



A Report on

The Audit of the Employees Retirement System's Employer Pension and Other Post-employment Benefit Schedules for Fiscal Year 2019

June 16, 2020

Members of the Legislative Audit Committee:

We have issued two audit reports dated June 12, 2020, related to the Employees Retirement System's (System) pension and other post-employment benefits (OPEB) liability schedules for fiscal year 2019.

Pension Liability Schedules

We concluded that the System's Schedule of Employer Allocations and the columns titled net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense (specified column totals) included in the Schedule of Collective Pension Amounts and the related notes as of August 31, 2019, were materially correct and presented in accordance with accounting principles generally accepted in the United States of America (see text box for pension liability reporting requirements). The Schedule of Employer Allocations and Schedule of Collective Pension Amounts are for the following defined benefit pension plans: Employees Retirement System Plan, Law Enforcement and Custodial Officer Supplemental Retirement Plan, and Judicial Retirement System of Texas Plan 2.

OPEB Liability Schedules

We concluded that the System's Schedule of Employer Allocations for Other Post-Employment Benefits (OPEB) and the columns titled net OPEB liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and OPEB expense included in the Schedule of Collective OPEB Amounts and the related notes as of August 31, 2019, were materially correct and presented in accordance with accounting principles generally accepted in the United States of America (see text box for OPEB liability reporting requirements).

Pension and OPEB Liability Reporting Requirements

Pension Reporting Requirements

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which became effective for fiscal years beginning after June 15, 2014, requires governments to begin recording on the face of their financial statements a liability for pension plans administered through trusts, rather than disclosing those amounts in the notes to their financial statements.

OPEB Reporting Requirements

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which became effective for fiscal years beginning after June 15, 2017, requires governments to begin recording on the face of their financial statements a liability for OPEB plans administered through trusts, rather than disclosing those amounts in the notes to their financial statements.

Employers in the respective plans will need to recognize their portion of the reported pension and/or OPEB liability in the financial statements they produce.

The System prepared the audited schedules to help participating employers comply with requirements of GASB 68 and GASB 75. Employers may use the pension and OPEB liability schedules prepared by the System to aid them in determining their portion of the reported pension or OPEB liability.

Sources: GASB Statement Nos. 68 and 75, and the American Institute of Certified Public Accountants State and Local Government Expert Panel Pension Whitepapers Series, *Governmental Employer Participation in Cost-Sharing Multiple Employer Plans: Issues Related to Information for Employer Reporting*.

SAO Report No. 20-034

The System intends to post the pension liability schedules, the OPEB liability schedules, and our audit reports on its website at <https://ers.texas.gov/About-ERS/GASB-Requirements>.

We also issued a report on internal control over financial reporting and on compliance and other matters of the pension liability schedules and OPEB liability schedules 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 pension liability schedules and OPEB liability schedules. In addition, the major internal controls that we tested for the purpose of forming our opinions on the pension liability schedules and OPEB liability schedules 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.

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

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

Sincerely,

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

cc: The Honorable Greg Abbott, Governor
Employees Retirement System Board of Trustees
Ms. Ilesa Daniels, Chair
Mr. I. Craig Hester, Vice Chair
Mr. Brian Barth
Dr. James Kee
Ms. Catherine Melvin
Mr. Porter Wilson, Executive Director, Employees Retirement System



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