



## Audit Committee Meeting

May 23, 2018



Presented for Review and Approval

August 29, 2018

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**AUDIT COMMITTEE MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
May 23, 2018  
ERS Board Room  
ERS Building – 200 E. 18th Street  
Austin, Texas 78701**

**TRUSTEES PRESENT**

Catherine Melvin, Audit Chair  
Doug Danzeiser, Board Chair  
Cydney Donnell, Board Vice Chair  
Ilesa Daniels, Member

**TRUSTEES ABSENT**

I. Craig Hester, Member – *Excused by the Board*  
Jeanie Wyatt, Member – *Excused by the Board*

**ERS STAFF PRESENT**

Porter Wilson, Executive Director  
Catherine Terrell, Deputy Executive Director  
Paula A. Jones, Deputy Executive Director & General Counsel  
William S. Nail, Special Projects & Policy Advisor  
Jennifer Chambers, Director of Government Relations  
Tony Chavez, Director of Internal Audit  
Bernie Hajovsky, Director of Enterprise Planning Office  
Robin Hardaway, Director of Customer Benefits  
Sharmila Kassam, Deputy Chief Investment Officer  
Machelle Pharr, Chief Financial Officer  
Gabrielle Schreiber, Director of Procurement and Contract Oversight  
Chineque “DeeDee” Sterns, Director of Human Resources  
Tom Tull, Chief Investment Officer  
Kathryn Tesar, Director of Benefits Communications  
Keith Yawn, Director of Strategic Initiatives  
Anthony Curtiss, Investments  
Kelley Davenport, Executive Office  
Juli Davila, Investments  
Christi Davis, Customer Benefits  
Pablo De La Sierra, Investments  
Beth Gilbert, Internal Audit  
Aaron Ismail, Investment Compliance  
Greg Magness, Internal Audit  
Betty Martin, Investments  
Travis Olson, Investments  
Jonathan Puckett, Internal Audit  
Susie Ramirez, Executive Office  
Tanna Ridgway, Investments  
Leighton Shantz, Investments  
Michael Shoop, Investments  
Glenda Workman, Benefits Communications

**ALSO PRESENT**

Bill Hamilton, Retired State Employee Association (RSEA)  
Aaron Haftl, Aon Hewitt

## Meeting of the ERS Board of Trustees Audit Committee

### 1. CALL TO ORDER

#### 1.1 Call Meeting of the ERS Board of Trustees' Audit Committee to Order

Ms. Catherine Melvin, Chair of the Board of Trustees Audit Committee of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 3:40 p.m. and read the following statement:

“A public notice of the ERS Board of Trustees Audit Committee meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 8:31 a.m. on Friday, May 11, 2018, as is required by Chapter 551, Texas Government Code, referred to as the Open meetings Law.”

### 2. MINUTES

#### 2.1 Review and approval of the minutes to the March 7, 2018 ERS Audit Committee Meeting (ACTION)

**Move** that the ERS Board of Trustees Audit Committee of the Employees Retirement System of Texas approve the minutes for its meeting held on March 7, 2018.

**Motion** by Cydney Donnell, second by Ilesa Daniels

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

### 3. AUDIT ITEMS

#### 3.1 Review of Internal Audit Reports

Mr. Tony Chavez, Director of Internal Audit introduced Mr. Greg Magness, Internal Auditor, to present the Benefits Coordinator's Training Program audit. Mr. Magness reported that the audit objective was to determine the effectiveness of ERS's training program for benefits coordinators. The program goal for the Benefits Coordinator Training Program is to provide coordinators with the resources and tools they need to: 1) Provide employees with timely and accurate information on benefit options and enrollment, and 2) Perform timely accurate data entry in ERS OnLine to facilitate benefit enrollment.

The definition of benefits coordinators is found in Section 81 of the Texas Administrative Code. It states that a benefits coordinator is a person employed by an agency or institution of higher education to provide assistance to its employees and their dependents with all aspects of benefits participation. ERS works with more than 1,600 benefits coordinators in 200 state agencies and higher education institution. ERS has no defined authority over these coordinators. Mr. Magness stated that the State Auditor does not maintain a job classification entitled Benefits Coordinator and that coordinator duties may not be the sole or even primary function of that employee. Multiple people within organizations may be performing coordinator roles such as Human Resources professionals, Executive Directors, Chief Financial Officers, administrative assistants or probation officers.

The program has two process owners, Benefits Communications (BCOM) and Customer Benefits (CB). Mr. Magness reported that BCOM provide their expertise in developing and delivering training, while CB staff work directly with coordinators in administering retirement and all of the programs within the Group Benefits Program.

Training and resource information is provided in a secure online portal called the Benefits Coordinator Community Group (BCCG). In addition to the online resource, Customer Benefits operates BCASSIST, which serves as a dedicated resource for coordinators. Coordinators can contact BCASSIST through phone calls, emails and administrative exception requests (AERs).

ERS provides coordinators with information through webinars in which subject matter experts (SMEs) offer real-time answers to coordinator questions. There is also a biweekly e-newsletter

(Coordinator's UPDATE-express), sent to all coordinators on the email list, which contains important information that coordinators need.

ERS obtains feedback from coordinators and utilizes that feedback to develop new materials. Coordinators are prompted to join the BCCG website, which is continuously promoted as the first place to go and get information on all the benefits and retirement program. Mr. Magness reported that ERS does not offer in-person training, classroom hands-on-training or web-based interactive training.

In assessing the program, staff found the control framework goals and objectives are being achieved. The overall rating was satisfactory. Two scope areas were identified: training development and training delivery. Both scope areas were rated satisfactory.

Observation #1 – There are limited data analytics to evaluate the effectiveness and efficiency of the benefits coordinator program. Currently, ERS staff does limited analysis on the benefits coordinator interactions to identify trends and resource impact to ERS. Based on the current level of interactions between the coordinators and ERS through BCASSIST (approximately 27,000 per year) sufficient data is available. Audit staff recommended CB should expand the data analysis capabilities within BCASSIST.

Observation #2 - Formalize the documentation of activities to ensure adherence to policies and procedures. CB and BCOM divisions are both responsible for the program. To coordinate efforts of the divisions, a Communication Liaison works with both divisions to ensure the accuracy and completion of the necessary revisions to reference material on the BCCG website. While controls are generally designed to ensure accurate and complete information is provided to coordinators, gaps have occurred. Verification of the Customer Benefits review process could not be completed. Annual review of the training material could not be verified. CB should continue to formally track items received by the Communication Liaison through the assignment of a SME, review and approval by the SME, and return of the item to the originator. BCOM should formally schedule and document the annual review of items accessible through the BCCG website.

In a response to a question asked by Mr. Danzeiser regarding the expectation in terms of working with wellness coordinators at other state agencies, Ms. Kathryn Tesar, Director of Benefits Communications, said that ERS provides wellness information in some of the publications, including the benefits coordinator newsletter, and Update express. She stated there is a statewide wellness coordinator located in Health and Human Services agency who is responsible for providing wellness programs and information to the wellness coordinators at state agencies and higher education institutes.

Mr. Danzeiser stated the wellness programs are important. He asked if the state agency benefits coordinators cooperates with ERS. Ms. Christi Davis, Assistant Director of Customer Benefits responded that ERS has a very positive relationship with the agency benefits coordinators and Human Resource directors. Ms. Kathryn Tesar further noted that ERS would like to see greater engagement from all coordinators.

Following the audit presentation, Mr. Chavez introduced Aaron Ismail, Investment Compliance Officer, to discuss the Investment Compliance Agreed-Upon Procedures (AUP) Review. There were no material issues with personal trading, proxy voting or securities lending over the last quarter.

Mr. Ismail reported that there were four holdings in prohibited countries for more than three days. Chapter 2270 of the Texas Government Code prohibits ERS from holding certain investments in companies with business operations in Iran. ERS annually receives an updated list of restricted companies from the Texas Comptroller. At the time that ERS received the letter on March 1, 2018, ERS held securities of four companies on the restricted list. Holdings in two of the companies were sold in the normal course of business. Two holdings remain.

The statute includes a fiduciary exemption that applies if ERS determines that compliance with a statutory requirement would be inconsistent with ERS' fiduciary responsibility, including the duty of care established under the Texas Constitution. Mr. Ismail reported that the ERS investment policy provides ERS staff with a process to follow when ERS holds a listed security. He reported that Section 6 of the Socially Constrained Investment Policy states that staff, when determining whether to divest of a listed security, must determine whether an equal or superior alternative investment can be identified when judged solely on the basis of economic value, considering ERS' investment policy, the Board of Trustees'

constitutional fiduciary duty, and the exclusive benefit rule, the transaction costs associated with the divestment and alternative investment and other relevant criteria, including but not limited to the role of the investment in the fund's portfolio and the economic impact to the Trust fund.

ERS responded back to the Texas Comptroller on March 30, 2018 per the instructions of the statute, reporting which listed securities were held by ERS as of the date March 1, 2018, and indicating whether such securities had been sold since that date. ERS performed an internal analysis of the statute and the fiduciary exemption as well as a market analysis of the securities being held and why ERS does not believe that there was equal or superior replacement at this time for each listed security held by ERS. Mr. Ismail reported that the information was reviewed by the General Counsel, Executive Director and himself. All agreed that it was in ERS' fiduciary interest at this time to continue to hold the listed securities.

There were no further discussion or questions and no action was taken on this agenda item.

#### **4. ADJOURNMENT**

##### 4.1 Adjournment of the ERS Board of Trustees Audit Committee

The ERS Board of Trustees Audit Committee adjourned at 4:15 p.m.

##### 4.2 Adjournment of the ERS Board of Trustees

The ERS Board of Trustees adjourned at 4:15 p.m.