

Meeting of the ERS Board of Trustees Audit Committee

March 20, 2024



Public Agenda Item # 1

Call Meeting of the Audit Committee to Order

March 20, 2024

Public Agenda Item # 2
Consideration of External Audit Reports

March 20, 2024

Tony Chavez, Director of Internal Audit

Audit Report of the Employee Retirement System of Texas Fiscal Year 2023 Financial Statements

Tony Chavez, Director of Internal Audit

Machelle Pharr, Chief Financial Officer

Brittany Smith, Manager, CliftonLarsonAllen

Chris Rogers, Partner, CliftonLarsonAllen



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Employees Retirement System of Texas (ERS)

2023 Financial Statement Audit Results

Board Exit Conference

March 20, 2024

Agenda



Executive Summary



Required Communications



2023 GASB 68/75 Schedule Update



Executive Summary

- Independent Auditors' Report
 - Unmodified opinion issued on the financial statements
 - Required supplementary information
 - No opinion or assurance provided on management's discussion and analysis, budgetary comparison schedules, and pension and OPEB schedules
 - Other supplementary information
 - An "in relation to" opinion issued for supporting schedules and other supplementary schedules
 - Other Information
 - No opinion or assurance provided on the introductory, investment, actuarial, and statistical sections of ACFR



Annual Comprehensive Financial Report – 2023

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2023

ERS
Employees Retirement System of Texas
ESTABLISHED 1934



Executive Summary

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*.

Two (2) material weaknesses

Investment Accounting

Governmental funds financial statements

One (1) significant deficiency

Defined benefit plan contributions
accuracy

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 Board Communications



Accounting Policies

Management is responsible and are described in Note 1

GASB 96 and 99 were implemented during the year

All significant transactions have been recognized in financial statements

No transactions lacked authoritative guidance



Significant Estimates

Alternative investments
Valuations of OPEB, pension, and IBNR liabilities



Significant Unusual Transactions

One-time funding to ERS plan of \$900 million from legislature



Difficulties Encountered

Identified an adjustment related to the misallocation of investments that required additional time from both management and audit perspective

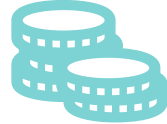


Required Board Communications



Uncorrected Misstatements

Governmental activities assets and operating grants and contributions of \$7.7M, related to allocation of investment income



Corrected Misstatements

Allocation of investments and investment income totaling \$197M between the internal service fund (initially understated) and defined benefit plan fiduciary funds (initially overstated)

Social security fund related to uncollectible accounts receivable (\$24k), which decreased assets and revenue

Social security fund related to administration fund revenues (\$3k), which increased assets and revenues

Death benefits – retiree \$5,000 lump sum fund related to voided checks (\$45k), which increased assets and decreased expenditures



Disagreements with Management

None



Required Board Communications



Management Representations

Requested certain representations from management that are included in management representation letter



Management Consultations with Other Independent Accountants

None to our knowledge



Significant Issues Discussed with Management Prior to Engagement

All within the normal course of our professional relationship



2023 GASB 68/75 Schedule Update



Expect to begin work on the GASB 68 and 75 Schedules in March 2024



Expect to issue our final report on the schedules by June 2024





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Discussion

Public Agenda Item # 3
Consideration of Internal Audit Reports

March 20, 2024

Tony Chavez, Director of Internal Audit

Ethics Audit

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

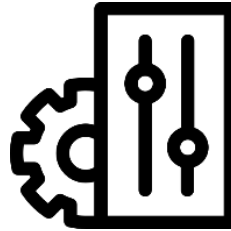
Will Koenig, Auditor

Rodney Valls, Auditor

Agenda



Ethics Overview &
Objectives



Key Controls



Observations

Ethics Program Objectives



- Maintain stakeholder trust (Members, Legislature)
- Foster a culture of honesty and compliance
- Set the tone for a strong control environment

- Loss of autonomy (authority, direction and control)
- Increased regulatory reporting requirements
- Increased disregard for Standard Operating Procedures (SOPs)
- Increase fraud risk
- Reputational damage



ERS Trust Fund/
Members

Personal Benefit



Conflict Interest

- Gifts, favors, services
- Outside employment/relationships
- Personal financial interest in ERS investments/contracts
- Bribes
- Honoraria



Abuse of authority

- Misuse of state resources
- Misuse or sharing of confidential information
- Nepotism (appointments/hiring)

High Risk Areas:

Specific legislation addresses ethical risks in **investment** and **procurement** activities

Ethics Framework

Board of Trustees



Agency Employees



Vendors / Advisors



Governance

- Policy
- Leadership
- Education
- Reporting Mechanisms

Compliance

- Disclosures
- Affirmations
- Investigations
- Program Reporting

Ethics Summary Observations



Scope Area	Rating	Results
Communication	Needs Improvement	<ul style="list-style-type: none">• Additions for comprehensiveness: Non-retaliation emphasis, Investigation process description, Allegation prompts, Board reporting• Edits for clarity: Cohesive policy, Topic vs. division-based focus, Duplicative information, Readability
Composition	Satisfactory	<ul style="list-style-type: none">• Essential components included• Consistent applicability• Reporting and protection mechanisms need enhancement
Governance	Needs Improvement	<ul style="list-style-type: none">• Roles and responsibilities need formal identification

Observation 1 - Clarify Roles & Responsibilities



Establish and communicate the who, what, when, where, and why of internal control execution to personnel.

Responsible: completes task

Accountable: ultimately answerable

Consulted: opinion sought

Informed: kept up-to-date

Ethics Area	Executive Office	General Counsel	Ethics Advisor	HR Director	Investment Compliance Officer	CIO	OPCO	Internal Audit
Governance								
Policy*	I	A	R	C	C	C	C	I
Compliance								
Investigations								

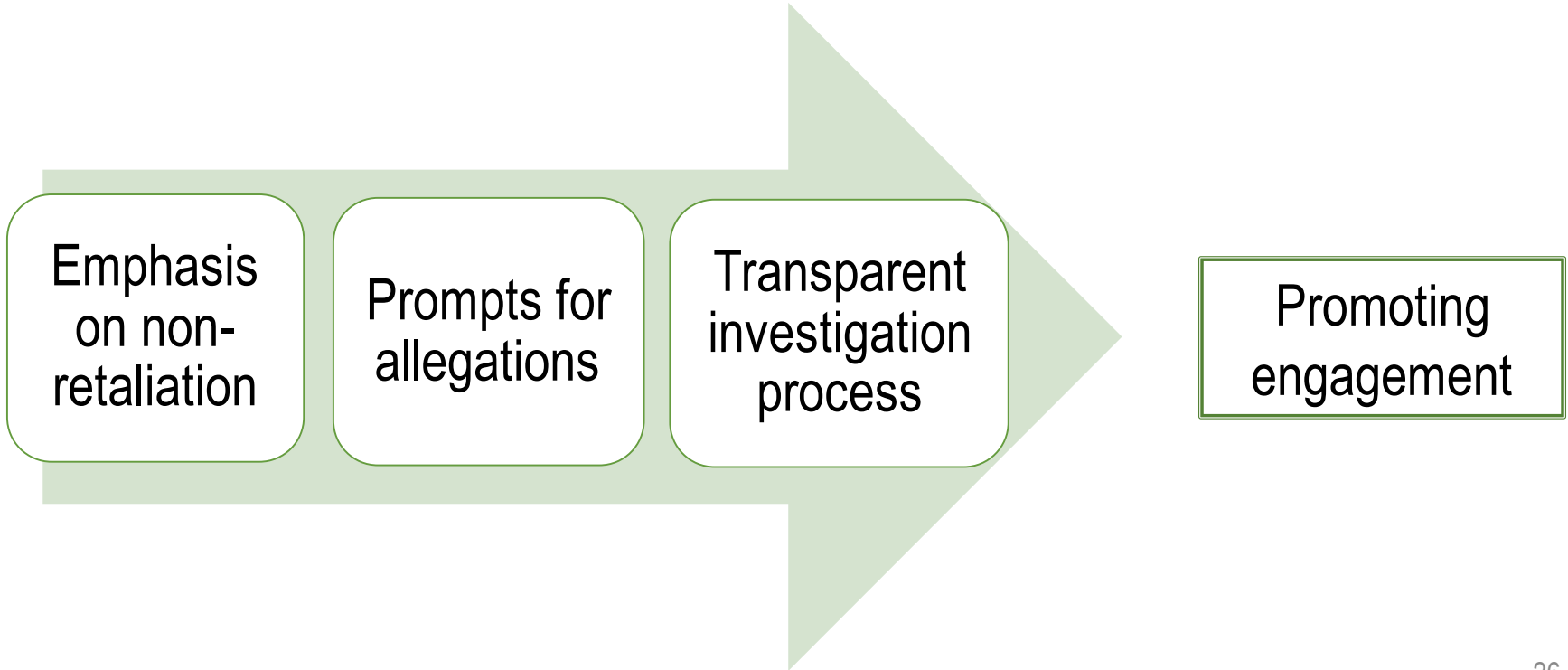
**RACI policy assignments created for illustrative purposes and not current or recommended assignments*

Observation 2 – Policy Attributes

Attribute	Description
Communication (Accessibility)	<ul style="list-style-type: none">• Easy to locate and readily available
Comprehensiveness	<ul style="list-style-type: none">• Covers a wide range of ethical issues relevant to the organization• Specific examples of acceptable and unacceptable behavior included to guide employees in their decision-making processes
Clarity (Understandability)	<ul style="list-style-type: none">• Plain language easily understood by all employees, regardless of level of expertise• Well-organized structure with distinct sections making it easy for employees to find relevant information

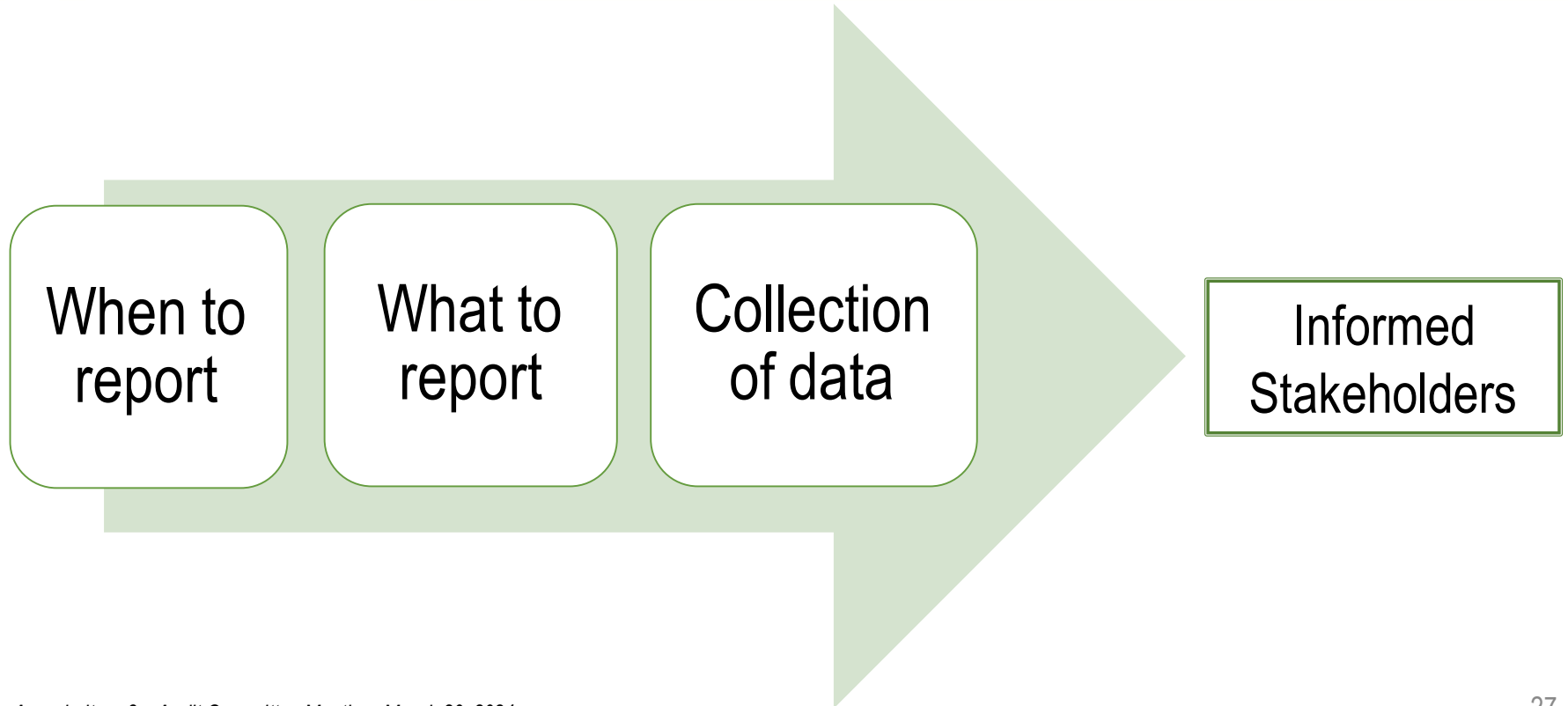
Observation 2 – Comprehensiveness

Investigations

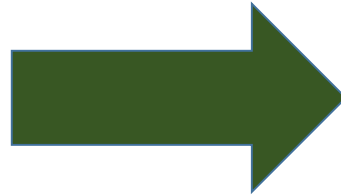


Observation 2 – Comprehensiveness

Board Reporting



Observation 2 - Clarity



- Organization
- Duplication
- Readability



Summary



- Positive ethics results from 2022 Survey of Employee Engagement
- Essential required, regulatory components included
- Roles and responsibilities need formalization
- Improve clarity and comprehensiveness of policy

Observation 1:

Assign ownership of policy document and other functions and consider addition of Ethics Officer position

Observation 2:

Edits to the policy have begun, but are still in progress

Discussion

Public Agenda Item # 4

Adjournment of Audit Committee Meeting

March 20, 2024