

# Texas Municipal Retirement System

2018 Financial Statements and System and Organization Controls (SOC) Audit Results  
June 20-21, 2019

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# Agenda

- 2018 Audit Results
- Required Governance Communications
- Data Analytics Overview
- Financial Highlights



# 2018 Audit Results

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# 2018 Audit Results – Financial Statements

- Independent Auditors’ Report – Unmodified “clean” opinion that the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
- Limited procedures were performed, and no opinion rendered, on management’s discussion and analysis, required supplementary information, and the Introductory, Investment, Actuarial, and Statistical sections.
- Limited procedures were performed, and an “in relation to” opinion was rendered on the other supplemental schedules.



# 2018 Audit Results – Schedule of Changes in Fiduciary Net Position by Participating Municipality

- Independent Auditors’ Report - Unmodified “clean” opinion that the fiduciary net position and the changes in fiduciary net position in the Schedule of Changes in Fiduciary Net Position by Participating Municipality are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
- Unmodified “in relation to” opinion was issued on the individual employer information presented in the Schedule.



# 2018 Audit Results – System Organization and Controls (SOC) Report

- Independent Auditor’s Report – Unmodified “clean” opinion that the controls implemented by TMRS were fairly presented, adequately designed, and operating effectively to meet the stated control objectives for the period May 1, 2018 through April 30, 2019.



# 2018 Audit Results – SOC Report

- Business Process
  - Control Objective #1 - Census Reporting
    - ◇ No exceptions noted.
  - Control Objective #2 – Contributions
    - ◇ No exceptions noted.
  - Control Objective #3 - Income Allocation
    - ◇ No exceptions noted.
  - Control Objective #4 - Fund Balances
    - ◇ One (1) of 12 cash account reconciliations did not have initials as evidence of review. Handwritten notes of review were observed.
  - Control Objective #5 - Distributions
    - ◇ One (1) of 28 users had the ability to create new members and create a benefit payment. Based on review of transactions, no inappropriate transactions were noted.



# 2018 Audit Results – SOC Report

- Information Technology
  - Control Objective #6 - System Maintenance
    - ◇ One (1) of five (5) system changes not documented per policy
  - Control Objective #7 - Application Maintenance
    - ◇ No exceptions noted.
  - Control Objective #8 - Logical Access
    - ◇ No exceptions noted.
  - Control Objective #9 - Backups
    - ◇ No exceptions noted.
  - Control Objective #10 - Logical Access
    - ◇ No exceptions noted.







# Required Governance Communications

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# Required Governing Body Communications

- Significant accounting policies
  - No new accounting standards implemented
- Financial statement disclosures
  - No particularly sensitive disclosures
- No audit adjustments or passed audit adjustments
- Management judgments and accounting estimates
  - Valuation of alternative investments
- Management was very cooperative and professional during the audit process
- No disagreements with management

# Required Governing Body Communications (continued)

- Management did not consult with other accountants on the application of GAAP or GAAS
- No major issues were discussed with management prior to retention
- Management Representations were provided





# Data Analytics Overview

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# Data Analysis Methodology

1. Plan	2. Identify Risk	3. Access Data	4. Technical Analysis	5. Interpret Results	6. Reporting
<ul style="list-style-type: none"><li>• Identify engagement objectives and client needs</li><li>• Understand the client's systems</li><li>• Match data analytic capabilities to objectives</li><li>• Understand professional guidance</li></ul>	<ul style="list-style-type: none"><li>• Discuss known risks and weaknesses</li><li>• Identify risks by carefully considering the internal control environment and managements tone at the top</li><li>• Conduct meetings with management to identify risks</li><li>• Rank risks from high to low</li></ul>	<ul style="list-style-type: none"><li>• Have conversations with the organization to understand system detail</li><li>• Planning the data extraction</li><li>• Prepare the data request list</li><li>• Assist/monitor client data extraction if necessary</li></ul>	<ul style="list-style-type: none"><li>• Ensure proper import</li><li>• Completeness testing</li><li>• Normalize data and prepare for analysis</li><li>• Design analytics to address identified risk and accomplish objectives</li></ul>	<ul style="list-style-type: none"><li>• Continuously interpret results and compare them with your expectations</li><li>• Corroborate results to identified risks</li><li>• Identify anomalies</li><li>• Continuously reassess risk and improve procedures</li></ul>	<ul style="list-style-type: none"><li>• Provide impactful results to client</li><li>• Document procedures and results</li></ul>

# Data Analytics Overview

- Pension Benefit Payments & Refunds
  - Technical data analysis of 2017 and 2018 benefit payments
  - Searched for significant annuity payment swings
  - Performed various fraud-specific tests such as review of duplicate bank accounts, duplicate names, duplicate payees, and duplicate annuity numbers
  - Test of persons both receiving a benefit and actively contributing
  - Review for large annuity payments after the 1<sup>st</sup> payment
  - Number of individual payments tested:
    - ◇ 2017 – 696,656
    - ◇ 2018 – 730,223



# Data Analytics Overview (continued)

- Pension Benefit Payments & Refunds (continued)
  - Review for payments exceeding IRS limits
  - Review of COLA increase for annuities by city
- Pension Contributions
  - Technical data analysis of 2017 and 2018 contributions
  - Recalculated employee contributions based on reported salary
    - ◇ Reviewed results by city and member
  - Number of individual contribution receipts tested:
    - ◇ 2017 – 1,321,001
    - ◇ 2018 – 1,338,081



# Data Analytics Conclusions

- Reconciled contribution and benefit data to general ledger
- Expectations for contributions and benefits were met
- No identified anomalies unresolved
- Staff displayed a strong understanding of underlying data





# Financial Highlights

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# Financial Highlights

	As of 12/31/2018	As of 12/31/2017	\$ Change	% Change
Investments, at fair value	\$ 27,973.6	\$ 28,921.0	\$ (947.4)	(3.3) %
Cash, receivables and other	778.6	1,054.4	(275.8)	(26.2)
Capital assets, net	9.1	9.7	(0.6)	(6.2)
<b>Total assets</b>	<b>28,761.3</b>	<b>29,985.1</b>	<b>(1,223.8)</b>	<b>(4.1)</b>
Due to custodial/depository banks	103.2	6.3	96.9	1,538.1
Other liabilities	974.6	1,329.4	(354.8)	(26.7)
<b>Total liabilities</b>	<b>1,077.8</b>	<b>1,335.7</b>	<b>(257.9)</b>	<b>(19.3)</b>
<b>Net Position Restricted for Pensions</b>	<b>\$ 27,683.6</b>	<b>\$ 28,649.4</b>	<b>\$ (965.8)</b>	<b>(3.4) %</b>



# Financial Highlights (continued)

	2018	2017	\$ Change	% Change
<b>Additions:</b>				
Employer contributions	\$ 881.5	\$ 838.4	\$ 43.1	5.1 %
Plan member contributions	427.8	410.5	17.3	4.2
Net investment income/(loss)	(858.1)	3,497.2	(4,355.3)	(124.5)
<b>Total additions</b>	<b>451.2</b>	<b>4,746.1</b>	<b>(4,294.9)</b>	<b>(90.5)</b>
<b>Deductions:</b>				
Retirement benefits	1,335.2	1,251.4	83.8	6.7
Refunds	64.3	59.4	4.9	8.2
Administrative & other costs	17.5	19.1	(1.6)	(8.4)
<b>Total deductions</b>	<b>1,417.0</b>	<b>1,329.9</b>	<b>87.1</b>	<b>6.5</b>
Net increase/(decrease) in net position	(965.8)	3,416.2	(4,382.0)	(128.3)
Net position - beginning of year	28,649.4	25,233.2	3,416.2	13.5
<b>Net position - end of year</b>	<b>\$ 27,683.6</b>	<b>\$ 28,649.4</b>	<b>\$ (965.8)</b>	<b>(3.4) %</b>



# Financial Highlights (continued)

The increase in employer and plan member contributions from 2017 to 2018 is due to the increase in covered payroll (\$6.44 billion in 2018 and \$6.19 billion in 2017). City membership also increased over the period, totaling 887 and 883 at December 31, 2018 and 2017, respectively.

Net investment income/(loss) is presented after deduction of investment expenses and comprises interest and dividends, and net appreciation/(depreciation) in fair value of investments. The change in net investment income/(loss) from 2017 to 2018 primarily results from the change in the net appreciation/(depreciation) in the fair value of investments during the periods (\$1.4 billion depreciation and \$3.1 billion appreciation during the years ended 2018 and 2017, respectively). During the two years ending 2018, TMRS' investment portfolio was impacted by the market volatility experienced during that period, primarily in the public equities asset class.

The increase in retirement benefits is due primarily to growth in the number of retirement accounts each year (66,051 and 62,776 in 2018 and 2017, respectively), as well as annuity increases (COLAs) that may be applied each year.





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