

**AUDIT COMMITTEE MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

**February 23, 2016
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Ilesa Daniels, Member
Cydney Donnell, Member
Brian Ragland, Member

TRUSTEES NOT PRESENT

Frederick E. Rowe, Jr., Member

ERS STAFF PRESENT

Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Shack Nail, Special Projects and Policy Advisor
Paula A. Jones, General Counsel and Chief Compliance Officer
Tony Chavez, Internal Auditor
Robert Kukla, Director of Benefit Contracts
Machelle Pharr, Interim Chief Financial Officer
DeeDee Sterns, Acting Director of Human Resources
Tom Tull, Chief Investment Officer
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Liz Geise, Benefits Communications
Beth Gilbert, Internal Audit
Sharmila Kassam, Investments
Karen Norman, Internal Audit
Jonathan Puckett, Internal Audit
Leighton Shantz, Investments
John Streun, Investments
Glenda Workman, Benefits Communications
Keith Yawn, Enterprise Planning Office

ALSO PRESENT

Joel Brous, Franklin Templeton Institutional
David Dorman, AHM
Verma Elliott, State Auditor's Office
Reed Hutchens, Franklin Templeton Institutional
Seth Hutchison, Texas State Employees Union
Emily Johnson, Sunset
Emily Morganti, Legislative Budget Board
Nora Velasco, Legislative Budget Board
Steve Voss, Aon Hewitt

Mr. Craig Hester, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order and read the following statement:

“A public notice of the Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 9:23 a.m. on Thursday, February 11, 2016 as required by Chapter 551, Texas Government Code, referred to as “The Open Meetings Law.”

Chairman Hester announced the resignation of Trustee Shad Rowe, submitted January 21, 2016, and thanked Trustee Rowe for his service.

The Board of Trustees then convened as a committee of the whole at 8:20 to consider Audit Committee agenda items.

I. REVIEW AND APPROVAL OF THE MINUTES TO THE DECEMBER 4, 2015 ERS AUDIT COMMITTEE MEETING

Audit Committee Chair, Ms. Cydney Donnell, opened the floor for a motion on the approval of the minutes from the Audit Committee Meeting held December 4, 2015.

MOTION made by Mr. Brian Ragland, and carried unanimously by the present members of the Audit Committee approved the minutes to the meeting held on December 4, 2015

II. PRESENTATION, DISCUSSION AND CONSIDERATION OF AUDIT COMMITTEE AGENDA ITEMS:

a. External Audit Reports – Ms. Cydney Donnell, Chair of the ERS Audit Committee, recognized Mr. Tony Chavez, ERS Director of Internal Audit. Mr. Chavez then introduced Ms. Verma Elliott, audit manager with the State Auditor’s Office (SAO), to present audits relating to the 2015 CAFR Financial Audit and Pension schedules. Ms. Elliott stated the SAO issued an unqualified opinion on ERS financial statement for FY 2015 and reported internal controls over financial reporting were in compliance with *Government Auditing Standards*.

One significant deficiency relating to active employee census data was identified. Mr. Chavez confirmed the Finance Division was addressing the deficiency relating to census data. Additional review for the fiscal year showed deficiencies did not materially affect the calculation of the system’s pension liability.

New guidelines by AICPA require a review pension schedules and net liability components. For audit work performed over FY2013, and FY2015 Pension Schedules, the SAO concluded an unqualified opinion with no material weakness or significant deficiencies in internal controls. FY2013 audit work was performed to comply with auditing standards related to the beginning balances of FY2014 financial statements previously audited by the SAO in the prior year.

Ms. Cydney Donnell, Chair of the ERS Audit Committee, asked about the cooperation of ERS staff with SAO. SAO replied that cooperation was positive and unfettered. In answer to board questions regarding procedural changes to correct problems with reporting census data, ERS staff noted new procedures had been implemented.

There being no further questions or discussion, the Board then took the following action:

MOTION made by Mr. Doug Danzeiser, seconded by Mr. Brian Ragland and carried unanimously by the present members of the Audit Committee of the Employees Retirement System of Texas accept the financial audit reports as prepared by the State Auditor’s Office and presented in this agenda item.

b. Internal Audit Reports – Mr. Chavez reported Internal Audit had two deliverables, quarterly compliance procedures and the status of audit recommendations. Mr. Chavez presented Investment Compliance Procedures highlighting Securities Lending and Proxy Voting. There were no questions or further discussion, and no action was required on this item.

Mr. Chavez introduced Ms. Beth Gilbert, ERS Senior Auditor, who presented results on the follow-up of audit recommendations. Ms. Gilbert noted 100% implementation on all audit observations. There were no questions or further discussion, and no action was required on this item.

c. Internal Audit Administrative Item – Mr. Chavez reported the Internal Audit Charter is reviewed annually to determine if revisions are necessary. Based on his review Mr. Chavez recommended no changes to the Audit Charter at this time. Mr. Chavez did note the Audit Charter did require updated signatures of the current Board Chair and ERS Executive Director.

There being no further questions or discussion, and since no changes were made to the Audit Charter, no action was taken by the Board.

III. ADJOURNMENT OF THE ERS BOARD OF TRUSTEES AUDIT COMMITTEE AND RECESS OF THE BOARD OF TRUSTEES

Following a temporary recess, the Board of Trustees will reconvene with the Investment Advisory Committee to take up the following Joint Board of Trustees and Investment Advisory Committee agenda items.