

Meeting of the ERS Board of Trustees Audit Committee

August 24, 2022



Public Agenda Item #1

Call Meeting of the Audit Committee to Order

August 24, 2022

Public Agenda Item #2

*Consideration of the Minutes to the May 11, 2022
Audit Committee Meeting – (**Action**)*

August 24, 2022

Questions?
Action Item

Public Agenda Item #3

Consideration of External Audit Reports

August 24, 2022

Tony Chavez, Director of Internal Audit

Chris Rogers, Managing Principal, CLA



Employees Retirement System of Texas

2022 Audit Entrance Conference

August 24, 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAGlobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. © 2022 CliftonLarsonAllen LLP

Agenda

Key Engagement Team Members

Scope

Auditor Responsibilities

Management Responsibilities

Significant Risks and Responses

Audit Timeline

Board Discussion

Open Forum/Questions



Key Engagement Team Members



Scope



ERS August 31, 2022 Financial Statements



ERS August 31, 2022 GASB No. 68 Report



ERS August 31, 2022 GASB No. 75 Report



Auditor (CLA) Responsibilities

Conduct the audit in accordance with U.S. GAAS and *Government Auditing Standards*

Express an opinion on whether the financial statements and GASB 68 and GASB 75 Schedules are presented in accordance with U.S. GAAP

Provide report on internal control over financial reporting and compliance with laws, regulations, contracts and grants which could have a direct and material impact on the financial statements and Schedules

Communicating our identification of significant risks of material misstatement

Communicating certain other matters to the Board in a formal communication



Management Responsibilities

Fair presentation of financial statements and schedules in accordance with GAAP

Design and implementation of internal control over financial reporting and compliance

Provide unrestricted access to information and personnel requested for audit

Take timely and appropriate steps to remedy fraud, abuse and noncompliance

Provide a representation letter at the conclusion of our audit



Significant Risks and Responses

Management Override of Controls

- Properly assign and supervise audit team
- Examine journal entries and significant, unusual transactions
- Incorporate an element of unpredictability to the audit

Valuation & Existence of Alternative Investments

- Confirmation with fund managers and recalculation of investment based on audited fund financial statements

Actuarial Valuation

- Evaluate and determine methods and assumptions used are in accordance with GASB Statement No.'s 67 and 74 and the Actuarial Standards of Practice

Employee Turnover

- Increased supervision and review over impacted operation areas



Audit Timeline

Key Milestones	Dates
Initial Planning	July 2022
Preliminary Fieldwork (e.g., internal control testing, fraud inquiries, etc.)	July through August 2022
Primary Fieldwork (e.g., substantive testing of financial statement amounts)	October through November 2022
Issuance of Financial Statements	December 9, 2022 target date
Presentation to ERS Board	March 2023
Testing of GASB 68 and 75 Schedules	March through May 2023
Issuance of GASB 68 and 75 Schedules	May 2023



Board Discussion

- Recognizing importance of two-way communication, we encourage you to provide us with information you consider relevant to the audit. This could include, but is not limited to the following:
 - ERS' objectives and strategies and the related business risks that could result in material misstatement
 - Your understanding of the risks of fraud and the controls in place to prevent and detect fraud
 - Other matters you consider relevant to the financial statements



Open Forum/Questions



Questions?

Public Agenda Item #4

Consideration of Audit Administrative Items – (Action)

August 24, 2022

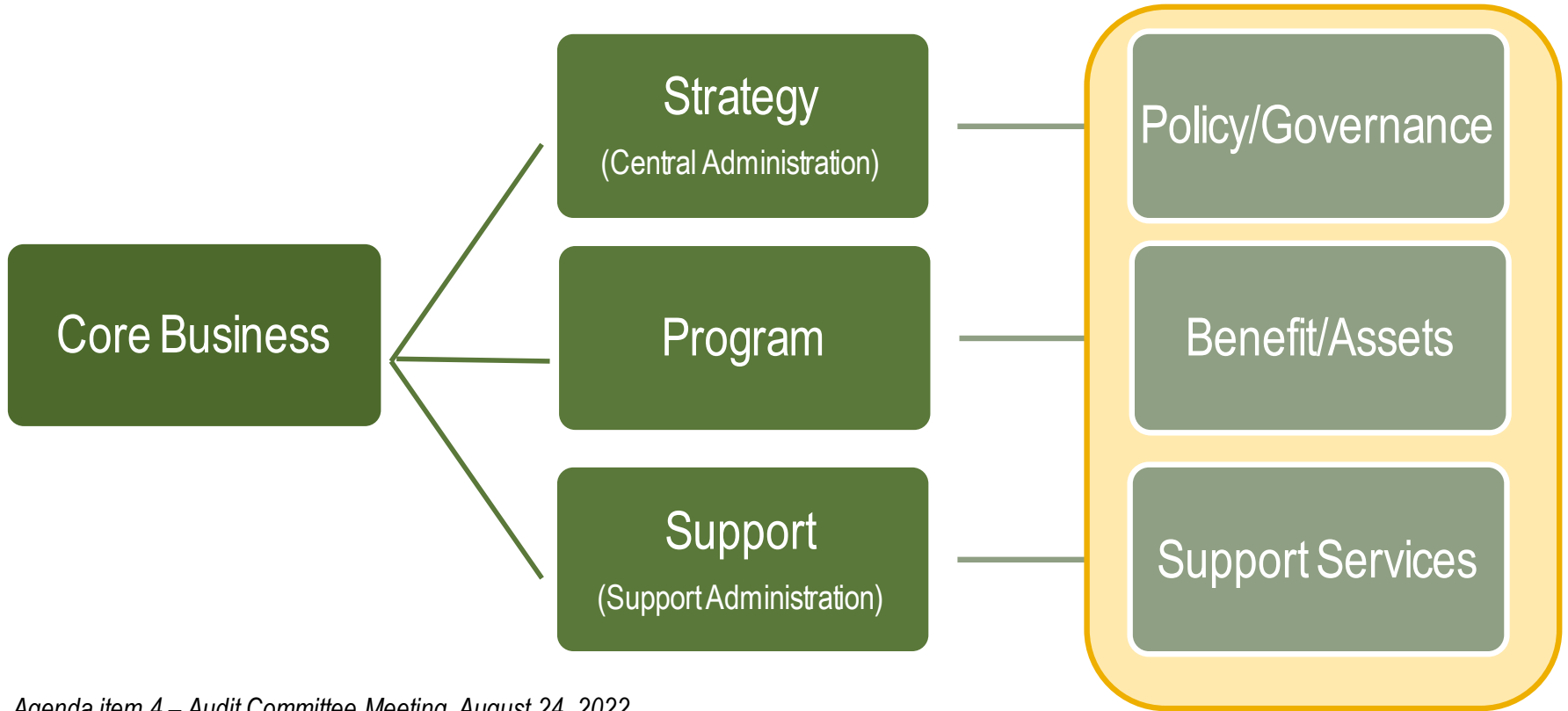
Tony Chavez, Director of Internal Audit

Tressie Landry, Internal Audit Manager

Overview

- Statute requires a risk-based annual audit plan be developed and approved by the Board of Trustees
- The Plan is designed to provide coverage of key program risks given the existing staff and approved budget
- Overall framework remains the same with continuous enhancement





- Program/Asset additions or deletions
 - Health Maintenance Organizations
 - Opportunistic Credit
- Renaming of auditable units
 - Proxy Voting → Shareholder Governance
- Breakout of multi-faceted programs/assets
 - Public Equity
 - Workforce Management

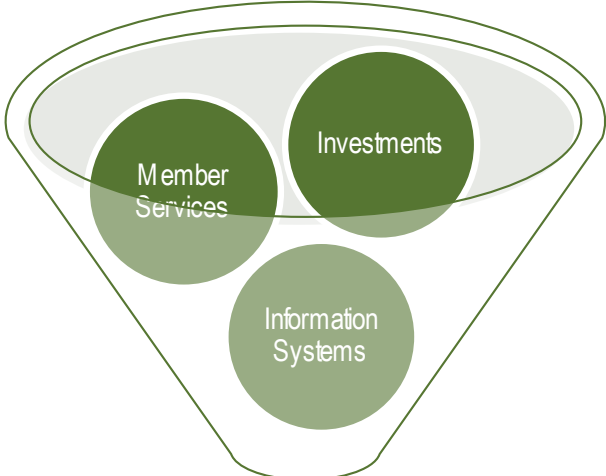
Risk Factor	Risk Trend	Risk Considerations
Strategic (Directive)		<ul style="list-style-type: none"> • Macroeconomics
Operational (Implementation)		<ul style="list-style-type: none"> • Workforce
Financial (Dollars)		<ul style="list-style-type: none"> • Legacy Payment • Inflation (Healthcare)
Regulatory (Mandates)		<ul style="list-style-type: none"> • Group 4 • Scrutinized Investments

Audit Rankings

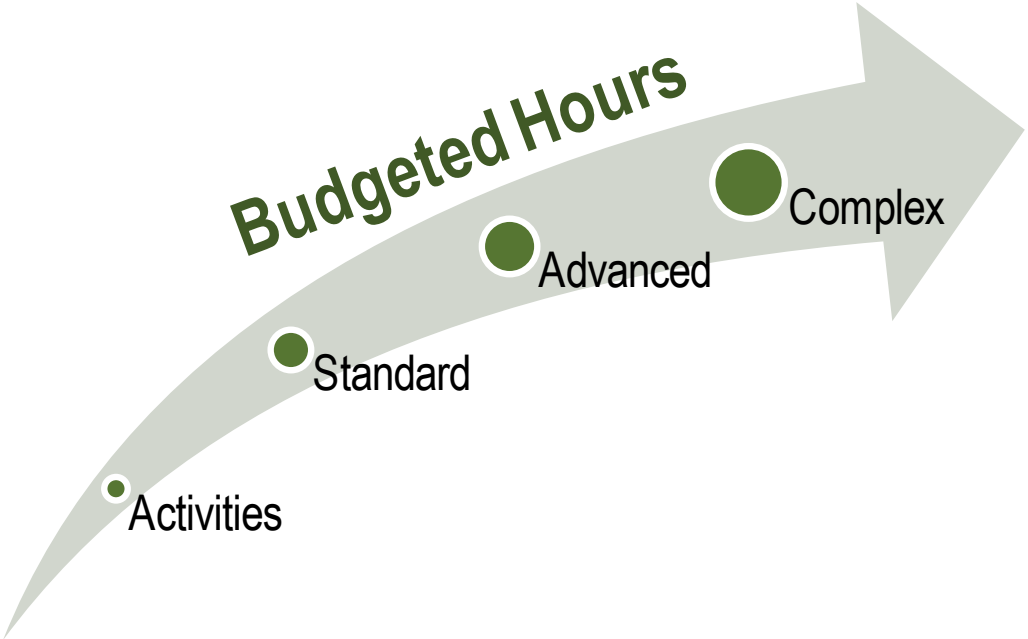
- Time since last audit
- Operational capacity
- Stakeholder input
- External interest
- Engagements suggested by leading practices



Audit Capacity



Audit Hours  **(9,300 hours)**
Audit Plan



Proposed FY23 Audit Plan

CORE BUSINESS	ENGAGEMENT
INVESTMENTS	<ul style="list-style-type: none"> • Global Credit – Internal High Yield • Operational & Financial Due Diligence
MEMBER SERVICES	<ul style="list-style-type: none"> • Group Benefits Rate Development • Retirement Account Withdrawals • Contact Center (carryover from FY22) • External Call Center (carryover from FY22)
INFORMATION SYSTEMS	<ul style="list-style-type: none"> • Cloud Management
ENTERPRISE-WIDE	<ul style="list-style-type: none"> • Financial Opinion Audit • Business Continuity • Ethics

Questions?
Action Item

Public Agenda Item #5

Adjournment of the Audit Committee Meeting

August 24, 2022