



John Keel, CPA
State Auditor

The Audit of the Employees Retirement System's Fiscal Year 2014 Pension Schedules

A Report on

June 2, 2015

Members of the Legislative Audit Committee:

In our audit report dated May 29, 2015, we concluded that the Schedules of Employer Allocations and the Schedules of the Collective Pension Amounts as of August 31, 2014, for the Employees Retirement System (System) are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States of America. The System administers the following defined benefit pension plans included in our audit: Employees Retirement System Plan, Law Enforcement and Custodial Officer Supplemental Retirement Plan, and Judicial Retirement System of Texas Plan II. The System intends to post the schedules and our audit report on its Web site at www.ers.state.tx.us.

We also issued a report on internal control over financial reporting of the schedules 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 of the schedules or any noncompliance with laws or regulations that materially affected the schedules. In addition, the major internal controls that we tested for the purpose of forming our opinions on the schedules were operating effectively.

Our procedures were not intended to provide an opinion on internal control over financial reporting of the schedules 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 of the schedules 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.

Pension Liability Reporting Requirements

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which becomes 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. Specifically, a government will incur a "net pension liability" if the total obligation to members exceeds the value of the net assets the government has set aside to pay those benefits.

Plan participants issuing stand-alone financial statements will need to recognize their portion of the reported pension liability in the financial statements they produce.

The System prepared the Schedules of Employer Allocation and the Collective Pension Amounts to help state agencies comply with new requirements of GASB 68. Plan participants may use the pension schedules prepared by the System to aid them in determining their portion of the reported pension liability.

SAO Report No. 15-034

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

Sincerely,

John Keel, CPA
State Auditor

cc: The Honorable Greg Abbott, Governor
Members of the Employees Retirement System Board of Trustees
Mr. Brian D. Ragland, Chair
Mr. Frederick E. Rowe, Jr., Vice-Chair
Mr. Doug Danzeiser
Ms. Cydney Donnell
Ms. Yolanda Griego
Mr. I. Craig Hester
Mr. Porter Wilson, Executive Director, Employees Retirement System



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