

## Public Agenda Item #3

### *Consideration of External Audit Reports*

March 1, 2023

Tony Chavez, Director of Internal Audit

# Audit Report of the Employees Retirement System's Fiscal Year 2022 Financial Statements

Tony Chavez, Director of Internal Audit

Chris Rogers, Partner, CliftonLarsonAllen (CLA)

Brittany Smith, Manager, CliftonLarsonAllen

# Fiscal Year 2022 ACFR

## *Financial Statement Opinion Audit*



Two deliverables:

- Independent Auditor's Report
- Report on Internal Controls



### Annual Comprehensive Financial Report – 2022

Employees Retirement System of Texas | A Component Unit of the State of Texas  
Fiscal Year Ended August 31, 2022





*We'll get you there.*

# Employees Retirement System of Texas (ERS)

Presentation of the 2022 Financial Statement  
Audit Results

March 1, 2023

Chris Rogers, CPA  
Engagement Principal

Brittany Smith, CPA, CIA  
Engagement Manager

CPAs | CONSULTANTS | WEALTH ADVISORS

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# Agenda



2022 Financial  
Statement Audit  
Results



2022 Audit Results –  
Other Communications



Required  
Communications



2022 GASB 68/75  
Schedule Update

# 2022 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 ACFR.



## Annual Comprehensive Financial Report – 2022

Employees Retirement System of Texas | A Component Unit of the State of Texas  
Fiscal Year Ended August 31, 2022



# 2022 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

- No new significant accounting policies
- No audit adjustments or passed adjustments
- No significant unusual transactions
- Financial statements are neutral, consistent and clear
- Significant risk areas:
  - Valuation & existence of alternative investments
  - Actuarial valuation
  - Management override of controls
  - Employee turnover





# 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 2021 and 2022 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:
  - 2021 – 1,417,897
  - 2022 – 1,443,976

## Census Data

- Compared benefit payment register to the actuarial census
- Reconciled key data points in the census files to the funding valuation report



# 2022 GASB 68/75 Schedule Update



Began work on the GASB 68 and 75 Schedules in February 2023



Expect to issue our final report on the schedules no later than May 2023



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Questions?