



Lawrence F. Alwin, CPA

Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Phone: (512) 479-4700
Fax: (512) 479-4884

**An Audit of the Financial Statements of the
Teacher Retirement System of Texas for the
Fiscal Year Ended August 31, 1999**

December 6, 1999

Members of the Legislative Audit Committee:

The Teacher Retirement System's (System) fiscal year 1999 financial statements are materially correct in accordance with generally accepted accounting principles. Our audit opinion dated November 12, 1999, is included in the financial section of the System's *Comprehensive Annual Financial Report*, which was released on November 19, 1999.

Fiscal Year Highlights

- The net assets of the pension trust fund increased by \$13.4 billion, from \$66.5 billion to \$79.9 billion. This is a 20 percent increase compared to a 7 percent increase last year.
- The System's pension plan remains fully funded for the second consecutive year and current assets together with future contributions required by law will be sufficient to pay benefits to retirees and to current active members when they retire.
- Continuation of the retiree insurance plan will require legislative action to address long-term funding needs. System management estimates that the retiree insurance plan has sufficient funding to continue operating through fiscal year 2001. The System's management is reporting the funding performance and projections for the retiree insurance plan monthly to legislative leadership, the Governor's Office of Budget and Planning, the Legislative Budget Board, and our Office.

For the second consecutive year, we report no significant audit recommendations for the System in the area of financial reporting. We noted excellent communication and coordination between the eight System departments responsible for producing the annual financial report.

We have included additional information on compliance and internal control; notable system achievements; and objective, scope, and methodology in the attachment to this letter.

We thank the management and staff of the Teacher Retirement System for their cooperation during this audit. If you have any questions, please contact Carol A. Smith, CPA, Audit Manager, at 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Teacher Retirement System Board Members
Mr. Charles L. Dunlap, Executive Director
Mr. David MacCabe, CIA, Internal Audit Director
Mr. Ronnie Jung, CPA, Chief Financial Officer

SAO Report No. 00-006

Compliance and Internal Control

We reported that the System had no instances of noncompliance with certain provisions of laws and regulations and no weaknesses in internal control that would significantly affect the System's financial statements.

We provided the System with our *Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*, which is required by *Government Auditing Standards*.

Objective, Scope, and Methodology

Our objective was to express an opinion on the System's financial statements for the fiscal year ended August 31, 1999.

The scope of this audit included expressing an opinion on the System's financial statements and complying with applicable generally accepted auditing standards and *Government Auditing Standards*.

We gained an understanding of the System's overall control environment and internal control to the extent necessary to plan the audit. We tested internal control and significant accounts as deemed necessary to support our opinion.

Tests of accounts primarily included tests of details supporting entries, confirmations, and analytical review. In addition, we tested compliance with laws and regulations primarily related to investments, pension fund reserve account balances, and benefit payments. We also conducted interviews, administered questionnaires, reviewed documents, and recalculated amounts.

Notable System Achievements

- The System has received the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the past nine years.
- The System performs daily reconciliations of all investment activity (holdings, purchases, sales, market value, and dividend and interest income) with the investment custodian. It settles an average of 200 investment purchases and/or sales per day and processes approximately 300 cash transactions per day.
- The System's administrative cost per member is low. An analysis performed by the System (based on fiscal year 1998 data) showed its administrative cost per member at \$30, while other peer pension plans' administrative cost per member exceed \$100.

ATTACHMENT

AN AUDIT OF THE FINANCIAL STATEMENTS OF THE
TEACHER RETIREMENT SYSTEM OF TEXAS FOR THE
FISCAL YEAR ENDED AUGUST 31, 1999