:

- Interim - (2nd week of July) to access our Retirement System application for sampling purposes.
- Final Audit - (2nd week of September) to access our Retirement System application for sampling purposes.

- **First week of December - to present the results of your audits before the LACERS Board/Audit Committee (in person)**

For actuarial audit, it may also be on a hybrid schedule, and we expect the report to be presented before the LACERS Board in person.

59. Question: How many samples were selected on an annual basis for member census data testing?

Answer: It varies on a year-to-year basis, but for the most part it is approximately 40 samples. The auditors can access our Retirement System application on-site with read-only access.

60. Question: What will constitute demonstration of Business Inclusion Program (BIP) outreach? What are the expectations of BIP outreach? Is there an expected percentage or number of BIP members/groups required for outreach? The RFP does not mention a Business Inclusion Program (BIP) outreach requirement; however, on the portal this appears to be a requirement for this bid. Is BIP outreach a requirement for the actuarial audit bid?

Answer: The BIP Outreach requirements do not apply to this RFP and proposers do not need to do outreach to be eligible for this contract mandate.

61. Question: At the top of page 16 of the RFP, there is a reference to "...the last [actuarial] audit conducted in 2023." Should this have referenced 2019 (or 2020) instead? If an actuarial audit was completed in 2023, can LACERS discuss why one is being requested in 2024 and provide a copy of the 2023 report?

Answer: In section IV.D of the RFP, at the top of page 16, the reference to "...the last [actuarial] audit conducted in 2023" should say "2020." The last actuarial audit conducted was in 2020.

62. Question: On page 11 of the RFP, it states that “If the respondent is a corporation, the response must be signed on behalf of the corporation by two authorized officers [a Chairman of the Board, President or Vice-President, and a Secretary, Treasurer or Chief Financial Officer] or an officer authorized by the Board of Directors to execute such documents on behalf of the corporation).” Although we are a corporation, our firm is owned and managed by our principals. Typically, it is our principals who are involved in the day-to-day management of our services. Would it be acceptable to have the cover letter signed by two principals who are authorized to bind the firm to all provisions of the RFP?

Answer: Yes, as long as it clearly indicates that the signing principals have authority to bind the firm.

63. Question: Page 13 of the RFP states that, “a copy of your firm’s most recent peer review report” is requested. Is this intended for the actuarial auditor? We don’t have a peer review of the entire firm performed by another firm. Our work with our other clients is peer reviewed as part of the actuarial audit process with other firms reviewing our work. Would LACERS like a copy of an actuarial audit or our work? Alternatively, would LACERS like a description of our internal peer review procedures?

Answer: That requirement is for the Financial Statement Audit. Yes, we would like to have a copy of your most recent actuarial audit included in your proposal, and your internal peer review procedures.

64. Question: Section C, Project Proposal, on page 13 of the RFP appears to have some questions that are solely intended for the financial statement auditor (e.g., question e, experience in accounting/auditing for international currency matters, derivative type of instruments, pooled real estate and private equity investments). If LACERS would only like the actuarial audit proposer to respond to some of these questions, can LACERS provide a list of the questions that apply to the actuarial audit proposer?

Answer: Please answer questions that apply to Actuarial Audit; if it does not apply to Actuarial Audit, please indicate “N/A”.