



An Audit Report on

Incentive Compensation at the Permanent School Fund Corporation, Teacher Retirement System, and Employees Retirement System

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State Auditor

The Permanent School Fund Corporation (PSF Corporation), Teacher Retirement System (TRS), and Employees Retirement System (ERS) calculated and paid incentive compensation in accordance with their plan policies and procedures for their 2023 plan years.

As a result of Senate Bill 1232 (87th Legislature, Regular Session), the administration of the performance incentive pay plans for the Texas Education Agency's PSF Division and the General Land Office were transferred to the PSF Corporation for plan year 2023. Going forward, the PSF Corporation will establish its own incentive compensation plan.

- *Audit Objective* | p. 21

This audit was conducted in accordance with Texas Government Code, Section 321.013.

\$46,867,220

Awarded to



393 Employees

LOW

PERMANENT SCHOOL FUND CORPORATION



\$7,518,180



Awarded to



89 Employees

[Chapter 1 | p. 3](#)

LOW

TEACHER RETIREMENT SYSTEM



\$31,340,998



Awarded to



229 Employees

[Chapter 2 | p. 10](#)

LOW

EMPLOYEES RETIREMENT SYSTEM



\$8,008,042



Awarded to



75 Employees

[Chapter 3 | p. 16](#)

For more information about this audit, contact Audit Manager Michael Clayton or State Auditor Lisa Collier at 512-936-9500.

August 2024 | Report No. 24-021

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective.

PRIORITY: Issues identified present risks or effects that if not addressed could *critically affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could *substantially affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could *moderately affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks *or* effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on methodology for issue ratings, see [Report Ratings](#) in Appendix 1.



LOW

Chapter 1

Permanent School Fund Corporation

Under Senate Bill 1232 (87th Legislature, Regular Session), employees of the Permanent School Fund (PSF) Division of the Texas Education Agency (TEA) and the Investment Management Division of the General Land Office (GLO) became employees of the PSF Corporation effective January 1, 2023. The administration of the PSF and GLO incentive compensation plans, including any outstanding balances or awards, were transferred to the PSF Corporation for plan year 2023.

Going forward, the PSF Corporation will establish its own incentive compensation plan for its employees.

The PSF Corporation calculated and paid incentive compensation for its 2023 plan years in accordance with its plans' policies and procedures.

PSF Performance Incentive Pay Plan

The PSF Corporation awarded a total of \$7,113,364 in incentive compensation to 89 employees under the PSF performance incentive pay plan year ending September 30, 2023. It awarded the most incentive compensation to its senior managing director – head of absolute return, who was awarded \$348,511 payable over three years. That \$348,511 represented 4.9 percent of the \$7,113,364 in incentive compensation that the PSF Corporation awarded for the PSF performance incentive pay plan.

The 89 employees who received awards under the PSF performance incentive pay plan included 2 employees who also received awards under the GLO performance incentive pay plan.

Plan Information

The PSF Corporation calculates incentive compensation based on an employee's achievement of performance goals related to total fund performance and the performance of the employee's assigned asset classes, as applicable. With the exception of the performance of certain asset classes, both fund and asset class performance are calculated based on three-year rolling historical performance data. The PSF Corporation calculates incentive compensation awards using investment performance data reported on a net-of-fees basis (see text box for more information on gross-of-fees and net-of-fees). The PSF Corporation awards incentive compensation if the performance of the total fund or the individual asset classes, as applicable, meets or exceeds selected benchmarks. Total fund investment performance exceeded the target benchmark by 0.91 percent (91 basis points) (see text box for additional information on basis points) for the three-year period from October 1, 2020, to September 30, 2023.

The PSF Corporation awards incentive compensation for a plan year in installments over three years for the PSF performance incentive pay plan. An employee may receive an incentive compensation payment that consists of partial awards from three plan years. If the total fund performance is less than zero for the plan year, the awards will be paid immediately after the next plan year in which the total fund has a performance return greater than zero for a one-year period. Figure 1 on the next page shows the PSF Corporation's installment schedule for the PSF performance incentive pay plan award payments.

Gross-of-Fees and Net-of-Fees Basis

Gross-of-fees indicates that the return on investment does not include the effect of fees. Net-of-fees indicates that the return on investment does include the effect of fees.

Source: 2020 Global Investment Performance Standards [GIPS] for Asset Owners.

Basis Points

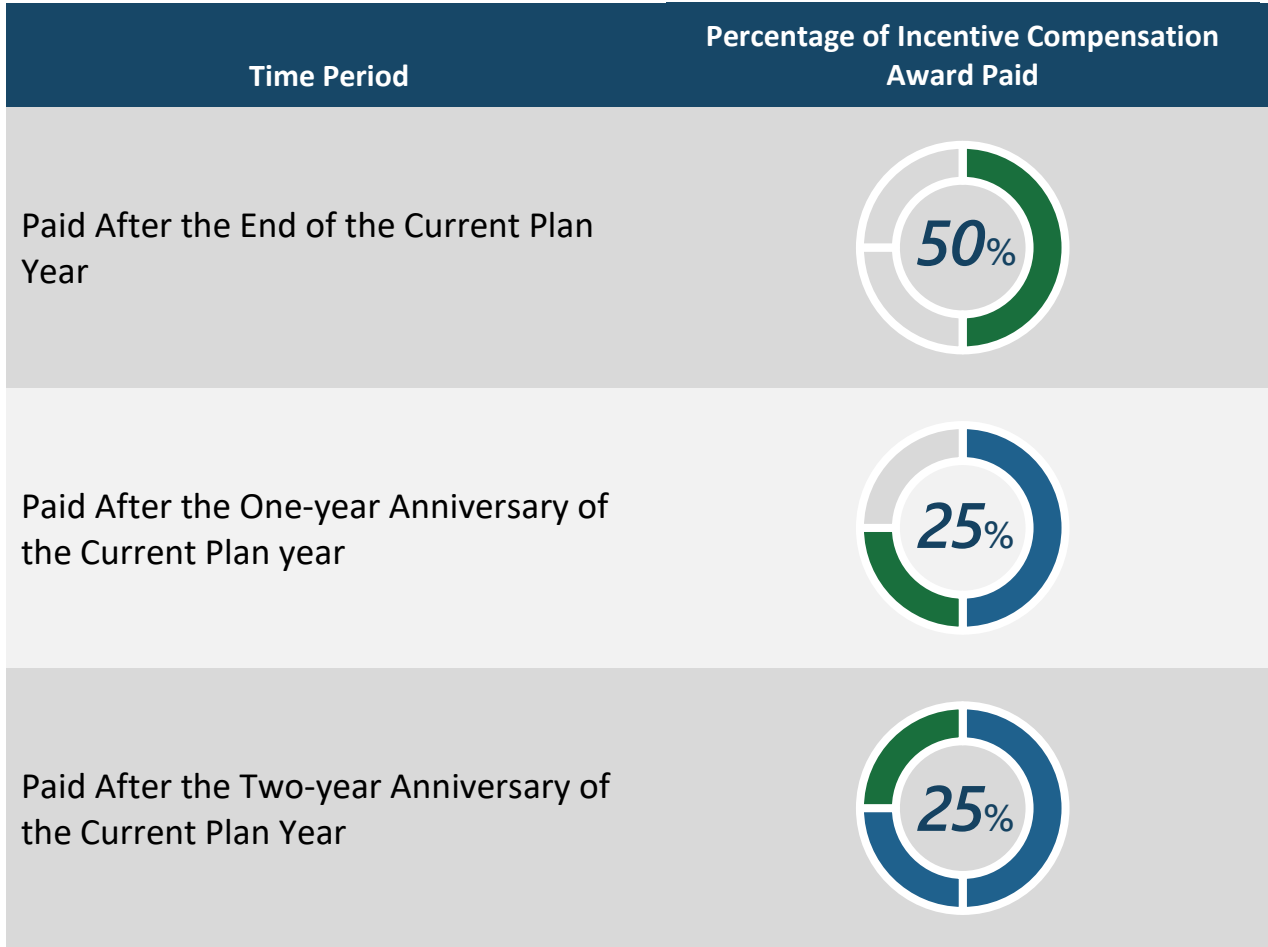
One basis point is 0.01 percent or one one-hundredth of a percentage point.

Source: Morningstar, Inc. website at

<https://www.morningstar.co.uk/uk/glossary/98015/basis-point.aspx>.

Figure 1

PSF Performance Incentive Pay Plan – Three-year Installment Schedule for All Participants



Source: The PSF Corporation.

Figure 2 on the next page lists the positions eligible to earn incentive compensation according to the PSF Corporation’s PSF performance incentive pay plan, as well as the incentive compensation award, or award range, for each eligible position for plan year 2023.

Figure 2

PSF Performance Incentive Pay Plan Awards for Plan Year 2023

Eligible Position	Incentive Compensation Award or Award Range ^a
Senior Managing Director	\$118,079 to \$348,511
Chief Executive Officer	\$231,891
Managing Director	\$80,144 to \$194,904
Senior Investment Officer	\$127,348 to \$194,063
General Counsel and Chief Compliance Officer	\$171,819
Investment Officer	\$29,013 to \$127,353
Senior Director	\$50,501 to \$100,560
Senior Associate	\$84,946 to \$97,848
Deputy Chief Investment Officer	\$64,833 to \$92,105
Investment Associate	\$77,343
Principal Solutions Architect	\$74,380
Director	\$57,240 to \$73,005
Senior Counsel	\$60,783 to \$66,074
Senior Analyst	\$49,095 to \$61,433
Data Engineer	\$59,937
Data Manager	\$46,404
Analyst	\$6,647 to \$44,396
Senior Accountant	\$31,246 to \$43,078
Senior Legal Operations and Contract Relations Manager	\$42,181
Investment Operations Manager	\$41,659
Information Technology (IT) Project Manager	\$41,067
Cybersecurity Analyst	\$37,660
Investment Operations Associate	\$36,391
Senior IT Support Specialist	\$36,334
IT Support Specialist	\$35,015
Bond Guarantee Program Financial Specialist	\$31,047
Accountant	\$16,056 to \$29,496

PSF Performance Incentive Pay Plan Awards for Plan Year 2023

Eligible Position	Incentive Compensation Award or Award Range ^a
Senior Human Resources Business Partner	\$28,319
Legal Operations and Contract Support Specialist	\$25,157
Systems Administrator	\$21,727
Compliance Officer	\$20,446
Network and Cloud Manager	\$18,600
Office Manager	\$16,404
Administrative Officer	\$14,167
Administrative Support Specialist	\$14,060
Human Resources Business Partner	\$10,488

^a Award range applies to multiple employees in an eligible position.

Source: The PSF Corporation.

GLO Performance Incentive Pay Plan

The PSF Corporation awarded a total of \$404,816 in incentive compensation to 2 employees under the GLO performance incentive pay plan for the plan year ending June 30, 2023. It awarded the most incentive compensation to its deputy chief investment officer, who was awarded \$276,816 payable over 2 years. That \$276,816 represented 68.4 percent of the \$404,816 in incentive compensation awarded by the PSF Corporation for the GLO performance incentive pay plan.

Plan Information

The GLO performance incentive pay plan compares investment performance of the GLO investments against a target benchmark on a one-year, three-year, and five-year performance period basis. The PSF Corporation calculates incentive compensation based on an employee’s achievement of an investment performance component (60 percent) and a qualitative performance component (40 percent).

For the investment performance component, the PSF Corporation calculates incentive compensation using data reported on a net-of-fees basis. The investment performance of the GLO investment assets exceeded the target

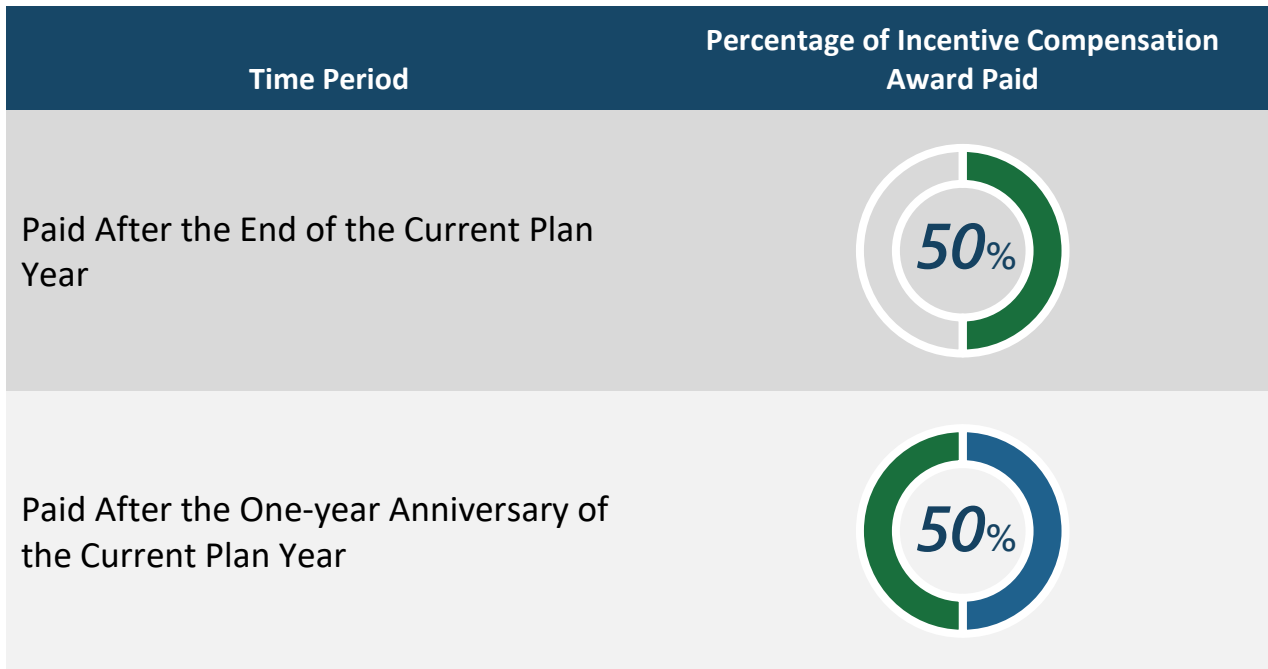
benchmark; therefore, the PSF Corporation awarded incentive compensation for plan year 2023. Total fund investment performance:

- Exceeded the target benchmark by 4.99 percent (499 basis points) for the one-year period from July 1, 2022, to June 30, 2023.
- Exceeded the target benchmark by 10.48 percent (1,048 basis points) for the three-year period from July 1, 2020, to June 30, 2023.
- Exceeded the target benchmark by 4.14 percent (414 basis points) for the five-year period from July 1, 2018, to June 30, 2023.

The PSF Corporation awards incentive compensation in installments over two years for the GLO performance incentive pay plan. An employee may receive an incentive compensation payment that consists of partial awards from two plan years. If the GLO investment assets have a performance return that is less than zero for the plan year, the awards will be paid following the first anniversary of the performance period. Figure 3 shows PSF Corporation’s installment schedule for the GLO performance incentive pay plan award payments.

Figure 3

GLO Performance Incentive Pay Plan – Two-year Installment Schedule for All Participants



Source: The PSF Corporation.

Figure 4 lists the positions eligible to earn incentive compensation awards according to the PSF Corporation’s GLO performance incentive pay plan, as well as the incentive compensation award for each eligible position for plan year 2023.

Figure 4

GLO Performance Incentive Pay Plan Awards for Plan Year 2023

Eligible Position ^a	Award
Deputy Chief Investment Officer	\$276,816
Investment Officer	\$128,000

^a The eligible positions shown on this table reflect the employees’ job titles at the PSF Corporation.

Source: The PSF Corporation.

LOW

Chapter 2 Teacher Retirement System

The Teacher Retirement System (TRS) has two incentive compensation plans for its investment employees:

- The Investment Management Division (IMD) plan applies to TRS investment management division employees whose primary location is in Texas and who are considered State of Texas employees.
- The Teacher Retirement Investment Company of Texas, Ltd. (TRICOT) plan applies to employees who are directly hired at the TRICOT office in London, England. TRICOT is a European company that is a wholly owned subsidiary of TRS. TRICOT employees are not considered State of Texas employees, as they are subject to United Kingdom employment laws. TRS organized TRICOT to pursue investment opportunities in the United Kingdom and Europe.

Additionally, TRS has a separate incentive compensation plan for its executive director.

TRS calculated and paid incentive compensation for its 2023 plan years in accordance with its plans' policies and procedures.

IMD and TRICOT Performance Incentive Pay Plans

TRS awarded a total of \$30,550,532 in incentive compensation to 226 employees under the IMD performance incentive pay plan for the plan year ending September 30, 2023. It awarded the most incentive compensation to its chief investment officer, who was awarded \$773,568 to be paid by February 15 immediately following the plan year. That represented 2.5 percent of the \$30,550,532 in incentive compensation that TRS awarded under the IMD performance incentive pay plan.

TRS awarded a total of \$465,466 in incentive compensation to 2 employees under the TRICOT performance incentive pay plan for the plan year ending September 30, 2023. It awarded the most incentive compensation to a director who was awarded \$457,103 to be paid by February 15 immediately following the plan year. That represented 98.2 percent of the \$465,466 in incentive compensation awarded by TRS under the TRICOT performance incentive pay plan.

Plan Information

The IMD and TRICOT performance incentive pay plans contain similar requirements for calculation and payment of incentive compensation awards.

TRS awards incentive compensation based on an employee’s achievement of investment performance and qualitative performance components. The investment performance component consists of two categories:

- Performance measured against established benchmarks (30 percent or 50 percent, depending on eligible position), and
- Performance measured against selected peer groups (30 percent for all eligible positions).

The qualitative performance component (20 percent or 40 percent, depending on the eligible position) measures an employee’s performance in areas such as interpersonal relationship skills, accountability, and teamwork.

Figure 5 shows the investment, peer group, and qualitative performance components based on eligible position.

Figure 5

TRS IMD and TRICOT Performance Components Per Eligible Position

Eligible Position	Investment Benchmarks	Peer Group	Qualitative
Chief Investment Officer ^a , Senior Managing Director, Managing Director, Senior Director, and Director	50%	30%	20%
Investment Manager, Senior Associate, Associate, Senior Analyst, Analyst, Junior Analyst, and Administrative Assistant	30%	30%	40%

^a The Chief Investment Officer is an eligible position only in the IMD plan.

Source: TRS.

TRS’s plan measures investment performance for both the benchmark and peer group categories on a one-year (33 percent) and three-year (67 percent) performance period basis. TRS awards incentive compensation if investment performance exceeds selected benchmarks or peer group performance for the one-year or three-year performance periods.

For the investment performance component, TRS calculates incentive compensation awards using data reported on a net-of-fees basis (see text box for more information on gross-of-fees and net-of-fees). The total fund investment performance:

- Exceeded the target benchmark by 1.86 percent (186 basis points) for the one-year period from October 1, 2022, to September 30, 2023.
- Exceeded the target benchmark by 1.55 percent (155 basis points) for the three-year period from October 1, 2020, to September 30, 2023.

TRS awards incentive compensation for a plan year immediately following the plan year if the total fund investment performance was greater than zero. If the total fund performance is less than zero for the plan year, the award is paid immediately after the next plan year in which the total fund has a performance return greater than zero. Figure 6 shows TRS’s installment schedule for incentive compensation payments.


Gross-of-Fees and Net-of-Fees Basis

Gross-of-fees indicates that the return on investment does not include the effect of fees. Net-of-fees indicates that the return on investment does include the effect of fees.

Source: 2020 Global Investment Performance Standards [GIPS] for Asset Owners.

Figure 6

TRS IMD and TRICOT Incentive Compensation Plans – One-year Installment Schedule for All Participants

Time Period	Percentage of Incentive Compensation Award Paid
Paid at the End of the Current Plan Year	

Source: TRS.

Figure 7 lists the positions eligible to earn incentive compensation according to TRS’s IMD performance incentive pay plan, as well as the incentive compensation award, or award range, for each eligible position for plan year 2023.

Figure 7

TRS IMD Incentive Compensation Awards for Plan Year 2023

Eligible Position	Incentive Compensation Award or Award Range ^a
Chief Investment Officer	\$773,568
Senior Managing Director	\$392,200 to \$631,472
Senior Director	\$225,663 to \$501,296
Director	\$179,526 to \$428,740
General Counsel and Chief Compliance Officer/Director – IMD Legal and Compliance	\$421,976
Managing Director	\$398,715
Investment Manager – IMD Legal and Compliance	\$239,229
Investment Manager	\$28,236 to \$204,659
Senior Associate – IMD Legal and Compliance	\$66,402 to \$156,369
Senior Associate	\$36,372 to \$121,227
Associate	\$12,443 to \$78,028
Associate – IMD Legal and Compliance	\$44,234 to \$62,058
Senior Analyst	\$5,242 to \$39,058
Analyst	\$3,490 to \$24,495
Junior Analyst – IMD Legal and Compliance	\$8,867 to \$9,524
Junior Analyst	\$9,147
Administrative Assistant	\$554 to \$3,628

^a Award range applies to multiple employees in an eligible position.

Source: TRS.

Figure 8 lists the positions eligible to earn incentive compensation according to TRS’s TRICOT performance incentive pay plan, as well as the incentive compensation award for each eligible position for plan year 2023.

Figure 8

TRS TRICOT Incentive Compensation Awards for Plan Year 2023

Eligible Position	Incentive Compensation Award (Great British Pounds)	Incentive Compensation Award (United States Dollars) ^a
Director	£362,780	\$457,103
Junior Analyst	£6,637	\$8,363

^a TRS calculates TRICOT awards using Great British Pounds (GBP). Awards are converted from GBP to U.S. Dollars in this table using an exchange rate of 1.26 USD for 1.00 GBP.

Source: TRS.

Executive Director Performance Incentive Pay Plan

TRS awarded \$325,000 in incentive compensation to the executive director for the plan year ending September 30, 2023. The executive director’s award for plan year 2023 was composed of a leadership award of \$125,000 and an investment oversight award of \$200,000 to be paid by February 15 immediately following the plan year.

Plan Information


The TRS executive director performance incentive pay plan consists of two separate incentive compensation components:

- **Leadership Award.** The TRS Board of Trustees determines the overall leadership award, up to 50 percent of the executive director’s base salary, based on its assessment of the following key accountabilities: (1) member focused, (2) continuous improvement, (3) operational effectiveness, (4) leadership effectiveness, and (5) talent effectiveness.
- **Investment Oversight Award.** TRS awards executive incentive compensation for the investment oversight component based on the one-year and three-year investment performance of the total fund.

TRS awards executive incentive compensation for each component immediately following the plan year. However, if the total fund performance is less than zero for the plan year, the investment oversight award is paid immediately following the next plan year in which the total fund has a performance return greater than zero. Figure 9 shows TRS’s payment installment schedule for the executive performance incentive compensation awards.

Figure 9

Executive Director Performance Incentive Pay Plan – One-year Installment Schedule

Time Period	Percentage of Incentive Compensation Award Paid
Paid at the End of the Current Plan Year	

Source: TRS.

LOW

Chapter 3 Employees Retirement System

The Employees Retirement System (ERS) awarded a total of \$8,008,042 in incentive compensation to 75 employees for the plan year ending August 31, 2023. It awarded the most incentive compensation to its chief investment officer, who was awarded \$413,104 payable over 3 years. That \$413,104 represented 5.2 percent of the total incentive compensation that ERS awarded.

ERS calculated and paid incentive compensation for its plan year 2023 in accordance with its plan policies and procedures.

Plan Information

ERS awards incentive compensation based on an employee's achievement of quantitative and qualitative performance goals. The quantitative performance goals represent 75 percent of that employee's overall participant goals, with a minimum of 35 percent of the overall participant goals to be evaluated based on relative trust fund performance. The qualitative investment performance goal represents the remaining 25 percent of the employee's overall participant goals.

For the executive director, the overall participant goals consist of a quantitative component (50 percent) based on relative trust fund performance and a qualitative component (50 percent) reflecting performance in overall agency leadership, management, communications, policy matters, staff development, and the implementation of agency strategic initiatives.

For the qualitative investment performance component, ERS calculates incentive compensation awards using data reported on a net-of-fees basis (see text box for more information on gross-of-fees and net-of-fees). ERS calculates the investment performance goals based on (1) an employee's achievement of benchmarks related to the relative trust fund performance and (2) the performance of

Gross-of-Fees and Net-of-Fees Basis

Gross-of-fees indicates that the return on investment does not include the effect of fees. Net-of-fees indicates that the return on investment does include the effect of fees.

Source: 2020 Global Investment Performance Standards [GIPS] for Asset Owners.

the employee's assigned asset classes or individual portfolios for one-year, three-year, and five-year periods, depending on the employee's length of service. The total relative trust fund investment performance:

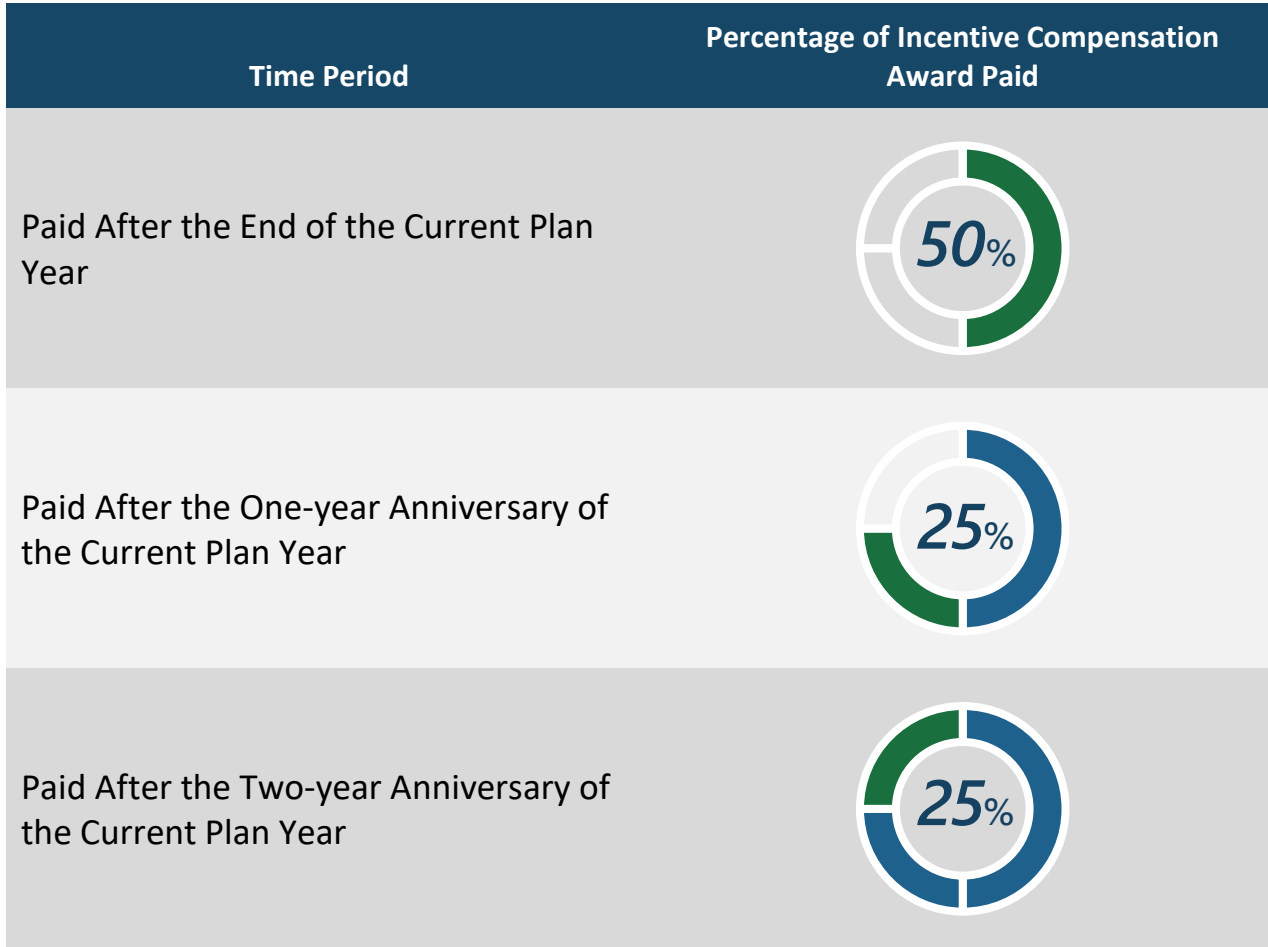
- Exceeded the target benchmark by 0.72 percent (72 basis points) for the 1-year period from September 1, 2022, to August 31, 2023.
- Exceeded the target benchmark by 2.89 percent (289 basis points) for the 3-year period from September 1, 2020, to August 31, 2023.
- Exceeded the target benchmark by 1.38 percent (138 basis points) for the 5-year period from September 1, 2018, to August 31, 2023.

ERS pays most incentive compensation awards for a plan year in installments over three years. An employee may receive an incentive award payment that consists of partial awards from three plan years.¹ If total fund performance is less than zero for the plan year, the awards will be paid immediately following the next plan year in which the total fund performance is greater than zero. Any unpaid or partially unpaid award due to total fund performance being less than zero is forfeited after three years. Figure 10, Figure 11, and Figure 12 on the following pages show ERS's installment schedules for the incentive compensation award payments, depending on eligible position.

¹ For investment operations specialists and operational due diligence specialists, ERS pays 50 percent of an incentive compensation award after the performance period for the current plan year, and it pays the remaining 50 percent of that award after the next plan year. For investment administrative support staff, ERS pays 100 percent of an incentive compensation award after the performance period for the current plan year.

Figure 10

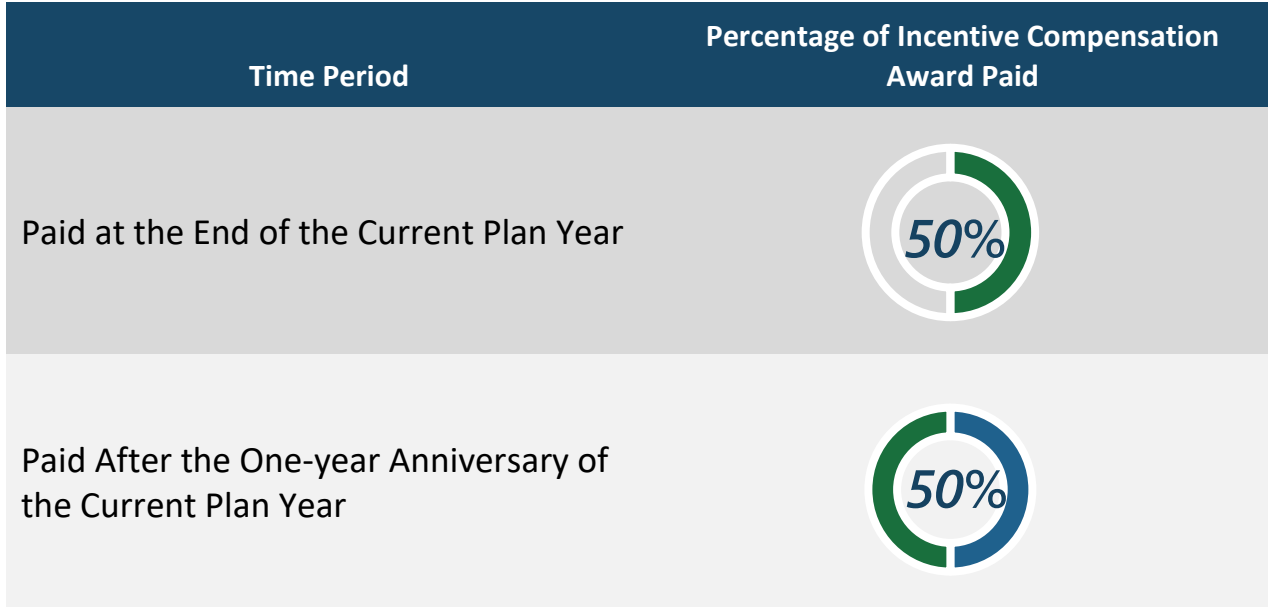
Majority of ERS Plan Participants – Three-year Installment Schedule



Source: ERS.

Figure 11

Investment Operations Specialists and Operational Due Diligence Specialists^a – Two-year Installment Schedule

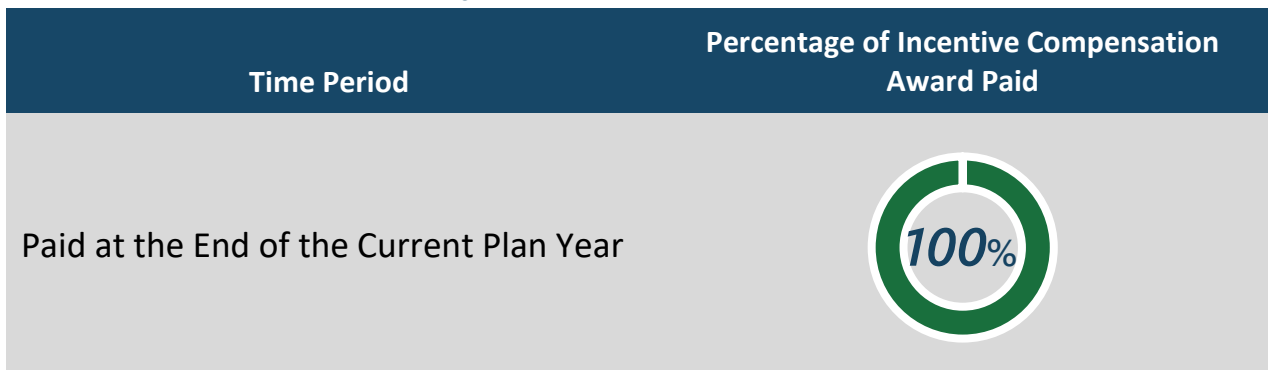


^a Investment Operations Specialists perform trade settlement, corporate action processing, capital call processing and reconciliation duties, and/or monitoring and verifying performance measurement reporting. Operational Due Diligence Specialists perform reviews of prospective and existing external managers’ back office and middle office functions, including trade processing, reconciliation, cybersecurity, and controls and valuation policies.

Source: ERS.

Figure 12

ERS Investment Administrative Support^a – One-year Installment Schedule



^a Investment Administrative Support employees provide scheduling, travel processing, contract management, and other administrative support.

Source: ERS.

Figure 13 lists the positions eligible to earn incentive compensation according to ERS's incentive compensation plan, as well as the incentive compensation award, or award range, for each eligible position for plan year 2023.

Figure 13

ERS Incentive Compensation Awards for Plan Year 2023

Eligible Position	Incentive Compensation Award or Award Range ^a
Chief Investment Officer	\$413,104
Executive Director	\$348,519
Managing Director	\$156,178 to \$274,584
Deputy Chief Investment Officer	\$271,938
Program Director	\$84,156 to \$211,976
Supervising Portfolio Manager	\$140,296 to \$203,249
Portfolio Manager IV – VI	\$128,199 to \$148,814
Investments and Securities, Attorney	\$122,985 to \$131,063
Chief Trader I – II	\$94,666 to \$115,997
Portfolio Manager I – III	\$61,536 to \$109,154
Investment Analyst V	\$80,015 to \$92,231
Investment Operations Manager	\$74,446
Investment Analyst III - IV	\$4,293 to \$59,772
Performance Specialist	\$28,499 to \$33,476
Investment Analyst II	\$16,269 to \$29,565
Investments and Securities, Paralegal	\$23,199
Investment Operations Specialist	\$9,652 to \$22,760
Investment Administrative Support	\$1,191 to \$4,153

^a Award range applies to multiple employees in an eligible position.

Source: ERS.



Appendix I

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Employees Retirement System (ERS), the Teacher Retirement System (TRS), and the Permanent School Fund (PSF) Corporation calculate and pay incentive compensation in accordance with plan policies and procedures.

Scope

The scope of this audit covered incentive compensation plan years ending:

- September 30, 2023, at the PSF Corporation for the employees of the PSF Division of the Texas Education Agency (TEA) who transferred to the PSF Corporation;
- June 30, 2023, at the PSF Corporation for the employees of the General Land Office (GLO) who transferred to the PSF Corporation;
- September 30, 2023, at TRS; and
- August 31, 2023, at ERS.

The following members of the State Auditor's staff performed the audit:



- Taylor L. Huff, CFE (Project Manager)
- Elizabeth Gallegos, MAcc (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- Rory Hardin
- Brandon Pascall
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

The scope also included a review of significant internal control components related to determining whether the PSF Corporation, TRS, and ERS calculate and pay incentive compensation in accordance with plan policies and procedures.

Methodology

We conducted this performance audit from March 2024 through August 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Addressing the Audit Objective

During the audit, we performed the following:

- Interviewed management and key personnel at the PSF Corporation, TRS, and ERS to gain an understanding of the calculation and payment process for incentive compensation.
- Reviewed ERS and TRS board of trustees meeting minutes.
- Reviewed agreed-upon procedures for ERS.
- Identified the relevant criteria:
 - Section 44, Article III, Texas Constitution, and related statutes.
 - Rider 13, page III-39, and Rider 20, page III-1, General Appropriations Act (87th Legislature).
 - Senate Bill 1232 (87th Legislature, Regular Session).
 - Texas Office of the Attorney General opinions related to incentive compensation.
 - PSF Corporation's *Performance Incentive Pay Plan – Permanent School Fund*, effective October 1, 2022.
 - PSF Corporation's *Performance Incentive Compensation Procedures*.

- PSF Corporation's *Performance Incentive Pay Plan – General Land Office Real Assets Investment Portfolio*, effective July 1, 2022.
- TRS's *Investment Management Division (IMD) Performance Pay Plan*, effective October 1, 2022.
- TRS's *Teacher Retirement Investment Company of Texas Ltd. (TRICOT) Performance Pay Plan*, effective October 1, 2022.
- TRS's *Performance Pay Plan Procedures for Calculation and Verification*.
- TRS's *Executive Director Performance Incentive Pay Plan*, effective October 1, 2022.
- TRS's *Executive Director Incentive Pay Plan Process and Timeline*.
- ERS's *Incentive Compensation Plan for Investment Professionals and Leadership Employees*, effective September 1, 2022.
- ERS's *General Procedure Reference ERS Incentive Compensation Plan*.
- Tested and recalculated recipients' incentive compensation awards to determine whether the awards complied with plan policies and procedures for the PSF Corporation, TRS, and ERS.
- Verified that incentive compensation award payments matched award calculations for the PSF Corporation, TRS, and ERS plan participants.
- Tested access controls, including segregation of duties, over the spreadsheets and data that TRS and ERS used to calculate incentive compensation.
- Selected risk-based samples related to ERS's incentive compensation plan and the PSF Corporation's PSF performance incentive pay plan and tested to determine if participants were eligible per the most recent performance evaluation. For ERS, auditors selected a risk-based sample of 25 participants from a population of 75 participants who received an award for plan year 2023. For the PSF Corporation's PSF performance incentive pay plan, auditors selected a risk-based sample of 25 participants from 89 participants who received awards for plan year 2023. These samples were not representative of the populations; therefore, it would not be appropriate to project the test results to the population.

Data Reliability and Completeness

Auditors determined that the following data sets were sufficiently reliable for the purposes of the audit by (1) tracing the data to supporting documentation, (2) reviewing access to the data, and (3) comparing pay calculation data to payment data in the Standardized Payroll/Personnel Reporting System:

- The PSF Corporation’s incentive compensation calculation spreadsheets for PSF and GLO plans.
- TRS’s incentive compensation calculation spreadsheets for the IMD, TRICOT, and Executive Director plans.
- ERS’s incentive compensation calculation database.

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Appendix 2

Related State Auditor's Office Reports

Figure 14

Report Number	Report Name	Release Date
22-041	<i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Teacher Retirement System, and Employees Retirement System</i>	August 2022
20-040	<i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Teacher Retirement System, and Employees Retirement System</i>	August 2020
19-048	<i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Teacher Retirement System, and Employees Retirement System</i>	August 2019
19-003	<i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Employees Retirement System, and Teacher Retirement System</i>	September 2018
18-001	<i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Employees Retirement System, and Teacher Retirement System</i>	September 2017



Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Permanent School Fund Corporation

Members of the Texas Permanent School Fund Corporation Board of Directors

Mr. Robert Borden, Chief Executive Officer

Teacher Retirement System

Members of the Teacher Retirement System Board of Trustees

Mr. Brian Guthrie, Executive Director

Employees Retirement System

Members of the Employees Retirement System Board of Trustees

Mr. Porter Wilson, Executive Director



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