

AUDITOR'S REPORT

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM CONTROLS OVER GASB 68, *ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS* AS OF DECEMBER 31, 2017



May 17, 2019

**Michael Post, C.P.A., M.B.A.
Harris County Auditor**

Leslie Wilks Garcia, C.P.A., C.F.E.
First Assistant County Auditor



1001 Preston, Suite 800
Houston, Texas 77002-1817
(832) 927-4600

Errika Perkins, C.P.A., C.I.A.
Chief Assistant County Auditor
Audit Division

FAX (713) 755-8932
Help Line (832) 927-4558

MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

May 17, 2019

Mr. David Kester, Director
Human Resources and Risk Management
1310 Prairie, 2nd Floor
Houston, Texas 77002

RE: Texas County and District Retirement System GASB 68 Controls for 12 month period ended December 31, 2017

The Audit Services Department performed procedures relative to the Texas County and District Retirement System (TCDRS) controls over Governmental Accounting Standards Board Statement Number 68, *Accounting and Financial Reporting for Pensions* (GASB 68), for the 12 month period ended December 31, 2017. The objective of the engagement was to evaluate the existence of the user entity controls and verifications required by GASB 68.

Our procedures regarding GASB 68 Controls included determining whether:

1. Only authorized personnel have permission to access data-related functions on the TCDRS Website.
2. There is a designated employee that maintains documentation regarding pension plan provisions and that controls are in place to ensure pension plan changes are submitted to TCDRS by their due date.
3. Information provided to TCDRS by authorized personnel is accurate, complete and in accordance with the pension plan guidelines.
4. Only authorized personnel have access to the payroll function on the TCDRS website.
5. Payroll amounts included in payroll files submitted to TCDRS are complete and accurate.
6. Contribution amounts on the TCDRS website are accurate, which includes employee deposits, employer contributions, and group term life premiums (if applicable).
7. Transactions posted to the employer account, as listed on the Employer Account Statement located on the TCDRS website, are reviewed and confirmed.
8. Only appropriate personnel are authorized to certify employee withdrawals and distribution requests.
9. Access to personal computers and terminals is limited to authorized and appropriate personnel.
10. There is a designated Security Administrator that regularly reviews which individuals have access to the TCDRS website and whether their access is appropriate based on their job description and duties.

Mr. David Kester, Director
Human Resources and Risk Management

11. The data TCDRS publishes about the County's pension plan reasonably matches the data provided to TCDRS.
12. GASB census data is accurate and complete.
13. GASB census data accurately represents the data in the GASB 68 report.

In addition to the GASB 68 control procedures performed above, we performed the following:

14. Determined the adequacy of the System and Organization Controls (SOC 1SM) Report on TCDRS's Description of its Pension Management System and the Suitability of the Design and Operating Effectiveness of Controls.
15. On a test basis, determined whether eligible employees are enrolled in TCDRS.

The work performed required our staff to exercise professional judgement in completing the scope procedures. As the procedures were not a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

No issues were identified during this engagement. We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Michael Post
County Auditor

cc: District Judges
County Judge Lina Hidalgo
Commissioners:
R. Jack Cagle
Rodney Ellis
Adrian Garcia
Steve Radack
Kim Ogg
Vince Ryan
William J. Jackson

TABLE OF CONTENTS

OVERVIEW	4
RESULTS	5

OVERVIEW

TCDRS was created in 1967 by the Texas Legislature and partners with Texas counties and districts to provide their employees with retirement, disability, and survivor benefits. TCDRS is governed by the Texas Legislature and is overseen by an independent board of trustees, which is responsible for the administration of the system. Each plan is funded independently by the county or district (employer contributions), its employees (employee contributions), and investment earnings.

As outlined in the County's Personnel Regulations for calendar year 2017, the County is a member of TCDRS. Commissioners Court determines and approves the amount of employee contributions and employer matching to TCDRS annually at its discretion. TCDRS uses an Annually Determined Contribution Rate Plan to determine the rate required to finance these benefits. The cost is based on a number of factors as well as the benefit options adopted by Commissioners Court. The results of an annual actuarial valuation of liabilities to finance the adopted benefit options also influence the cost. The Greater Harris County 9-1-1 Emergency Network (9-1-1) is also a TCDRS participant, and the County's Human Resources & Risk Management Department (HRRM) performs the monthly TCDRS calculation and payment to TCDRS for both the County and 9-1-1. HRRM enters all required TCDRS form data into the TCDRS secure online system directly.

GASB 68 establishes the standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. As net pension liability now appears on the County's Statement of Net Position, the data related to the County's TCDRS Pension Plan must be reliable. This is a shared responsibility between TCDRS and the County.

TCDRS provides a Service Organization Control (or SOC 1) Report to help assure the County's external auditors that TCDRS financial reporting data is reliable. The SOC 1 Report:

- Lists high-level business and IT objectives that support TCDRS financial statement data.
- Details the supporting controls that TCDRS has in place to mitigate operational risk.
- Shows the results of TCDRS's auditor's tests of those controls.
- Outlines the objectives employers (Harris County) are responsible for.

The County's "employer controls" (called Complementary User Entity Controls in the SOC 1) are the processes the County must have in place to help ensure that the data in the County's financial statements regarding the County's TCDRS retirement plan is reliable. These controls complement TCDRS controls and address some aspect of data access, data accuracy and data submission.

In addition to the employer controls, the County is responsible for verifying the data that TCDRS publishes matches the data that the County submitted. The County's auditors are also responsible for reviewing the adequacy of the TCDRS SOC 1 Report and that the GASB 68 report has accurate census data.

RESULTS

Based on the procedures performed for the TCDRS GASB 68 Controls for the 12 month period ended December 31, 2017, no issues were identified during this engagement. Additionally, HRRM had the required GASB 68 user entity controls in place to ensure that:

1. Only authorized personnel had permission to access data-related functions on the TCDRS website.
2. There was a designated employee that maintained documentation regarding pension plan provisions and that controls were in place to ensure pension plan changes were submitted to TCDRS by their due date.
3. Information provided to TCDRS by authorized personnel was accurate, complete, and in accordance with the pension plan guidelines.
4. Only authorized personnel had access to the payroll function on the TCDRS website.
5. Payroll amounts included in payroll files submitted to TCDRS were complete and accurate.
6. Contribution amounts on the TCDRS website were accurate.
7. Transactions posted to the employer account, as listed on the *Employer Account Statement* located on the TCDRS website, were reviewed and confirmed.
8. Only appropriate personnel were authorized to certify employee withdrawals and distribution requests.
9. Access to personal computers and terminals were limited to authorized and appropriate personnel.
10. There was a designated Security Administrator that regularly reviewed which individuals had access to the TCDRS website and whether their access was appropriate based on their job description and duties.
11. The data TCDRS published about the County's pension plan reasonably matched the data provided to TCDRS.
12. GASB census data was accurate and complete.
13. GASB census data accurately represented the data in the GASB 68 report.

In addition to the GASB 68 control items above, we also noted the following based on our procedures performed:

14. The SOC 1 report for TCDRS in 2017 was reasonable.
15. All eligible employees were enrolled in TCDRS.