



Audit Committee Meeting

March 20, 2024



Presented for Review and Approval

May 22, 2024

TABLE OF CONTENTS

1. Call Meeting of the Audit Committee to Order.....	2
2. Consideration of External Audit Reports.....	2
3. Consideration of Internal Audit Reports.....	2
4. Adjournment of the Audit Committee Meeting.....	3

**AUDIT COMMITTEE MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
March 20, 2024**

TRUSTEES PRESENT

Neika Clark, Audit Committee Chair
Brian Barth, Member
I. Craig Hester, Member
Dr. Stuart Greenfield, Member
Dr. Jim Kee, Member
John R. Rutherford, Member

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Anne Allensworth, Special Projects & Policy Advisor
Jennifer Chambers, Director of Government Relations & Special Projects
Tony Chavez, Director of Internal Audit
Blaise Duran, Director of Group Benefits
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Shack Nail, Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
David Veal, Chief Investment Officer

ERS STAFF PRESENT

Raquel Colón, Investments
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Tiffani Jenkins, Benefits Communications
Will Koenig, Internal Audit
Tressie Landry, Internal Audit
Deborah Legg, Group Benefits
Dani Levrie, Benefits Communications
Rhonda McCray, Human Resources
Averi Mullins, Group Benefits
Samantha Ramirez, Investments
Chris Roland, Information Systems
Ben Schuman, Investments
Rodney Valls, Internal Audit

ALSO PRESENT

Sharon Blythe, Self
Chris Rogers, CliftonLarsonAllen
Brittany Smith, CliftonLarsonAllen

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 20, 2024 to take up the items included on the agenda 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 1:37 p.m. on Tuesday, March 12, 2024, as required by Chapter 551, Texas Government Code, referred to as “The Open Meetings Act.”

The same posting provided notice of today’s Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee and the Board of Trustees Meeting.

2. Consideration of External Audit Reports

Audit Report of Fiscal Year 2023 Financial Statements

Chris Rogers, Engagement Partner, and Brittany Smith, Engagement Manager, CliftonLarsonAllen (CLA), provided a summary of the results of the audit of the Fiscal Year 2023 Annual Comprehensive Financial Report for the year ending August 31, 2023. Mr. Rogers reported that the auditor’s opinion was a “clean” opinion, which means that the financial statements are materially accurate and presented fairly.

Mr. Rogers noted that CLA reported two material weakness and one significant deficiency in 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. No material findings associated with the compliance with laws and regulations or other matters were reported.

Ms. Smith reviewed the findings included in the report:

- Investment Accounting (material weakness)
- Governmental funds financial statements (material weakness)
- Defined benefit plan contributions accuracy (significant deficiency)

Management agreed with the findings and has already taken action to enhance controls. The Board asked Mr. Chavez to report back at a future board meeting on the progress of the controls.

3. Consideration of Internal Audit Report

Annual Audit Performance and Quality Review

ERS’ Director of Internal Audit Tony Chavez, Internal Audit Manager Tressie Landry, Will Koenig, Audit Lead, and Rodney Valls, Auditor, presented the results of the Ethics Audit. The audit objective was to determine if the ERS Employee Ethics Policy aligns with regulatory requirements and effectively communicates expectations and responsibilities.

The ERS Ethics Policy includes guidance to all employees and is based on legislation which emphasized the benefit to the state over the employee’s interest and prohibits conflicts of interest and abuse of authority. In addition, there are enhanced procedures for employees participating in investment and procurement activities.

The overall result was “Needs Improvement.” Controls are in place to ensure a policy is provided, employees are trained, and anonymous reporting of potential ethical violations is provided; however, two observations were reported:

Observation 1: Roles and responsibilities not formally identified and communicated. (Significant)

Roles and responsibilities have not been formally established and the use of informal titles in the policy document lead to ambiguity in ownership of certain tasks.

Internal Audit recommended management clearly define roles and responsibilities related to the ethics program.

Observation 2: Ethics Policy does not fully address all ethics activities and promote understandability. (Significant)

The audit found that the policy contained all required elements. However the policy could be enhanced to provide more information regarding whistleblower protections, the investigations process, and the information needed from employees to guide their reporting of violations to make the investigation more impactful. In addition, the audit recommended regular reporting to the Board of Trustees.

In addition, the document could be reorganized to improve clarity to make the document more cohesive and easier to understand for all employees.

Internal Audit recommended editing the document to make it clearer, more consistent, and to enhance areas that would improve transparency for employees. Additionally, it was recommended to incorporate improvements to the reporting mechanisms for better transparency.

4. Adjournment of the Audit Committee Meeting

The Audit Committee meeting adjourned at 9:04 a.m. on Wednesday, March 20, 2024.