

Meeting of the Audit Committee

August 21, 2024



Public Agenda Item #1

Call Audit Committee to Order

August 21, 2024

Public Agenda Item #2

2024 Financial Statement Opinion Audit Kickoff

August 21, 2024

Tony Chavez, Director of Internal Audit
Brittany Smith, CliftonLarsonAllen (CLA) Audit Manager



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Employees Retirement System of Texas

2024 Audit Entrance Conference

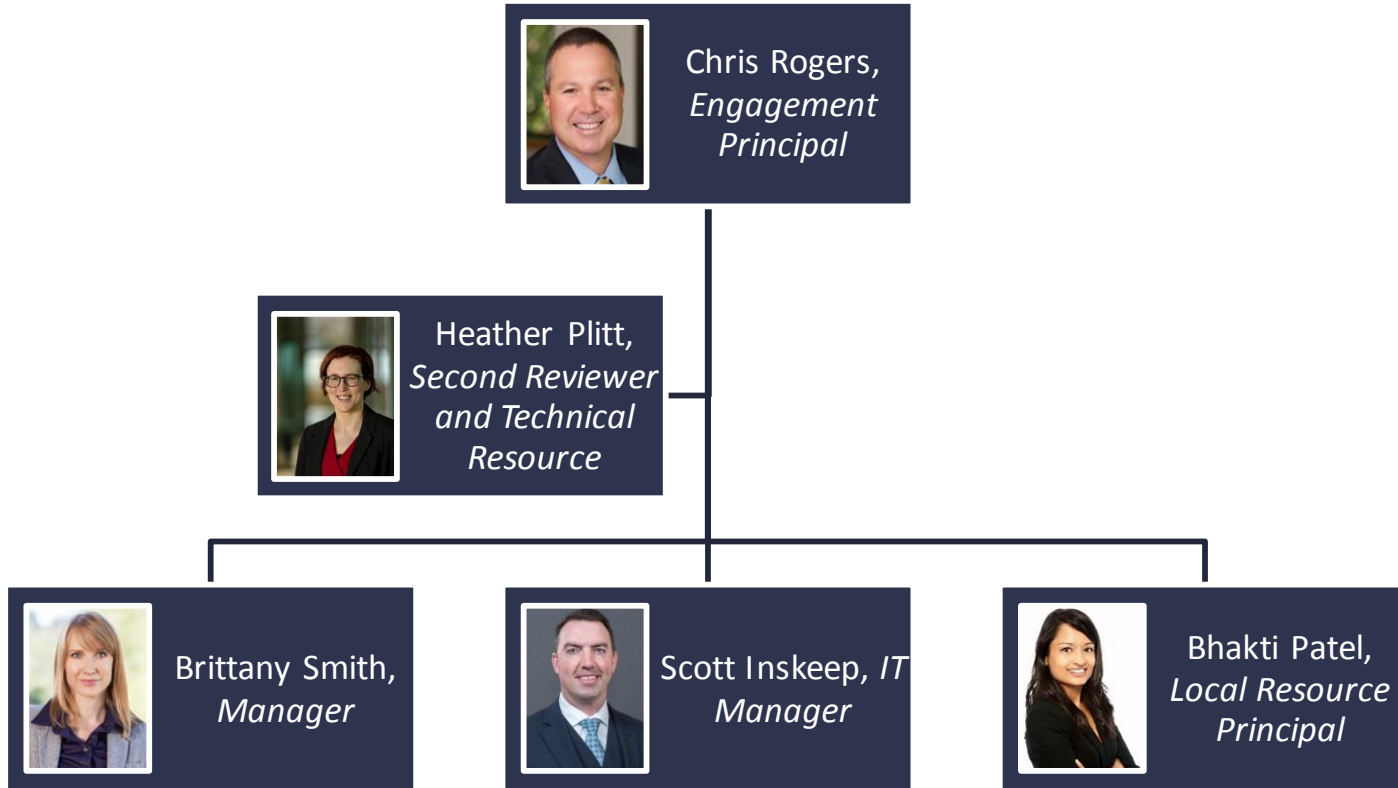
August 21, 2024

Agenda

- Key engagement team members
- Audit scope and process
- Auditors' responsibilities
- Management's responsibilities
- Significant Risks and Responses
- Audit Timeline
- Board Discussion
- Open Forum/Questions



Key Engagement Team Members



Audit Scope



ERS'
August 31, 2024
financial
statements



ERS'
August 31, 2024
GASB 68
schedules



ERS'
August 31, 2024
GASB 75
schedules



Audit Process

RISK-BASED APPROACH

Internal controls

Investments

Significant estimates

Contributions

Benefit payments

Actuarial information



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



Communicate our identification of significant risks of material misstatement



Communicate 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 2024
Preliminary Fieldwork (e.g., internal control testing, fraud inquiries, etc.)	July through August 2024
Primary Fieldwork (e.g., substantive testing of financial statement amounts)	October through November 2024
Issuance of Financial Statements	December 13, 2024 target date
Testing of GASB 68 and 75 Schedules	March through May 2025
Issuance of GASB 68 and 75 Schedules	May 2025





Emerging Issues

SIGNIFICANT AUDIT CHANGES

What changed

Auditing standards (SAS 143-145) were modernized for evolving business environment

Effective for ERS' 2024 FY audit

New requirements

Enhanced risk assessment and understanding of estimates

Deeper IT understanding; more inquiries; data requests and testing

Audit impact

More time evaluating controls; more use of IT specialists

Potential for additional recommendations

Greater impact on complex IT systems





Update on Status of Prior Year Findings

Investment Accounting

- Review of new ERS controls implemented
- Planning for year end reporting review

Governmental Fund Financial Statements

- Review of ERS controls in operation
- Planning for year end reporting review

Defined Benefit Plan Contributions

- Discussion around planned steps toward remediation



Board Discussion

- Recognizing the 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 matter you consider relevant to the financial statements





Questions and Feedback

We appreciate the opportunity to serve you and welcome any feedback relative to our performance and to the engagement.





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Questions?

Public Agenda Item #3

Consideration of Internal Audit Reports

August 21, 2024

Investments Operational Due Diligence (ODD) Audit

Tony Chavez, Director of Internal Audit
Tressie Landry, Audit Manager

Agenda

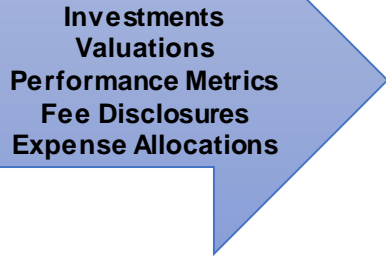


Overview & Objectives



Observations

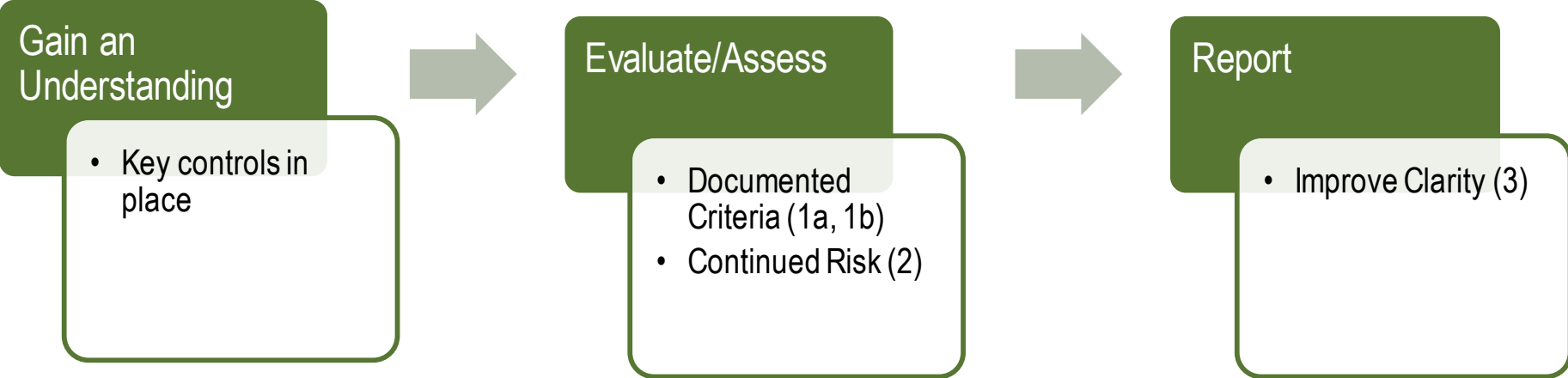
Program Objective



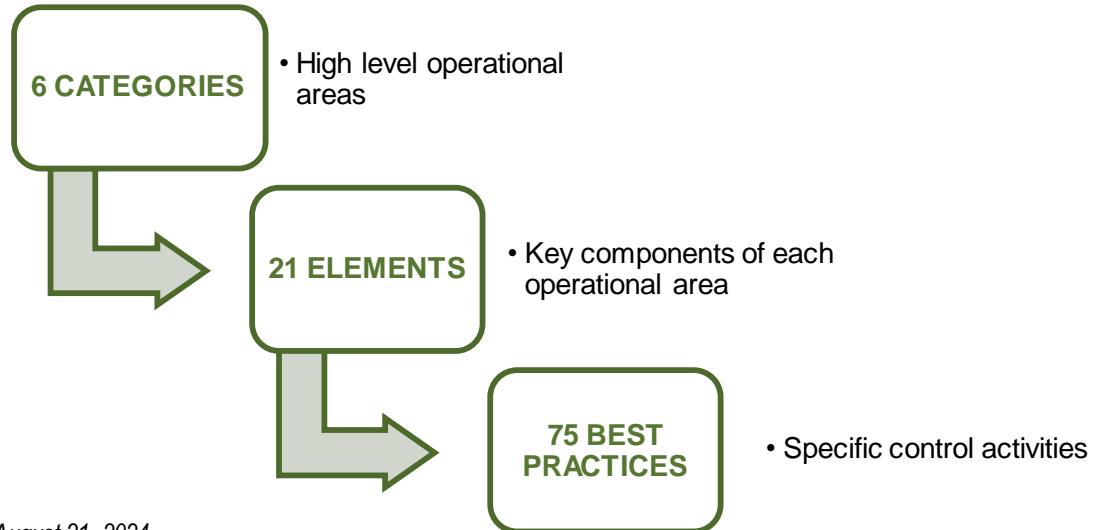
- ERS Annual Comprehensive Financial Report
- State of Texas' Annual Comprehensive Financial Report
- ERS Incentive Compensation Plan Awards
- Group 4 Gain Share Calculations

ODD assesses managers non-investment activities (operational capabilities) to provide quality information.

ODD Process Overview



Observation – Evaluation/Assessment

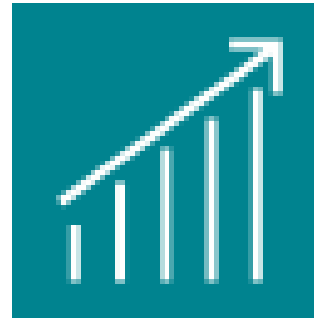


Observation – Continued Risk



150+ ERS External
Investment Managers

Impact



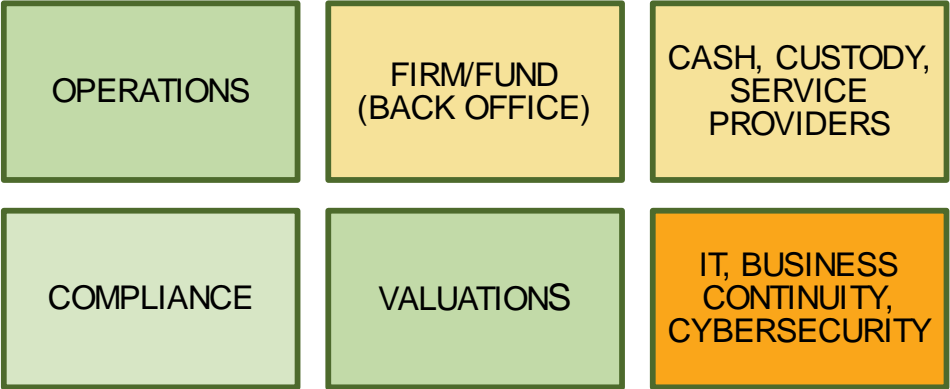
Likelihood



Greater inherent risk results in increased oversight

Observation – Reporting

Overall Rating 1 - 5



Key results lost in details

Management Response



- Management agrees
- Initiated/Developing controls

Questions?

Public Agenda Item #4

Adjournment of the Audit Committee Meeting

August 21, 2024