



Audit Committee Meeting
May 17, 2017



Presented for Review and Approval
August 23, 2017

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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.

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

**May 17, 2017
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Ilesa Daniels, Board of Trustees
Cydney Donnell, ERS Board of Trustees
Brian Ragland, Board of Trustees
Jeanie Wyatt, ERS Board of Trustees

ERS STAFF PRESENT

Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Paula Jones, Deputy Executive Director & General Counsel
William Nail, Director of Governmental Relations
Tony Chavez, Director of Internal Auditor
Bernie Hajovsky, Director of Enterprise Planning Office
Robin Hardaway, Director of Customer Benefits
DeeDee Sterns, Director of Human Resources
Gabrielle Stokes, Director of Office of Procurement & Contract Oversight
Chuck Turner, Chief Information Officer
Keith Yawn, Director of Strategic Initiatives
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Peter Ehret, Investments
Beth Gilbert, Internal Audit
Sharmila Kassam, Deputy Chief Investment Officer
Greg Magness, Internal Audit
Betty Martin, Investments
John McCaffrey, Investments
Karen Norman, Internal Audit
Jonathan Puckett, Internal Audit
Susie Ramirez, Executive Office

ALSO PRESENT

Merritt Brooks, BoardDocs
Michael McCormick, Aon Hewitt

1. Call to Order

1.1 Call Meeting to Order

1.2

At 8:02 a.m. 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 ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 12:49 p.m. on Monday, May 8, 2017, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

The Board of Trustees convened as a committee of the whole to consider agenda items. Mr. Hester turned the meeting over to Mr. Brian Ragland, Chair of Audit Committee.

2. Minutes

2.1 Approval of the Minutes to the February 22, 2017 ERS Audit Committee Meeting - (Action) Move that the ERS Board of Trustees Audit Committee of the Employees Retirement System of Texas approve the minutes to its meeting held on February 22, 2017.

Motion by Cydney Donnell, second by Doug Danzeiser.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3. Audit Items

3.1 Review of Internal Audit Reports

Ethics, Standard Retirements, Investment Compliance

Presenters: Tony, Chavez, Director of Internal Audit, Beth Gilbert, Internal Auditor, Jonathan Puckett, Internal Auditor, and Gregory Magness, Internal Auditor

Mr. Ragland recognized Ms. Beth Gilbert, Internal Audit, to discuss the Ethics Audit and leading practices. The objective of the ethics audit was to determine if the ethics program provides reasonable assurance of compliance with applicable laws, regulations, and ERS policy. The audit criteria included best practices from industry and pension fund peers. The overall assessment was satisfactory. To improve transparency and sustainability, a recommendation was made to develop a single, standalone reference document (Ethics Policy) and publish the approved policy on ERS's public website.

Mr. Jonathan Puckett and Mr. Greg Magness, Internal Auditors, reviewed the Standard Retirement Audit, referencing Exhibit B in meeting materials. The audit objective was to determine if standard retirements are processed in accordance with regulatory requirements, and annuity payments are calculated accurately. The overall assessment was satisfactory.

Mr. Puckett noted the rating for retirement processing was exemplary and annuity payments processing was rated satisfactory. The exemplary rating is rarely given and Mr. Hester and Mr. Ragland commended Customer Benefits.

Mr. Puckett noted internal controls are effective and sustainable, serving as key controls for applicants to make sound decisions on retirement choices and that there is an automated system for annuity payment calculations. Mr. Ragland asked how long these practices have been in place. Ms. Robin Hardaway, Director of Customer Benefits, explained retiree care using the current program began about 2008..

Mr. Tony Chavez, Director of Internal Audit, noted this was a first exemplary rating given during his tenure at ERS as he congratulated Customer Benefits for their work in the standard retirement process.

Mr. Ragland called on Mr. Chavez to review the quarterly investment compliance procedures. Mr. Chavez reviewed personal trading transactions, noting there were two self-reported exceptions. To help mitigate issues, Tom Tull, Chief Investment Officer, Sharmila Kassam, Assistant Director of Investments and Beth Gilbert, Internal Auditor, provided refresher training to Designated Covered Persons who are non-Investment staff.

Ms. Donnell commended Internal Audit for their response to the exceptions and dealing with compliance issues in an appropriate and timely manner. Mr. Hester discussed his experience with best practices. Mr. Chavez explained similar measures are employed quarterly and developed with the ERS chief compliance officer.

Mr. Ragland returned the meeting to Mr. Hester.

This agenda item was presented for discussion and informational purposes only. No action was taken.

4.1 ADJOURNMENT

4. Adjournment

The ERS Board of Trustees Audit Committee adjourned at 8:20 a.m.