



Audit Committee Meeting  
August 24, 2022



**Presented for Review and Approval**  
**December 6, 2022**

**Contents**

1. Call Meeting of the Audit Committee to Order..... 2

2. Consideration of the Minutes to the May 11, 2022, Audit Committee Meeting – (ACTION) ..... 2

3. Consideration of External Audit Reports.....2

4. Consideration of Audit Administrative Items - (Action).....3

5. Adjournment of the Audit Committee Meeting.....3

**AUDIT COMMITTEE MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
August 24, 2022**

**TRUSTEES PRESENT**

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

**ERS DIRECTORS PRESENT**

Porter Wilson, Executive Director  
Cathy Terrell, Deputy Executive Director  
Jenifer Chambers, Director of Government Relations & Special Projects  
Tony Chavez, Director of Internal Audit  
Bernie Hajovsky, Director of Enterprise Planning  
Cynthia Hamilton, General Counsel  
Shack Nail, Special Projects & Policy Advisor  
Machelle Pharr, Chief Financial Officer  
Kathryn Tesar, Director of Benefits Communications  
Chuck Turner, Director of Information Systems  
David Veal, Chief Investment Officer

**ERS STAFF PRESENT**

Jason Avants, Information Systems  
Raquel Colón, Investments  
Kurt Cressotti, Investment Compliance  
Anthony Curtiss, Investments  
Kelley Davenport, Executive Office  
Tiffani Jenkins, Benefits Communications  
Lanesia Jones, Investments  
Tressie Landry, Internal Audit  
Jonathan Puckett, Internal Audit  
Tanna Ridgway, Investments  
Christopher Roland, Information Systems  
Rodney Valls, Internal Audit  
Ariana Whaley, Government Relations & Special Projects

**ALSO PRESENT**

Chris Rodgers, Clifton Larson Allen  
Charlie Smith, Legislative Budget Board  
John Posey, 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 8:35 a.m. on Wednesday, August 24, 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 2:23 p.m. on Tuesday, August 16, 2022, as required by Chapter 551 Texas Government Code, referred to as “The Open Meetings Act.”

### **2. Consideration of the Minutes to the May 11, 2022 Audit Committee Meeting – (ACTION)**

Chair Neika Clark opened the floor for a motion on the approval of the minutes from the May 11, 2022 ERS Audit Committee meeting.

**Move** that the ERS Board of Trustees Audit Committee approve the minutes to its meeting held on May 11, 2022.

**Motion** by Brian Barth, second by Craig Hester

Final Resolution: Motion Carries

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

Abstained: John R. Rutherford

### **3. Consideration of External Audit Reports**

#### ***Financial Statement Opinion Audit Update***

Tony Chavez introduced Chris Rodgers, Engagement Principal, CliftonLarsonAllen (CLA), and noted that this is the third year that CLA has performed the financial statement audit engagement for ERS’s Annual Comprehensive Financial Report.

Mr. Rodgers reviewed the team members, the scope of the audit (Fiscal Year 2022 Financial Statements and August 31, 2022 GASB No. 68 and 75 Reports), auditor responsibilities and management responsibilities. He also described the significant risks and auditor responses and the engagement timeline.

Mr. Rodgers defined the auditor’s responsibilities to include:

- Conducting the audit in accordance with standards
- Expressing an opinion on whether the financial statements and related GABS reports are presented in accordance with U.S. GAAP
- Provide a report on internal controls
- Communicate significant risks of material misstatements
- Communicate certain other matters to the Board in a formal communication

Management responsibilities include:

- Fair presentation of financial statements and schedules in accordance with U.S. GAAP
- Design and implement internal control over financial reporting
- Provide unrestricted access to information and personnel during audit
- Take timely steps to remedy fraud, abuse and noncompliance
- Provide a letter of representation at the conclusion of the audit

The significant risks identified by the auditors include, noting these instances are not necessarily happening, but are the risks considered to be most significant to the audit:

- Management override of controls
- Valuation and existence of alternative investments
- Actuarial valuation
- Employee turnover

Mr. Rodgers stated the issuance of the financial statements is targeted to be December 9, 2022 and the GASB statement reports would be issued in May 2023.

#### **4. Consideration of Audit Administrative Items – (ACTION)**

##### ***Internal Audit's Proposed Fiscal Year 2023 Audit Plan***

Mr. Chavez reviewed the methodology for creating the risk assessment that is used to generate the Annual Audit Plan. The audit universe represents all areas that are available for auditing in the organization and includes three core business functions: Member Services, Investments and Information Services.

An elevated risk was identified in operational and financial areas due to employee turnover and increased funding from the legislature. Factors considered in the audit rankings include:

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

The proposed FY23 Audit Plan includes:

- Global Credit – Internal High Yield
- Operational and Financial Due Diligence
- Group Benefits Rate Development
- Contact Center (carryover from FY22)
- External Contact Center (carryover from FY22)
- Cloud Management
- Financial Opinion Audit
- Business Continuity
- Ethics

**Move** that the ERS Board of Trustees Audit Committee approve the proposed Fiscal Year 2023 Audit Plan as described to its meeting held on May 11, 2022.

**Motion** by Catherine Melvin, second by Brian Barth

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Neika Clark, Jim Kee, Craig Hester, John R. Rutherford

#### **5. Adjournment of the Audit Committee Meeting**

The Audit Committee meeting adjourned at 9:16 a.m. on Wednesday, August 24, 2022