

Meeting of the ERS Board of Trustees Audit Committee

March 9, 2022



Public Agenda Item #1

Call Meeting of the Audit Committee to Order

March 9, 2022

Public Agenda Item #2

*Consideration of the Minutes to the December 7, 2021
Audit Committee Meeting – (Action)*

March 9, 2022

Questions?
Action Item

*Public Agenda Item #3

Consideration of External Audit Reports

March 9, 2022

Tony Chavez, Director of Internal Audit



Audit Report of the Employee's Retirement System's Fiscal Year 2021 Financial Statements

Tony Chavez, Director of Internal Audit

Brittany Smith, Manager, CliftonLarsonAllen LLP (CLA)

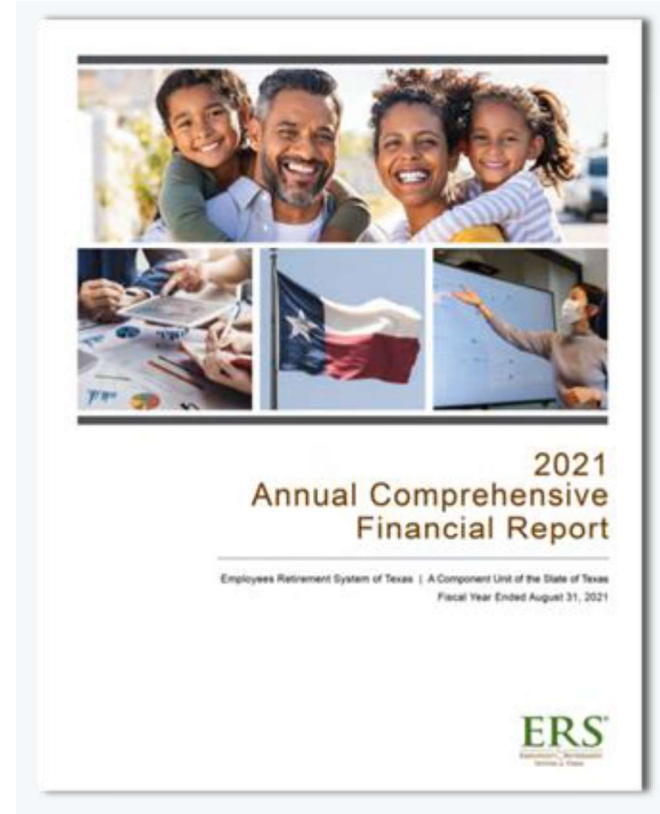
Fiscal Year 2021 ACFR

Financial Statement Opinion Audit



Two deliverables

- Independent Auditor's Report
- Report on Internal Controls



Employees Retirement System of Texas (ERS)

Presentation of the 2021 Financial Statement
Audit Results

March 9, 2022

Brittany Smith, CPA
Engagement Manger

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.



Create Opportunities

Agenda

- 2021 Financial Statement Audit Results
- 2021 Audit Results – Other Communications
- Required Communications
- 2021 GASB 68/75 Schedule Update



2021 Audit Results – Financial Statements

- Independent Auditors’ Report – Unmodified “clean” opinion that the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
- Limited procedures were performed, and no opinion will be rendered on management’s discussion and analysis, required supplemental information, and the Introductory, Investment, Actuarial, and Statistical sections.
- Limited procedures were performed, and an unmodified “in-relation to” opinion on the other supplementary information in the CAFR.



2021 Annual Comprehensive Financial Report

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2021



2021 Audit Results – Other Communications

- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
 - No material weaknesses
 - No significant deficiencies
 - No material findings associated with compliance with laws and regulations or other matters
- Letter to the Board providing required communications with those charged with governance.



Required Governing Body Communications

- Auditor's responsibility under U.S. Generally Accepted Auditing Standards
- Significant accounting policies
 - GASB 87 – Leases
 - GASB 98 – Annual Comprehensive Financial Report
- No audit adjustments or passed adjustments



Required Governing Body Communications

- Management judgments and accounting estimates
 - Valuation of alternative investments
 - ◇ Walkthroughs of initial due diligence, on-going monitoring and financial reporting
 - ◇ Confirmation with a sample of fund managers
 - ◇ Review audited financial statements
 - Evaluate auditor competence
 - Evaluate the opinion (i.e. unmodified, modified)
 - Determine if the financial statements are reported in accordance with GAAP and if investments are reported at fair value
 - Reconcile the audited NAV to the fair value reported by ERS



Required Governing Body Communications

- Management judgments and accounting estimates
 - Actuarial information, assumptions and methods used
 - ◇ Census data* testing of employer payroll files
 - ◇ Use of an auditor's specialist
 - ◇ Confirm ERS' actuary's independence
 - ◇ Review ERS' actuary's valuation reports
 - ◇ Evaluate the reasonableness of the long-term rate of return (LTRoR) and other assumptions
 - Compare to industry standards and circumstances specific to ERS
 - Review most recent asset allocation, actuarial audits, experience studies, long-term historical data and current market data
 - Review of the discount rate calculation

*Census data includes demographic information for all active and inactive members utilized by the actuary to perform the actuarial calculations.



Required Governing Body Communications

- Management was very cooperative and professional during the audit process
- No disagreements with management
- Management did not consult with other accountants on the application of GAAP or GAAS
- No major issues were discussed with management prior to retention
- Management Representations



Data Analytics Overview

- Pension Benefit Payments
 - Technical data analysis of 2020 and 2021 benefit payments
 - Trend analysis of varying data points such as monthly member count and payment average
 - Searched for significant payment swings
 - Number of individual payments tested:
 - ◇ 2020 – 1,389,632
 - ◇ 2021 – 1,417,897



Data Analytics Overview (Continued)

- 2021 Census Data
 - Compared benefit payment register to the actuarial census provided by both ERS and the actuary for differences such as persons included or excluded and differences between the average benefit payments by fund reported by the actuary versus the actual payment history
 - Reconciled key factors such as head count, covered payroll and average benefit payments in the census files to the funding valuation report



2021 GASB 68/75 Schedule Update

- Began work on the GASB 68 and 75 Schedules in February 2022
- Expect to issue our final report on the schedules no later than May 2022





CLAAconnect.com

Brittany Smith, CPA
Engagement Manager
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Questions?

Actuarial Audit and Review of the 2021 Actuarial Valuations

Tony Chavez, Director of Internal Audit

Jim Ritchie, President of Bolton Retirement, Bolton

Pension Forecasting Audit



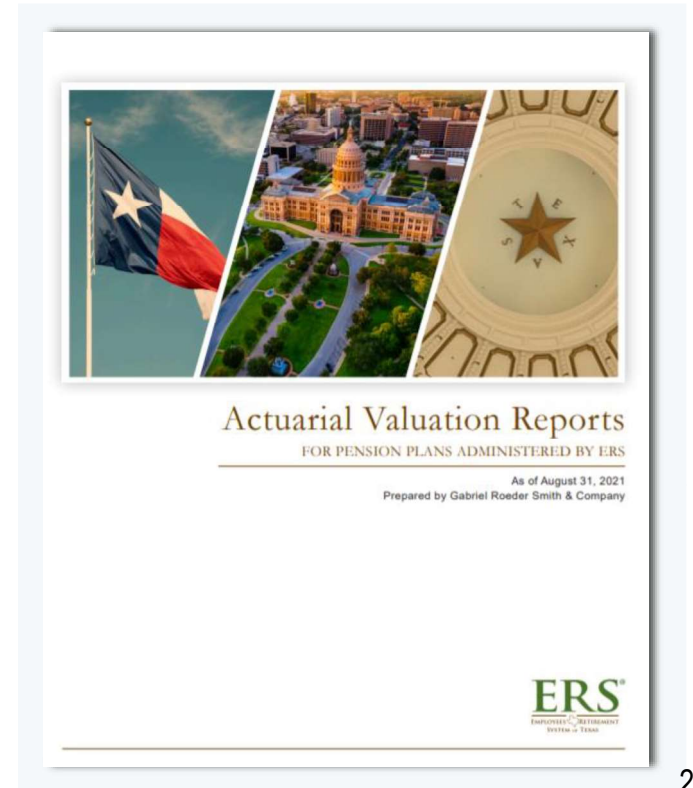
GFOA Best Practices – a valuable tool for monitoring the quality of actuarial services performed on behalf of the pension plan



An actuarial audit involves engaging the services of an outside actuary to scrutinize the work of the plan's consulting actuary



Every 5 years



Audit of the 2021 Actuarial Valuations

March 9, 2022

Bolton

Jim Ritchie, ASA, EA, FCA, MAAA
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AGENDA

01

Purpose and scope of the audit

02

Findings

03

Suggestions/Recommendations

04

Conclusion

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Who did the
Audit?

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AUDIT TEAM

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PURPOSE AND
SCOPE OF
THE AUDIT

01

What is the purpose of an audit?

PURPOSE OF THE AUDIT



Evaluate the services provided by Texas ERS's actuarial consultant, GRS:

- 2021 actuarial valuations
- 2019 experience study
- Actuarial communications



Express an actuarial opinion regarding the

- reasonableness
 - accuracy
 - actuarial soundness
- of GRS's deliverables



Suggest improvements and future considerations for GRS and Texas ERS

SCOPE OF THE AUDIT

What did Bolton review?

- **Independently calculated benefits and liabilities for sample lives** to ensure the actuary is correctly calculating the promised benefits and accurately determining the present values
- **Reviewed actuarial methods and assumptions** for reasonableness and consistency with actuarial practices and documented plan experience
- **Examined the valuation reports and experience study** for internal consistency, compliance with actuarial standards and ease of use for the reader

SCOPE OF THE AUDIT

Reports Reviewed

- **Employees Retirement System of Texas**
Annual Actuarial Valuation – Funding as of August 31, 2021
- **Law Enforcement and Custodial Officer Supplemental Retirement Fund of the Employees Retirement System of Texas**
Annual Actuarial Valuation – Funding as of August 31, 2021
- **Judicial Retirement System of Texas, Plan 2**
Annual Actuarial Valuation – Funding as of August 31, 2021
- **Employees Retirement System of Texas**
Actuarial Experience Study as of August 31, 2019



02

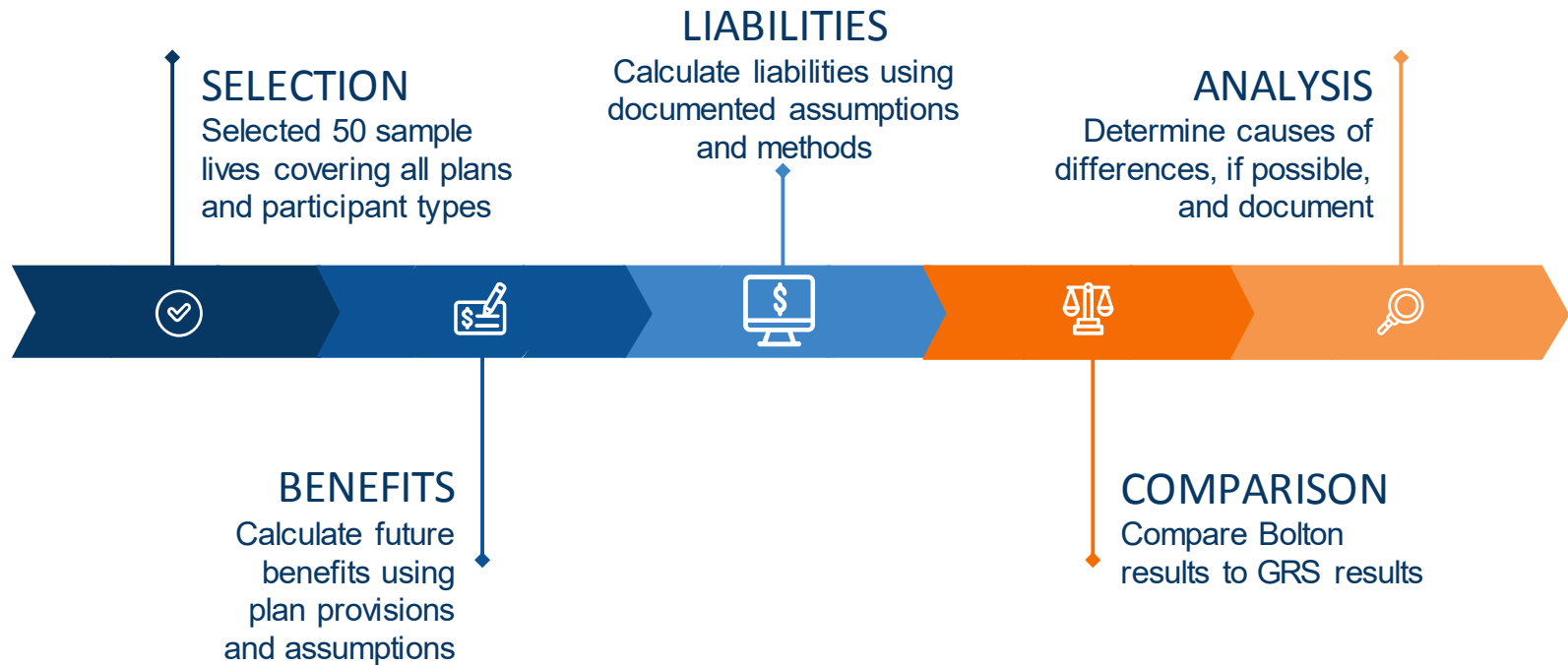
FINDINGS

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Bolton's Primary Finding

The three Texas ERS 2021 actuarial reports meet all applicable standards and are reasonable and complete.

SAMPLE LIFE REVIEW



SAMPLE LIFE REVIEW RESULTS

- Results for key valuation metrics reasonably similar to GRS

	ERS % Diff	LECOSRF % Diff	JRS2 % Diff
PVFB			
-Active	-0.2%	1.8%	0.7%
-Inactive	-0.2%	-0.4%	0.1%
Total	-0.2%	0.1%	0.3%
AAL			
-Active	1.3%	2.4%	0.7%
-Inactive	-0.2%	-0.4%	0.1%
Total	0.3%	0.2%	0.3%
NC	-8.3%	-2.5%	2.3%
PVFS	0.4%	1.4%	-0.2%

- Identifiable differences have limited materiality for the plans as a whole
- Largest difference was Normal Cost which represents annual benefit accrual for all participants

SAMPLE LIFE REVIEW RESULTS

- Very close match of Present Value of Future Benefits (PVFB) which means benefits and assumptions are coded correctly
- Larger differences for active Actuarial Accrued Liability (AAL) and Normal Cost (NC) which indicates a slight disparity in the application of the funding method
 - ERS NC disparity distorted by one participant (-4.3% w/o that one participant)
 - GRS used a slightly different payroll for calculating NC vs PVFB
- Discovered some minor issues that may need to be researched and/or changes by GRS
- A change in timing of the decrements created additional complexity

03

SUGGESTIONS/
RECOMMENDATIONS

Bolton

SUGGESTIONS/RECOMMENDATIONS



FUNDING GOALS

Additional funding for LECOS and JRS 2 similar to ERS



FUTURE CONSIDERATIONS

Show a more traditional ADC, consider a sensitivity analysis and continue to review discount rate assumption



VALUATION REPORT

Include derivation of additional contribution, show more detail on open group projection, and provide valuation payroll description



EXPERIENCE STUDY

Show more comparisons of expected and actual results, discuss credibility given to plan's own mortality experience, and consider separate analysis of JRS2



ASSET SMOOTHING METHOD

Consider adding a corridor






CONCLUSION | 04

CONCLUSIONS

- Data summary in report was consistent with the data used
- Overall, actuarial liabilities and normal cost are reasonable, appropriate and represent a correct application of the methods and assumptions
- Methods and assumptions are reasonable
 - Consider separate analysis of JRS 2 population
 - Consider corridor on asset method
- Actuarial valuation reports meet the actuarial standards and are suitable for the purposes defined

Thank you for your time today.

Does anyone have any questions?

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 company/boltonusa

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Questions?

Public Agenda Item #4

Consideration of Internal Audit Reports

March 9, 2022

Tony Chavez, Director of Internal Audit

Status of Audit Recommendations

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

Status of Audit Recommendations



Methodology

- Process owner self-assessment and information sharing
- Internal Audit review and evaluation

Status Levels

- Implemented
- Partially Implemented
- No Action Taken
- Management Acceptance

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

~Institute of Internal Auditors standard 2500.A1

Summary



Audit Engagement	Observation	Implementation Actions	MAP Status
Benefits Coordinator Training Program (#2018-03)	Limited data analytics to evaluate the effectiveness and efficiency of the program	Some processes have been automated, communications have been targeted, and agencies are receiving Monthly Status Reports	Implemented
Incentive Compensation Program (#2020-01)	Continue to implement Management Action Plans of prior audits	Procedures have been developed for administering the program; however gaps remain in documenting some key procedures	Partially Implemented
Internal Public Equity (#2020-02)	Annual review does not provide Board with information to facilitate discussion of long-term performance	Annual asset class review was improved to include data visualizations and long-term performance for the asset class	Implemented

Questions?

Public Agenda Item #5

Consideration of Internal Audit Administrative Items

March 9, 2022

Tony Chavez, Director of Internal Audit

ERS Internal Audit Charter

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

Internal Audit Charter



- Purpose of the Internal Audit Charter
 - Establishes the governance and authority of the internal audit function

- Purpose of annual review
 - Inform and prompt discussion
 - Audit standard requirement
 - Reinforces roles and responsibilities to the agency

The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

~IIA standard 1000

Audit Committee Charter

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

Audit Committee Charter



Charter Sections

- Purpose
- Authority
- Composition
- Meetings
- Responsibilities
- Approval of Audit Services

- ❖ Purpose – assist the Board of Trustees in fulfilling its oversight responsibilities.
- ❖ Authority – direct the director of internal audit, external auditors, and/or consultants to conduct an audit, review and/or investigate any matters within the Committee’s scope of responsibility.

Questions?

Public Agenda Item #6

Adjournment of the Audit Committee Meeting

March 9, 2022