



A Report on
The Audit of the Employees Retirement **System's**
Fiscal Year 2018 Financial Statements

December 28, 2018

Members of the Legislative Audit Committee:

In our audit report dated December 20, 2018, we concluded that the Employees Retirement System's (System) basic financial statements for fiscal year 2018 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The System published our audit report as part of its basic financial statements, which it intends to post on its Web site at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. Our procedures did not identify any material weaknesses in internal control over financial reporting or any noncompliance with laws or regulations that materially affected the financial statements. In addition, the major internal controls that we tested for the purpose of forming our opinions on the financial statements were operating effectively.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting or on compliance with laws and regulations.

Testing of Plan Member Census Data

Auditors conducted census data testing for fiscal year 2018 (see text box for the key data elements tested) as part of this audit. The completeness and accuracy of employees' census data is important because the System uses that data to calculate the System's liabilities for pensions and other postemployment benefits.

Auditors implemented a risk-based approach for selecting System members for fiscal year 2018 census data testing as required by American Institute of Certified Public Accountants (AICPA) guidance. That resulted in auditors selecting members from 19 participating state agencies for which census data was tested. (A list of the state agencies that employed the members selected for testing is presented in the attachment to this letter). Testing included reviewing documentation to verify that the census data that the employers submitted to the System was accurate.

Employee Census Data

Employee census data is key demographic data that affects the actuarial estimate of the pension and the other postemployment benefit liability amounts that the System presents in its financial statements.

Key data elements include:

- Name.
- Date of birth.
- Service credits.
- Pensionable earnings.
- Gender.
- Employment status.
- Dependent information (name, gender, and date of birth).

Source: Chapters 13 and 14 in *State and Local Governments - Audit and Accounting Guide*, American Institute of Certified Public Accountants, March 1, 2018.

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In addition, to help determine the System's other postemployment benefit liability, auditors relied on census data testing that the State Auditor's Office performed at the Teacher Retirement System for higher education institutions, community colleges, and junior colleges, whose employees are part of the System's other postemployment benefit plan.

Based on the testing performed, auditors determined that the underlying census data was materially complete and accurate to support the System's plan's financial statement amounts. That was reflected as part of our unmodified audit opinion on the System's financial statements for fiscal year 2018.

Additionally, auditors will be issuing an opinion later this fiscal year on the System's fiscal year 2018 pension and other postemployment benefit liability allocation schedules. Those schedules provide employers with the information they need to record their share of the associated liabilities in their financial statements, in accordance with AICPA requirements. Auditors previously issued an opinion on the System's pension and other postemployment benefit liability allocation schedules for fiscal year 2017. The System published our audit opinion, along with the pension and other postemployment liability allocation schedules, on its Web site at <https://ers.texas.gov/About-ERS/GASB-Requirements>.

Other Issues

Auditors communicated certain issues that were not material or significant to the audit objectives separately in writing to the System's management.

As required by auditing standards, we will also communicate to the System's Board of Trustees certain matters related to the conduct of a financial statement audit.

We appreciate the System's cooperation during this audit. If you have any questions, please contact Hillary Eckford, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

Attachment

cc: The Honorable Greg Abbott, Governor
Members of the Employees Retirement System's Board of Trustees
Mr. I. Craig Hester, Chair
Ms. Ilesa Daniels, Vice-Chair
Mr. Doug Danzeiser
Ms. Cydney Donnell
Ms. Catherine Melvin
Ms. Jeanie Wyatt
Mr. Porter Wilson, Executive Director, Employees Retirement System



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Attachment

List of Employers Selected for Census Data Testing

Table 1 lists the 19 employers for which auditors tested the accuracy of census data to determine whether that data was materially complete and accurate to support the Employees Retirement System’s plan’s financial statement amounts.¹

Table 1

List of Employers Selected for Census Data Testing for Fiscal Year 2018
<ul style="list-style-type: none">▪ Alcoholic Beverage Commission▪ Commission on Environmental Quality▪ Comptroller’s Department Judiciary Section▪ Department of Criminal Justice▪ Department of Family and Protective Services▪ Department of Motor Vehicles▪ Department of Public Safety▪ Department of State Health Services▪ Department of Transportation▪ First Court of Appeals District, Houston▪ Health and Human Services Commission▪ Juvenile Justice Department▪ Office of the Attorney General▪ Parks and Wildlife Department▪ School for the Blind and Visually Impaired▪ Second Court of Appeals District, Fort Worth▪ Texas Workforce Commission▪ Thirteenth Court of Appeals District, Corpus Christi-Edinburg▪ Water Development Board

¹ Auditors followed the American Institute of Certified Public Accountants’ sampling guide methodology and selected a representative population of employees from each employer selected for testing.
