



A Report on
The Audit of the Employees Retirement
System's Fiscal Year 2016 Pension Schedules

February 3, 2017

Members of the Legislative Audit Committee:

In our audit report dated January 30, 2017, we concluded that as of August 31, 2016, the Employees Retirement System (System) presented the Schedules of Employer Allocations and 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 in the Schedules of Collective Pension Amounts fairly, in all material aspects, in accordance with accounting principles generally accepted in the United States of America. The Schedules of Employer Allocations and Schedules 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 II. The System intends to post all of the schedules and our audit reports on its Web site at www.ers.state.tx.us.

The State Auditor's Office conducted audit work on the above schedules based on auditing guidance from the American Institute of Certified Public Accountants (AICPA) regarding Governmental Accounting Standards Board requirements (see text box for additional details).

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.

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

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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 Hillary Eckford, 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
Members of the Employees Retirement System Board of Trustees
Mr. I. Craig Hester, Chair
Mr. Doug Danzeiser, Vice Chair
Ms. Ilesa Daniels
Ms. Cydney Donnell
Mr. Brian D. Ragland
Ms. Jeanie Wyatt
Mr. Porter Wilson, Executive Director, Employees Retirement System



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