

Public Agenda Item #3

Review of External Audit Reports

March 10, 2021

Tony Chavez, Director of Internal Audit

Audit Report of the Employee's Retirement System's Fiscal Year 2020 Financial Statements

Tony Chavez, Director of Internal Audit

Jason Ostroski, Principal, CliftonLarsonAllen LLP (CLA)

Fiscal Year 2020 CAFR

Financial Statement Opinion Audit



Two deliverables

- Independent Auditor's Report
- Report on Internal Controls

First year with CLA as independent auditor



2020
Comprehensive
Annual Financial Report

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2020

Employees Retirement System of Texas (ERS)

Presentation of the 2020 Financial Statement
Audit Results
March 10, 2021

Jason Ostroski, CPA
Engagement Principal

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

- 2020 Financial Statement Audit Results
- 2020 Audit Results – Other Communications
- Required Communications
- 2020 GASB 68/75 Schedule Update

2020 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.



2020 Comprehensive Annual Financial Report

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2020

2020 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 84 Implementation*
- 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 2019 and 2020 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:
 - ◇ 2019 – 1,356,231
 - ◇ 2020 – 1,389,632

Data Analytics Overview (Continued)

- 2020 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.

2020 GASB 68/75 Schedule Update

- Began work on the GASB 68 and 75 Schedules in February 2021
- Expect to issue our final report on the schedules no later than April 2021



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Engagement Principal
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Questions?