



November 6, 2015

Mr. Brian Guthrie, Executive Director  
Teacher Retirement System  
1000 Red River Street  
Austin, TX 78701

Dear Mr. Guthrie:

The State Auditor's Office (Office) audited the financial statements of the major enterprise funds and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund of the Teacher Retirement System (System) for the year ended August 31, 2014. We also audited the schedule of employer allocations as of and for the year ended August 31, 2014. As part of those audits, we conducted census data testing of the information for state fiscal year 2014.

The Office explicitly followed the guidance issued in the American Institute of CPAs (AICPA) February 2014 white papers titled Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements and Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting, as well as the AICPA audit interpretations associated with the new requirements, to complete testing of the census data and the required employer liability schedules for the System. This approach included the Office determining the completeness and accuracy of the census data and the employer schedules.

For census data testing, the Office implemented a risk-based approach for selecting employers for state fiscal year 2014 census data testing as described in the white papers. This approach resulted in the Office selecting 89 employers for which census data would be tested. The Office followed the AICPA sampling guide methodology and selected a representative population of employees from each employer selected for testing.

Based on the information in the white paper titled Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements and discussions with the System's plan actuarial expert, as well as with the Office's actuarial expert, the Office identified the following as key fields to include in the census data testing for employers:

- Name.
- Date of Birth.
- Years of Service.
- Eligible Compensation.
- Gender.
- Employment Status.

Mr. Brian Guthrie, Executive Director  
Teacher Retirement System  
November 6, 2015  
Page 2

Based on the testing performed, the Office determined that the underlying census data was materially complete and accurate to support the System plan's financial statement amounts. This is reflected as part of the Office's unqualified audit opinion on the System's financial statements for fiscal year 2014. The Office issued a finding to the System recommending that the System strengthen its controls over the verification of active member census data as reported in SAO report number 15-010.

### **Employer Allocation Schedules**

Additionally, the Office issued a separate AICPA Section 805 opinion on the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer (Schedules). The Office performed procedures to identify and assess the risks of material misstatement of the net pension liability, deferred inflows and outflows of resources, pension expense, and contributions.

Based on the assessed risk of material misstatement, the Office determined the nature, timing, and extent of substantive procedures to be performed. The best practices outlined in the white paper included the Office calculating a level of materiality specific to the amounts on each of the System's Schedules. The Office performed detailed test work on both of those schedules, which included tracing reporting amounts back to the System's source data for the information.

Based on the work performed on those two schedules, the Office issued an unqualified opinion on the "Schedule of Employer Allocations" and the "Schedule of Pension Amounts by Employer." The Office determined that those two schedules were materially correct and reported in accordance with applicable generally accepted accounting principles (GAAP). However, the Office identified one significant deficiency in the System's controls over the preparation of the schedules as reported in SAO report number 15-035 issued in June 2015.

Sincerely,



Lisa R. Collier, CPA, CIDA  
First Assistant State Auditor