



Audit Committee Meeting

March 9, 2022

ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

Presented for Review and Approval

May 11, 2022

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**AUDIT COMMITTEE MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
March 9, 2022**

TRUSTEES PRESENT

Neika Clark, Audit Committee Chair
Brian Barth, Member
Craig Hester, Member
Dr. James Kee, Member
Catherine Melvin, Member

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Jennifer Chambers, Director of Government Relations & Special Projects
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Shack Nail, Director of Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Chuck Turner, Chief Information Officer
David Veal, Investments

ERS STAFF PRESENT

Jason Avants, Information Systems
Georgina Bouton, Group Benefits
Raquel Colón, Investments
Kurt Cressotti, Internal Audit
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Dan Herron, Benefits Communications
Trudy Hill, Operation Support
Tressie Landry, Internal Audit
Betty Martin, Investments
Jamey Pauley, Enterprise Planning Office
Jonathan Puckett, Internal Audit
Tanna Ridgway, Investments
John Streun, Investments
Ariana Whaley, Government Relations & Special Projects

ALSO PRESENT

Ryan Falls, Gabriel, Roeder & Smith
Marshall Goff, Nationwide Retirement
John Posey, Legislative Budget Board
Jim Ritchie, President of Bolton Retirement
Brittany Smith, CliftonLarsonAllen LLP
Charlie Smith, Legislative Budget Board

Meeting of the ERS Board of Trustees Audit Committee

1. Call Meeting of the Audit Committee to Order

Ms. Neika Clark, Chair of the Audit Committee of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 8:30 a.m. on Wednesday, March 9, 2022 and read the following statement:

“A public notice of the ERS Board of Trustees Audit Committee meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 8:42 a.m. on Tuesday, March 1, 2022, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

2. Consideration of the Minutes to the December 7, 2021 Audit Committee Meeting – (ACTION)

Chair Neika Clark opened the floor for a motion on the approval of the minutes from the December 7, 2021 ERS Audit Committee meeting.

Mr. Hester noted for the record a typo in the minutes from the December 7, 2021 meeting on page 2, Agenda item 3 *Review of Internal Audit Report*, 3rd paragraph. In the second sentence of the 3rd paragraph there was an extra “l” that needed to be removed so it should read “Internal controls provide reasonable assurance...” This error was corrected and updated in the Board portal upon conclusion of the March 9, 2022 Audit Committee meeting.

Move that the ERS Board of Trustees Audit Committee of the Employees Retirement System of Texas approve the minutes to its meeting held on December 7, 2021.

Motion by Brian Barth, second by Craig Hester

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Neika Clark, Jim Kee, Catherine Melvin

3. Consideration of External Audit Reports

Audit Report of Fiscal Year 2022 Financial Statements

Brittany Smith, Engagement Manager, CliftonLarsonAllen, provided a summary of the results of the audit of the Fiscal Year 2021 Annual Comprehensive Financial Report for the year ended August 31, 2021. Ms. Smith reported that the auditor’s opinion was a “clean” opinion, which means that the financial statements are materially accurate and presented fairly.

Ms. Smith noted that the 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 reported no material weaknesses, significant deficiencies, or material findings associated with compliance with laws and regulations or other matters.

Key estimates reviewed by auditors include:

- Valuation of alternative investments
- Actuarial information, assumptions and methods used

Pension Forecasting

Jim Ritchie, President, Bolton Retirement, provided a summary of results of the audit of the *Actuarial Valuation Reports for Pension Plans Administered by ERS*, dated 8/31/2021. The conclusion was that the three Texas ERS 2021 actuarial reports meet all applicable standards and are reasonable and complete.

Recommendations included in the engagement that might enhance the reports in the future include:

- Additional funding for law enforcement and judicial plans
- Show a more traditional actuarial determined contribution amount (compare contributions to calculated contributions)
- Include sensitivity analysis on the rate of return (provide a range of return values)
- Show more comparisons of expected and actual results in the experience study
- Consider adding an asset smoothing method when calculating projections (usually +/-10%-20%)

There were no further questions or discussion, and no action was required on this agenda item.

4. Consideration of Internal Audit Reports

Status of Audit Recommendations

Tressie Landry, Internal Audit Manager, presented the results of the review of the status of audit recommendations. Three reports were included in this status review:

- Benefits Coordinator Training Program – Observation: limited data analytics to evaluate the effectiveness and efficiency of the program - ***Implemented***
- Incentive Compensation Program – Observation: continue to implement management action plans of prior audits – ***Partially Implemented***
- Internal Public Equity – Observation: annual review does not provide Board with information to facilitate discussion of long-term performance – ***Implemented***

There were no further questions or discussion, and no action was required on this agenda item.

5. Consideration of Internal Audit Administrative Items

Tressie Landry, Internal Audit Manager, presented the Internal Audit and Audit Committee Charters to review the purpose and highlight any necessary changes. No changes were identified by Internal Audit during the annual review and no changes were proposed by Board members.

There were no further questions or discussion, and no action was required on this agenda item.

6. Adjournment of the Audit Committee Meeting

The Audit Committee meeting adjourned at 9:15 a.m. on Wednesday, March 9, 2022