Texas Municipal Retirement System

2019 Financial Statements and System and Organization Controls (SOC) Audit Results

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Jason Ostroski, CPA - Engagement Principal
Brittany Smith, CPA – Engagement Manager

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Agenda

- 2019 Audit Results
- Required Governance Communications
- Data Analytics Overview
- Financial Highlights

2019 Audit Results

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2019 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.

2019 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.

2019 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, 2019 through April 30, 2020.

2019 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
    ◊ No exceptions noted.
  - Control Objective #5 - Distributions
    ◊ No exceptions noted.

2019 Audit Results – SOC Report

- Information Technology
  - Control Objective #6 - System Maintenance
    ◊ No exceptions noted.
  - 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 – Physical Access
    ◊ No exceptions noted.

Required Governance Communications

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

- Identify engagment objectives and client needs
- Understand the client's systems
- Match data analytic capabilities to objectives
- Understand professional guidance

2. Identify Risk

- Discuss known risks and weaknesses
- Identify risks by carefully considering the internal control environment and managements tone at the top
- Conduct meetings with management to identify risks
- Rank risks from high to low

3. Access Data

- Have conversations with the organization to understand system detail
- Planning the data extraction
- Prepare the data request list
- Assist/ monitor client data extraction if necessary

4. Technical Analysis

- Ensure proper import
- Completeness testing
- Normalize data and prepare for analysis
- Design analytics to address identified risk and accomplish objectives

5. Interpret Results

- Continuously interpret results and compare them with your expectations
- Corroborate results to identified risks
- Identify anomalies
- Continuously reassess risk and improve procedures

6. Reporting

- Provide impactful results to client
- Document procedures and results

Data Analytics Overview

- Pension Benefit Payments & Refunds
  - Technical data analysis of 2018 and 2019 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 1st payment
  - Number of individual payments tested:
    - ◊ 2018 – 730,223
    - ◊ 2019 – 765,662

Data Analytics Overview (Continued)

- Pension Benefit Payments & Refunds (continued)
  - Review for payments exceeding IRS limits
- Pension Contributions
  - Technical data analysis of 2018 and 2019 contributions
  - Review of contribution receipts exceeding IRS limits
  - Recalculated employee contributions based on reported salary
    ◊ Reviewed results by city and member
  - Number of individual contribution receipts tested:
    ◊ 2018 – 1,338,081
    ◊ 2019 – 1,365,123

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

Summary Net Position (in millions)	12/31/2019	12/31/2018	$ Change	% Change
Investments, at fair value	$ 31,871.2	$ 27,973.6	$ 3,897.6	13.9 %
Cash, receivables and other	479.5	778.6	(299.1)	(38.4)
Capital assets, net	8.5	9.1	(0.6)	(6.6)
Total assets	32,359.2	28,761.3	3,597.9	12.5
Due to custodial/depository banks	5.5	103.2	(97.7)	(94.7)
Other liabilities	539.9	974.6	(434.7)	(44.6)
Total liabilities	545.4	1,077.8	(532.4)	(49.4)
Net Position Restricted for Pensions	$ 31,813.8	$ 27,683.6	$ 4,130.2	14.9 %

- Fluctuations in receivables and other liabilities are due to changes in open trades receivable and payable from year-to-year (timing of trade activity near year-end).

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Financial Highlights (continued)

Summary Change in Net Position (in millions)	2019	2018	$ Change	% Change
Additions:				
Employer contributions	$ 930.2	$ 881.5	$ 48.7	5.5 %
Plan member contributions	453.6	427.8	25.8	6.0
Net investment income/(loss)	4,279.5	(858.1)	5,137.6	598.7
Total additions	5,663.3	451.2	5,212.1	1,155.2
Deductions:				
Retirement benefits	1,445.5	1,335.2	110.3	8.3
Refunds	62.7	64.3	(1.6)	(2.5)
Administrative & other costs	24.9	17.5	7.4	42.3
Total deductions	1,533.1	1,417.0	116.1	8.2
Net increase/(decrease) in net position	4,130.2	(965.8)	5,096.0	527.6
Net position - beginning of year	27,683.6	28,649.4	(965.8)	(3.4)
Net position - end of year	$ 31,813.8	$ 27,683.6	$ 4,130.2	14.9 %

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Financial Highlights (continued)

- The increase in employer and plan member contributions from 2018 to 2019 is due to the increase in covered payroll from $6.44 billion in 2018 to $6.79 billion in 2019. City membership also increased over the period, totaling 888 and 887 at December 31, 2019 and 2018, respectively.

- The change in net investment income/(loss) from 2018 to 2019 primarily results from the change in the net appreciation/(depreciation) in the fair value of investments during the periods ($3.8 billion appreciation and $1.4 billion depreciation during the years ended 2019 and 2018, respectively). During the two years ending 2019, 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 (69,625 and 66,051 in 2019 and 2018, respectively), as well as annuity increases (COLAs) that may be applied each year.

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Jason Ostroski, CPA
Engagement Principal
Jason.Ostroski@claconnect.com
410-308-8029

Brittany Smith, CPA
Engagement Manager
Brittany.Smith@claconnect.com
425-250-6023