

Audit and Risk Committee meeting

Schedule	Thursday, November 10, 2022 9:30 AM — 10:30 AM CST
Venue	6850 Austin Center Blvd., Suite 320, Austin, TX 78731
Organizer	Sarah McCleary

Agenda


1. Call roll of Committee members

Presented by Committee Chair Sinclair

 [Item #1 Summary.docx](#)


2. Review order of business and meeting objectives

Presented by Committee Chair Sinclair

 [Item #2 Summary.docx](#)

3. Consider approval of the August 25, 2022 Audit and Risk Committee minutes

Presented by Committee Chair Sinclair

 [Item #3 Summary.docx](#)

 [2022 08 25 Audit and Risk Committee Minutes.docx](#)

4. Discuss and consider CliftonLarsonAllen (CLA) statement of work for 12/31/2022 financial statement audit

Presented by Russell Nash

 [Item #4 Summary.docx](#)

 [Statement of Work - Audit Services_COAERS_123122.pdf](#)

5. Discuss and consider the COAERS Enterprise Risk Management Program

Presented by Christopher Hanson





 [Item #5 Summary.docx](#)

 [2023 Draft Risk Management System Report.pdf](#)




6. Receive Staff reports on the following matters:

A. Third quarter 2022 Unaudited Financial Statements


B. Cybersecurity update

-  Agenda Item #6a Summary.docx
 -  FINAL Q3 2022 Financial Statements.pdf
 -  Agenda Item #6b Summary.docx
 -  CybersecurityProgramQ4_22.pptx
-

7. Review 2022 Committee Work Plan and discuss development of 2023 Work Plan
Presented by Christopher Hanson

-  Agenda Item #7 Summary.docx
 -  2022 Audit and Risk Committee Work Plan.docx
 -  Draft 2023 Audit and Risk Committee Work Plan.docx
-

8. Review key meeting takeaways and call for future agenda items
Presented by Committee Chair Sinclair

-  Item #8 Summary.docx
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1. Call roll of Committee members

Presented by Committee Chair Sinclair

AGENDA ITEM 1:
Call roll of Committee members

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to determine for the record which Trustees are present at the start of the meeting.

Each Trustee should respond to the roll call, and it will be noted which Trustees are present in person and which Trustees have joined via video conference.

2. Review order of business and meeting objectives

Presented by Committee Chair Sinclair

AGENDA ITEM 2:

Review order of business and establish meeting objectives

AGENDA ITEM OBJECTIVE

This agenda item provides Trustees the opportunity to review the order of business and to express a desire to take an agenda item out of order, and to discuss the key objectives of the meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

MEETING OBJECTIVES

1. The Committee will discuss and consider the statement of work from CliftonLarsonAllen (CLA) for the 12/31/2022 financial statement audit.
2. The Committee will discuss a report on the System's Enterprise Risk Management program and proposed risk management activities for 2023.
3. As part of its oversight and monitoring responsibilities, the Committee will receive Staff reports on the second quarter 2022 unaudited financial statements and COAERS 2022 cybersecurity projects.
4. The Committee will review the work it has done in 2022 and discuss the development of the 2023 Committee Work Plan.

3. Consider approval of the August 25,
2022 Audit and Risk Committee minutes
Presented by Committee Chair Sinclair

AGENDA ITEM 3:

Consider approval of the August 25, 2022 Audit and Risk Committee minutes

AGENDA ITEM OBJECTIVE

This standing agenda item seeks approval of the minutes from the prior Audit and Risk Committee meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency established in the **COAERS Strategic Plan** “*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the August 25, 2022 Audit and Risk Committee meeting.

ATTACHMENT

1. Draft minutes of August 25, 2022 Audit and Risk Committee meeting



MINUTES

AUDIT AND RISK COMMITTEE

Public Meeting held in-person and telephonically on August 25, 2022 at 11:45 a.m. CT
Pursuant to Texas Govt. Code 551.127

Committee Members Present/(Absent)

Brad Sinclair, Committee
Chair
Anthony B. Ross, Sr.
Diana Thomas†
Michael Granof
Dick Lavine†

Other Board Trustees Present/(Absent)

Michael Benson
Kelly Crook
(Amy Hunter)
(Leslie Pool)
(Yuejiao Liu)
Chris Noak

Others Present

Staff:
Christopher Hanson
Russell Nash
Sarah McCleary
Amy Kelley*
Mehrin Rahman
Yun Quintanilla*
Jenni Bonds*
Cathy Edwards
Michelle Mahaini*
Bertie Corsentino*
David Kushner
Teresa Cantu*

Guests:
Paige Saenz*, General
Counsel

*present telephonically
† present videoconference

1 Call roll of Committee members

Committee Chair Brad Sinclair called the meeting to order at 12:20 p.m. The following Committee members were present in person: Sinclair, Granof, and Ross. The following Committee members were present via videoconference: Thomas and Lavine.

Committee Chair Sinclair asked if there were any members of the public who wished to speak, either now or during an agenda item. There were no comments.

2 Review order of business and establish meeting objectives

Committee Chair Sinclair reviewed the order of business and meeting objectives with the Committee. No changes were made to the order of business.

3 Consider approval of the June 2, 2022 Audit and Risk Committee minutes

Committee Chair Sinclair asked the Committee to review the Audit and Risk Committee minutes. Mr. Anthony B. Ross Sr. moved approval of the June 2, 2022

minutes as presented. Dr. Michael Granof seconded, and the motion passed unanimously.

4 Discuss and consider the COAERS Enterprise Risk Management program including reports on counterparty, physical, reputational and adaptability

Mr. Christopher Hanson presented a report on the Enterprise Risk Management program, focusing on the following risk categories: counterparty, physical, reputational, and adaptability. Mr. Hanson reviewed ongoing risk management activities in each category. He reminded Trustees that the risk management program operates with a quarterly review on four risk categories, and in November the Staff and Committee will look at the overall risk management reporting system to ensure the categories and identified risks remain current.

**5 Receive Staff reports on the following matters:
A. Second quarter 2022 Unaudited Financial Statements**

Ms. Cathy Edwards presented the second quarter financial statements.

B. Cybersecurity update

Committee Chair Sinclair announced that the Committee would convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089, Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices.

The Committee convened into Executive Session at 12:46 p.m. and reconvened into public session at 12:59 p.m.

6 Receive report on annual review of financial statement auditor

Mr. Russell Nash delivered the report of the financial statement auditor. He noted that in 2023 the auditors would discuss which Trustee positions would be included in the interview process. An engagement letter for the 12/31/22 audit would be presented to the Committee in November.

7 Review key meeting takeaways and call for future agenda items

Committee Chair Sinclair summarized the actions taken and information discussed at the meeting and provided an opportunity to add future agenda items.

As there were no other items to address, the meeting adjourned at 1:01 p.m.

4. Discuss and consider
CliftonLarsonAllen (CLA) statement of
work for 12/31/2022 financial statement
audit

Presented by Russell Nash

AGENDA ITEM 4:

Discuss and consider CliftonLarsonAllen (CLA) statement of work for 12/31/2022 financial statement audit

AGENDA ITEM OBJECTIVE

The Audit and Risk Committee has oversight responsibility for COAERS' financial statement auditors.

RELEVANCE TO STRATEGIC PLAN

The objective of this agenda item advances **COAERS Strategic Plan Goal 2: Responsibly Manage the Risks of the System** and meets the core competency established in the **COAERS Strategic Plan** *“Dependable Operations: Managing the financial and operational commitments within appropriate measurable standards.”* Auditing the COAERS financial statements provides Trustees, members, and the public reasonable assurance that the financial statements are free from material misstatement.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends the Committee refer the statement of work with CliftonLarsonAllen (CLA) for the 12/31/2022 financial statement audit to the Board for approval.

BACKGROUND

On July 1, 2021, COAERS released a Request for Proposal (RFP) for financial statement audit services. After a due diligence process, CliftonLarsonAllen (CLA) was selected. This will be the second year that CLA has audited COAERS. A statement of work for the audit of the December 31, 2022 financial statements is attached.

ATTACHMENTS

1. CliftonLarsonAllen Statement of Work – Audit Services



Statement of Work - Audit Services

October 7, 2022

This document constitutes a statement of work ("SOW") under the master service agreement ("MSA") dated December 14, 2021, or superseding MSA, made by and between CliftonLarsonAllen LLP ("CLA," "we," "us," and "our") and City of Austin Employees Retirement System ("you," "your," or "the entity"). We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services CLA will provide for the entity as of and for the year ended December 31, 2022.

Bhakti Patel is responsible for the performance of the audit engagement.

Scope of audit services

We will audit the financial statements of the City of Austin Employees Retirement System, and the related notes to the financial statements.

The Governmental Accounting Standards Board (GASB) provides for certain required supplementary information (RSI) to accompany the entity's basic financial statements.

The RSI will be subjected to certain limited procedures, but will not be audited.

We will also evaluate and report on the presentation of the supplementary information other than RSI accompanying the financial statements in relation to the financial statements as a whole.

Nonaudit services

We will also provide the following nonaudit services:

- Preparation of the Schedule of Pension Amounts and related notes

Audit objectives

The objectives of our audit of the financial statements are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion about whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered

material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Our audits will be conducted in accordance with U.S. GAAS. Those standards require us to be independent of the entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. Our audit will include tests of your accounting records and other procedures we consider necessary to enable us to express such opinions.

We will apply certain limited procedures to the RSI in accordance with U.S. GAAS. However, we will not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We will also perform procedures to enable us to express an opinion on whether the supplementary information (as identified above) other than RSI accompanying the financial statements is fairly stated, in all material respects, in relation to the financial statements as a whole.

We will issue a written report upon completion of our audit of your financial statements.

Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph to our auditors' report, or if necessary, withdraw from the engagement. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming opinions on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express opinions or issue a report, or withdrawing from the engagement.

It is our understanding that our auditors' report will be included in your annual report which is comprised of the Introductory, Investment, Actuarial, and Statistical sections and that your annual report will be issued on the same date as the financial statements. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Auditor responsibilities, procedures, and limitations

We will conduct our audit in accordance with U.S. GAAS.

Those standards require that we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. As part of our audit, we will:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and evaluate whether audit evidence obtained is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the amounts and disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on our evaluation of audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

Although our audit planning has not been concluded and modifications may be made, we have identified the following significant risk(s) of material misstatement as part of our audit planning:

- Investments
- Investment Income
- Employee and employee contributions

We plan to use an auditors' specialist to review the GASB 67 disclosure information prepared by the actuarial firm engaged by you.

There is an unavoidable risk, because of the inherent limitations of an audit, together with the inherent limitations of internal control, that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with U.S. GAAS. Because we will not perform a detailed examination of all transactions, material misstatements, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity, may not be detected.

In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements.

However, we will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management and those charged with governance of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Management responsibilities

Our audit will be conducted on the basis that you (management and, when appropriate, those charged with governance) acknowledge and understand that you have certain responsibilities that are fundamental to the conduct of an audit.

You are responsible for the preparation and fair presentation of the financial statements and RSI in accordance with U.S. GAAP.

Management's responsibilities include the selection and application of accounting principles; recording and reflecting all transactions in the financial statements; determining the reasonableness of significant accounting estimates included in the financial statements; adjusting the financial statements to correct material misstatements; and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for 12 months beyond the financial statement date.

You are responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities and safeguarding assets. You are responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud; assessing the risk that the financial statements may be materially misstated as a result of fraud; and for informing us about all known or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations, and informing us of all instances of identified or suspected noncompliance whose effects on the financial statements should be considered.

You are responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, including amounts and disclosures, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters, and for the accuracy and completeness of that information (including information from within and outside of the general and subsidiary ledgers); (2)

additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

You agree to inform us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements.

Management is responsible for the preparation of the supplementary information in accordance with U.S. GAAP. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. You agree to provide us written representations related to the presentation of the supplementary information.

Management is responsible for the preparation of other information included in your annual report. You agree to provide the final version of such information to us in a timely manner, and if possible, prior to the date of our auditors' report. If the other information included in your annual report will not be available until after the date of our auditors' report on the financial statements, you agree to provide written representations indicating that (1) the information is consistent with the financial statements, (2) the other information does not contain material misstatements, and (3) the final version of the documents will be provided to us when available, and prior to issuance of the annual report by the entity, so that we can complete the procedures required by professional standards. Management agrees to correct material inconsistencies that we may identify. You agree to include our auditors' report in any document containing financial statements that indicates that such financial statements have been audited by us.

Management is responsible for providing us with a written confirmation concerning representations made by you and your staff to us in connection with the audit and the presentation of the basic financial statements and RSI. During our engagement, we will request information and explanations from you regarding, among other matters, the entity's activities, internal control, future plans, specific transactions, and accounting systems and procedures. The procedures we will perform during our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the representations that we receive in the representation letter and otherwise from you. Accordingly, inaccurate, incomplete, or false representations could cause us to expend unnecessary effort or could cause a material fraud or error to go undetected by our procedures. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the entity's financial statements that we may fail to detect as a result of misrepresentations made to us by you.

Responsibilities and limitations related to nonaudit services

For all nonaudit services we may provide to you, management agrees to assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience to understand and oversee the services; evaluate the adequacy and results of the services; and accept responsibility for the results of the services.

Management is also responsible for ensuring that your data and records are complete and that you have received sufficient information to oversee the services.

Use of financial statements

Should you decide to include or incorporate by reference these financial statements and our auditors' report(s) thereon in a future private placement or other offering of equity or debt securities, you agree that we are under no obligation to re-issue our report or provide consent for the use of our report in such a registration or offering document. We will determine, at our sole discretion, whether we will re-issue our report or provide consent for the use of our report only after we have performed the procedures we consider necessary in the circumstances. If we decide to re-issue our report or consent to the use of our report, we will be required to perform certain procedures including, but not limited to, (a) reading other information incorporated by reference in the registration statement or other offering document and (b) subsequent event procedures. These procedures will be considered an engagement separate and distinct from our audit engagement, and we will bill you separately. If we decide to re-issue our report or consent to the use of our report, you agree that we will be included on each distribution of draft offering materials and we will receive a complete set of final documents. If we decide not to re-issue our report or decide to withhold our consent to the use of our report, you may be required to engage another firm to audit periods covered by our audit reports, and that firm will likely bill you for its services. While the successor auditor may request access to our workpapers for those periods, we are under no obligation to permit such access.

If the parties (i.e., you and CLA) agree that CLA will not be involved with your official statements related to municipal securities filings or other offering documents, we will require that any official statements or other offering documents issued by you with which we are not involved clearly indicate that CLA is not involved with the contents of such documents. Such disclosure should read as follows:

CliftonLarsonAllen LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website or submitted on a regulator website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

We may issue preliminary draft financial statements to you for your review. Any preliminary draft financial statements should not be relied on or distributed.

Engagement administration and other matters

We understand that your employees will prepare all confirmations, account analyses, and audit schedules we request and will locate any documents or invoices selected by us for testing. A list of information we expect to need for our audit and the dates required will be provided in a separate communication.

Professional standards require us to be independent with respect to you in the performance of these services. Any discussion that you have with our personnel regarding potential employment with you could impair our independence with respect to this engagement. Therefore, we request that you inform us prior to

any such discussions so that we can implement appropriate safeguards to maintain our independence and objectivity. Further, any employment offers to any staff members working on this engagement without our prior knowledge may require substantial additional procedures to ensure our independence. You will be responsible for any additional costs incurred to perform these procedures.

Our audit engagement ends on delivery of our signed report. Any additional services that might be requested will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific SOW for that service.

Fees

Our professional fees will not exceed \$66,000. This estimate is based on anticipated cooperation from your personnel and their assistance with locating requested documents and preparing requested schedules. If the requested items are not available on the dates required or are not accurate, the fees and expenses will likely be higher. Our invoices, including applicable state and local taxes, will be rendered each month as work progresses and are payable on presentation.

Unexpected circumstances

We will advise you if unexpected circumstances require significant additional procedures resulting in a substantial increase in the fee estimate.

Changes in accounting and audit standards

Standard setters and regulators continue to evaluate and modify standards. Such changes may result in new or revised financial reporting and disclosure requirements or expand the nature, timing, and scope of the activities we are required to perform. To the extent that the amount of time required to provide the services described in the SOW increases due to such changes, our fee may need to be adjusted. We will discuss such circumstances with you prior to performing the additional work.

Agreement

We appreciate the opportunity to provide to you the services described in this SOW under the MSA and believe this SOW accurately summarizes the significant terms of our audit engagement. This SOW and the MSA constitute the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions between you and CLA related to audit services. If you have any questions, please let us know. Please sign, date, and return this SOW to us to indicate your acknowledgment and understanding of, and agreement with, the arrangements for our audit of your financial statements including the terms of our engagement and the parties' respective responsibilities.

Sincerely,

CliftonLarsonAllen LLP

Response:

This letter correctly sets forth the understanding of City of Austin Employees Retirement System.

CLA
CLA

Client
City of Austin Employees Retirement System

SIGN:

Bhakti Patel, Assurance Principal

SIGN:

Christopher Noak, Chairman of the Board of Trustees

DATE:

DATE:

**5. Discuss and consider the COAERS
Enterprise Risk Management Program**
Presented by Christopher Hanson

AGENDA ITEM 5:

Discuss and consider the COAERS Enterprise Risk Management program

AGENDA ITEM OBJECTIVE

This agenda item is for the Committee to review and discuss the Enterprise Risk Management Program including proposed risk activities for 2023.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.** The Committee's regular review of the COAERS Enterprise Risk Management System is one of the strategic objectives of Goal 2 and a key performance indicator in the successful implementation of all annual risk management activities.

RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

BACKGROUND

COAERS Enterprise Risk Management Policy requires the Audit and Risk Committee to annually review the COAERS Risk Management System report. Staff has prepared draft updates to the report and will review the proposed changes for the risk categories, action items, and notable risks with the Committee.

ATTACHMENT

1. Draft COAERS Risk Management System 2023 Report



Enterprise Risk Management Report

	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee
1st Quartile Risk	FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	1	High	High	↑	Mitigate	Executive Director	Benefits and Services Committee
	MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee
	CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee
2nd Quartile Risk	OPERATIONAL	Event causes a major business interruption	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	5	Medium	Medium	↑	Mitigate	Executive Director	Legislative Committee
	COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee
3rd Quartile Risk	MISSION	Inability to make monthly retirement benefit payments	7	Medium	Medium	↔	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, and Investment Committee
	GOVERNANCE	Not following processes and procedures in decision making	8	Medium	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee
	PERSONNEL	Ability to attract and retain talented staff; succession planning	9	Medium	Medium	↔	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees
4th Quartile Risk	PHYSICAL	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	10	Low	Low	↔	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees
	REPUTATIONAL	Erosion of trust in organization either rapidly or slowly over a period of time	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	12	Low	Low	↔	Mitigate	Executive Director	Board of Trustees



Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee	
			2022	2023	Risk Level Trend (next 12 months)			Activity Status	
FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	1	High	High	↑	Mitigate	Executive Director	Benefits and Services Committee	
Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
System funded ratio and amortization period expected to deteriorate due to 2022 market losses.	Seek passage of pension legislation to address long-term financial sustainability							OPEN	CLOSED
	Conduct 12/31/2022 actuarial valuation and risk sharing valuation study								
	Update Funding Policy with City of Austin and continue reporting to Board								
	Inform members and stakeholders on legislative progress and provide notice of bill enactment and effective dates of admin changes								
	Host stakeholder meeting on funded status of the System								
	Continue regular cash flow and benefit monitoring.								
Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items				
Assets insufficient to fund liabilities			High	High	Annual Actuarial Valuation and Board Funding Policy				
Contribution rates are not sufficient to fund benefits			High	High	Asset/Liability Study				
Unexpected increase in benefits payroll			Medium	Medium	Cash flow monitoring and monthly benefit reporting				
Unexpected decline in sponsor payroll			Medium	Medium	Cash flow monitoring and monthly benefit reporting				
Rate of Return assumption too aggressive			Medium	Medium	Actuarial Experience Studies				
Actuarial miscalculation			Low	Medium	Actuarial Audit by sponsor				
Sponsor closes DB plan in favor of DC plan			Low	Medium	Communication with membership				

1st Quartile Risk



Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee		
Current Status Summary (Trending)	2023 Risk Management Activities								Activity Status	
Large drawdown of -20% as of Q3 2022 has increased realized volatility on a 5-year basis to near the upper end of the range targeted in policy. Relative outperformance has somewhat dampened the current drawdown in Fund AUM.	Conduct Asset/Liability and Asset Allocation studies to evaluate appropriateness of the Strategic Asset Allocation								OPEN	CLOSED
	Update Investment Risk Framework by deploying investment risk management software to enhance risk management capabilities									
	Conduct CEM Investment Cost Benchmarking to evaluate value for investment fees paid									
Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items					
Large market drawdown			High	High	Investment Risk Framework					
Lower longer-term performance vs. assumed rate			Medium	High	Strategic Asset Allocation Study and Asset-Liability Study					
Poor implementation of policy leads to underperformance vs. the benchmark			Medium	Medium	Annual review of key policies, regular performance rating					
Poor investment manager performance			Medium	Medium	Premier List					
Failure to adapt diversification strategy			Medium	High	Investment Risk Framework					
Poor value for investment fees paid			Low	Medium	Premier List and CEM Investment Benchmarking					
Chasing performance			Low	Medium	Strategic Asset Allocation Reviews (annual)					

1st Quartile Risk



Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023						
CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee		
1st Quartile Risk	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Cyber activity continues to increase globally. Breaches and attacks have grown significantly since the outset of the COVID-19 pandemic. While the System has taken significant steps to improve its cybersecurity posture, this activity would indicate this risk trend is increasing.	Continue to develop and build security program utilizing NIST compliance.							OPEN	CLOSED
		Continue build out of best-in class disaster recovery.								
		Continue to mature IT security program.								
		Implement third-party vendors risk management to key vendors.								
		Perform network penetration testing								
Notable Risks (Root Causes)	Probability	Impact	Risk Management Strategies and Action Items							
Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions	Medium	High	MSSP and IT Security Program; Web Application Firewall; HA Palo Alto; Global Protect VPN and Wildfire subscriptions; SOC							
Phishing attack (ransomware, credential harvesting)	Medium	High	KnowBe4 Security Awareness Training and Phish Tests; HA Palo Alto							
Website attack (DDos, SQL Injection, Cross site scripting, Illegal resource access)	Medium	High	MSSP and IT Security Program; Web Application Firewall; HA Palo Alto							
3rd party data breach	Medium	Medium	Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Mgmt							
Internal COAERS employee attack	Low	High	KnowBe4 Security Awareness Training; Strict financial auditing controls and separation of duties; IT Security policies; Data management and classification							
IT disruptions caused by outdated hardware and software	Low	Medium	Asset management/Patch management							
Member Direct user imposter	Low	Medium	LexisNexis; MFA; Membership education on cybersecurity awareness							



Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
OPERATIONAL	Event causes a major business interruption	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee		
Current Status Summary (Trending)	2023 Risk Management Activities								Activity Status	
								OPEN	CLOSED	
Post pandemic operations have been put in place as the new normal mode of conducting business. Customer survey results are positive and within strategic plan threshold. New audit firm relationship is strong. Policies and procedures update. Financial controls in place.	Conduct 12/31/2022 financial statement audit.									
	Continue implementation of RSM Rapid Assessment recommendations.									
	Continue the development of COAERS IT Roadmap for operational technology upgrades in the future.									
	Implement restructure of work teams to mitigate effects of attrition and handle future demand for services.									
Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items					
Obsolescence of service delivery methods			Medium	Medium	Communication with membership regarding business operations					
IT disruptions			Medium	Medium	Capital Improvement Plan					
Pandemic or natural disaster			Medium	Medium	COAERS Workplace Strategy and Guidelines					
Customer service failures			Medium	Medium	Employee Training/Reviews/Internal Communication					
Accounting and reporting			Low	High	Financial Statement Audit					
Fraud			Low	High	Internal controls, policies, and procedures					
Business Continuity			Low	High	Backup & Disaster Recovery Plan/Testing					
Failure to follow applicable laws, regulations and policies			Low	Medium	Legal reviews by tax and general counsel					
Benefit payment inaccuracies			Low	Medium	Internal controls, policies, and procedures					
Records management			Low	Low	Electronic File & Delivery Systems					

2nd Quartile Risk



Enterprise Risk Management Report

2nd Quartile Risk	Expected Risk Level Trend (next 12 months)										
	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee		
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	5	Medium	Medium	↑	Mitigate	Executive Director	Legislative Committee		
	Current Status Summary (Trending)		2023 Risk Management Activities							Activity Status	
	The 88th Legislative Session begins in January 2023. COAERS will be seeking the passage of legislation to improve the long-term financial sustainability of the System.		Seek passage of pension legislation.							OPEN	CLOSED
			Engage and educate key stakeholders and policymakers regarding COAERS 88th Legislative Session agenda.								
			Develop and adopt COAERS legislative agenda for 88th Session.								
			Engage stakeholders regarding legislative agenda and priorities.								
	Notable Risks (Root Causes)				Probability	Impact	Risk Management Strategies and Action Items				
	Outside organizations promoting anti-DB policies				Medium	Medium	Identify potential opposition groups and stakeholders and create unified messaging to combat misinformation				
Lack of relationships with key offices				Medium	High	Communications planning for legislative agenda messaging					
State forces legislative changes to plan				Medium	High	Engagement with governmental relations firms; development of legislative priorities and agenda; Increase stakeholder engagement on legislative agenda through events and meetings					
Lack of alignment with plan sponsor				Low	Medium	Develop and maintain strong communication with appropriate plan sponsor liaisons					



Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee		
2nd Quartile Risk	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Key vendor relationships are well-established and vendors are generally meeting expectations. Committees review key service providers such as investment consultant, actuary, and legal counsel. Third-party IT vendor compliance budgeted and implementation is planned for 2023. Results could reveal additional risks that would need to be addressed. Facility needs may lead to new vendor relationships.	Continual underwriting of premier list managers.							OPEN	CLOSED
		Issuance of RFP for General Investment Consultant.								
		Comprehensive review of custodial bank relationship								
		Annual review to Committees of key service providers.								
		Third-party IT security audits for mission-critical service providers.								
	Notable Risks (Root Causes)	Probability	Impact	Risk Management Strategies and Action Items						
	IT security providers and consultants	Medium	High	Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Management						
	City of Austin contribution issues	Low	High	Communication with plan sponsor; cash management program						
	Operating bank	Low	Medium	Monitor operating bank counterparty ratings; conduct security assessment; revisit interest credit rates; research alternative vendors						
Actuary	Low	Medium	Actuarial audits							
Legal counsel	Low	Medium	Engagement with specialized counsel							
Investment managers	Low	Medium	Premier List; Due Diligence							
Custodial banks	Low	High	IC Dashboard to monitor counterparty ratings							
Brokers and related vendors	Low	Low	Transaction Cost Analysis							
Medical consultants	Low	Low	Engagement with multiple parties including outsourced medical service provider program							
Investment consultant	Low	Low	Annual review of general investment consultant, issuance of RFP							



Enterprise Risk Management Report

3rd Quartile Risk	Enterprise Risk Management Report									
	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	MISSION	Inability to make monthly retirement benefit payments	7	Medium	Medium	↔	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, Investment Committee	
	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Trust fund liquidity and cash management activities continue to ensure promised benefits are paid. Successful initial tests of new disaster recovery system completed in 2022 along with new policies related to business continuity. Finance and Member Service division staff levels continue to support mission-critical activities in the near future, with long-term staffing assessment underway.	Cash projections and liquidity management.							OPEN	CLOSED
		Penetration testing to ensure systems resiliency and identify any critical weaknesses.								
		Continue to develop cross-training.								
		Implement team restructuring and professional development.								
	Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items				
	Employee turnover at critical positions			Medium	Medium	Succession planning and cross-training				
Lack of liquidity to make annuity payments			Low	High	Liquidity monitoring					
Failure to transmit bank files for payments			Low	High	Cash management program					
Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions			Low	High	Managed Service Security Provider/Security Program					
IT system outages			Low	Medium	Business continuity and disaster recovery plans					
Sponsor contribution not made timely			Low	Medium	Communication with plan sponsor					



Enterprise Risk Management Report

3rd Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	GOVERNANCE	Not following processes and procedures in decision making	8	Medium	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee	
	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	The implementation of the 2020 Governance Effectiveness Assessment has been completed. Board policy review cycles have been established and are monitored. Recently created policies such as the Board Governance Manual, Diversity Policy, Emergency Succession Policy, and Communications Policy bolster already effective Board governance.	Implementation of personalized Trustee education and professional development plans.							OPEN	CLOSED
		Board Annual Self-Assessment								
		Trustee continuing education and utilization of Board Skills Matrix to expand trustee training options.								
		Begin to foster candidates for possible future Board appointment								
	Notable Risks (Root Causes)				Probability	Impact	Risk Management Strategies and Action Items			
	Ineffective Board leadership				Medium	Medium	Board and Trustee Self-Evaluation			
	Policy-making versus administration lines not held				Low	Medium	Training/Policy & Procedure			
Effectiveness of board governance declines				Low	Medium	Board Governance Effectiveness Survey Follow-Up				
Policies and procedures not followed or established				Low	Medium	Regular Policy Review				
Lack of appropriate skills				Low	Medium	Board Skills Matrix and Board Education Policy				
Lack of trust between trustees				Low	Medium	Communication/Board Workshops				



Enterprise Risk Management Report

3rd Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	PERSONNEL	Ability to attract and retain talented staff; succession planning	9	Medium	Medium	↔	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees	
	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Retirement eligibility of a few mission critical employees will continue through 2026. The red-hot labor market may be showing signs of normalization. While COAERS experienced turnover in 2022, all vacant positions were filled with qualified talent. Member Services restructuring will add capacity and development opportunities.	Implement Member Services team restructure.							OPEN	CLOSED
		Provide training to new hires and professional development for existing staff.								
		Implement HR technology for more efficient and employee-friendly HR experience.								
		Continue long-term staffing assessment across all divisions.								
	Notable Risks (Root Causes)				Probability	Impact	Risk Management Strategies and Action Items			
	Employee burnout				High	Medium	Health insurance; "fit to work"			
	Employee retention and turnover				Medium	Medium	Cross-training for each position; Workplace Strategy and Guidelines			
Ability to attract top talent				Medium	Medium	Market compensation studies; Well-articulated compensation philosophy				
Lack of training opportunities				Low	Medium	Professional development and continuing education				
Lack of succession planning				Low	Medium	Succession planning				
Employees performing inadequately in position				Low	Medium	Performance appraisals; Professional development; Training; Personnel Policy and Employee Handbook				
Accidents/Injury/Health				Low	Medium	Workplace Safety Policy				
Employee resistance to culture change				Low	Medium	Management promoting culture statement				



Enterprise Risk Management Report

4th Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	PHYSICAL	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	10	Low	Low	↔	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees	
	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Hybrid work environment has mitigated certain physical risks. Long-term facilities decisions could be made at the beginning of 2023. Existing policies, procedures, vendors, and finances will need to be reviewed as long term facilities decisions are completed.	Long-term facility due diligence and planning for future office needs							OPEN	CLOSED
		Review existing policies and guidelines such as workplace safety in accordance with long-term facility decisions.								
	Notable Risks (Root Causes)	Probability	Impact	Risk Management Strategies and Action Items						
	Global pandemic	Low	Low	Workplace Strategy and Guidelines; Air quality monitoring; PPE where appropriate						
	Threats to physical safety of employees	Low	High	RAVE application; Workplace Safety Policy; Fire Drills and Training						
	Accidents or injury	Low	Medium	Workplace Safety Policy						
	Facility transition	Medium	Medium	Proper planning, communication, adaptability						
Physical risks created by facility management	Low	Medium	Facility management plan							
Public spaces in building	Low	Low	Key card system; Camera system							



Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
REPUTATIONAL	Erosion of trust in organization either rapidly or slowly over a period of time	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees		
4th Quartile Risk	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Organizational outreach and communication regarding funding and legislative proposal provided transparency about challenges and solutions. Stakeholder comments have been received, reviewed, and to the extent possible addressed. COAERS leadership is engaged with stakeholders, the City, legislative contingent, and PRB.	Continue promoting COAERS value proposition to members including launch of new Financial Wellness event.							OPEN	CLOSED
		Maintain contacts with industry media.								
		Respond rapidly and effectively as situations develop.								
		Keep stakeholders and membership informed and educated on key organization matters such as pension legislation.								
		Notable Risks (Root Causes)							Probability	Impact
Negative or inaccurate media content			Medium	Medium	Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications					
Social media comments			Medium	Low	Social Media Policy					
Unauthorized release of confidential information			Low	High	Control procedures and processes/financial audit					
Illegal/Unethical behavior			Low	High	Code of Ethics, Whistleblower Policy; Personnel Policy					
Poor outcomes for organization			Low	Medium	Customer service training; Engaging with stakeholders; Transparency					
Unauthorized contact with media			Low	Low	Communications Policy					



Enterprise Risk Management Report

4th Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	12	Low	Low	↔	Mitigate	Executive Director	Board of Trustees	
	Current Status Summary (Trending)	2023 Risk Management Activities							Activity Status	
	Strategic activities deployed in 2022 including the creation of an internal Innovation Committee. Strong engagement with staff led to several innovation submissions for review and implementation. Completed review of organizational strengths, challenges, threats, and opportunities at the Board and staff level.	Strategic KPIs for innovation.							OPEN	CLOSED
		Engagement with NACD, NCPERS, NASRA.								
		Develop and implement plans to build on key organizational strengths and address challenges.								
		Continue to promote culture statement internally and assess effectiveness through survey.								
	Notable Risks (Root Causes)				Probability	Impact	Risk Management Strategies and Action Items			
	Inability to innovate				Low	Medium	Implement technology and industry best practices; Professional development; Promote innovation internally			
	Inability to use analytics and data				Low	Medium	Utilize data and analytics			
Complacency and "we've always done it this way"				Low	Medium	Challenge traditional thinking; Engaging industry leading organizations; Executive Leadership				
Employee resistance to culture change				Low	Medium	Culture statement; Executive Leadership				

6. Receive Staff reports on the following matters:

A. Third quarter 2022 Unaudited Financial Statements

B. Cybersecurity update

AGENDA ITEM 6:
Receive Staff reports on the following matters:

A. Third quarter 2022 Unaudited Financial Statements

AGENDA ITEM OBJECTIVE

This agenda item fulfills one of the Committee's responsibilities set forth in the Committee Charter to review the System's quarterly financial statements.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency established in the **COAERS Strategic Plan** "*Dependable Operations: Managing the financial and operational commitments within appropriate measurable standards.*"

RECOMMENDATION FOR BOARD ACTION

No action required; for informational purposes only.

ATTACHMENT

1. 09/30/2022 Unaudited Financial Statements

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Fiduciary Net Position
September 30, 2022

	<u>Unaudited</u>		<u>Variance</u>
	<u>9/30/2022</u>	<u>9/30/2021</u>	Favorable (Unfavorable)
Assets			
Cash - operating account	\$ 19,324,008	\$ 13,415,489	\$ 5,908,519
Receivables:			
Other	81,355	73,964	7,391
Total cash and receivables	<u>19,405,363</u>	<u>13,489,453</u>	<u>5,915,910</u>
Investments, at fair value:			
US equities	915,319,761	1,115,262,479	(199,942,718)
DM Equities	367,797,215	507,029,748	(139,232,533)
EM Equities	190,320,344	280,151,214	(89,830,870)
Fixed income	626,627,526	736,183,539	(109,556,013)
Real assets	463,831,906	517,525,853	(53,693,947)
Multi-asset	135,795,386	171,721,925	(35,926,539)
Cash and cash equivalents	79,068,221	47,249,006	31,819,215
Total investments	<u>2,778,760,359</u>	<u>3,375,123,764</u>	<u>(596,363,405)</u>
Capital assets, net of depreciation	3,583,835	4,277,163	(693,328)
Total assets	<u>2,801,749,557</u>	<u>3,392,890,380</u>	<u>(591,140,823)</u>
Liabilities			
Payables:			
Accrued expenses	270,237	265,442	(4,795)
Refunds and death benefits payable	3,216,723	2,700,297	(516,426)
Total liabilities	<u>3,486,960</u>	<u>2,965,739</u>	<u>(521,221)</u>
Net position restricted for pensions	<u>\$ 2,798,262,597</u>	<u>\$ 3,389,924,641</u>	<u>\$ (591,662,044)</u>

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Changes in Fiduciary Net Position
For the Nine Months Ending September 30, 2022

	Unaudited		Variance
	9/30/2022	9/30/2021	Favorable (Unfavorable)
Additions:			
Contributions:			
Employer contributions	\$ 105,548,848	\$ 97,584,633	\$ 7,964,215
Employee contributions	44,164,198	40,824,597	3,339,601
Creditable service purchases	6,561,002	5,130,468	1,430,534
Total contributions	156,274,048	143,539,698	12,734,350
Investment Income:			
Realized gain/(loss) on investments	(62,338,909)	159,980,727	(222,319,636)
Unrealized gain/(loss) on investments	(684,583,356)	54,700,551	(739,283,907)
Net investment appreciation (depreciation) in fair value of investments	(746,922,265)	214,681,278	(961,603,543)
Dividends	21,497,006	19,165,809	2,331,197
Interest	9,262,809	6,874,557	2,388,252
Investment appreciation (depreciation) before expenses	(716,162,450)	240,721,644	(956,884,094)
Investment expenses:			
Investment manager fees	3,585,527	4,228,188	642,661
Custodial fees	195,000	195,000	-
Commissions & other fees	48,403	78,715	30,312
Investment consultant fees	135,703	128,750	(6,953)
Investment legal counsel	12,638	38,497	25,859
Staff continuing education & site visits	39,728	1,424	(38,304)
Investment staff resources	226,516	247,735	21,219
Total investment expenses	4,243,515	4,918,309	674,794
Net Investment appreciation (depreciation)	(720,405,965)	235,803,335	(956,209,300)
Other income	21,535	961	20,574
Total additions (deductions)	(564,110,382)	379,343,994	(943,454,376)
Deductions:			
Retirement annuities	184,855,853	172,802,526	(12,053,327)
Contributions refunded to terminating employees	3,798,419	2,549,882	(1,248,537)
DROP disbursements	3,755,578	4,068,681	313,103
Retiree lump-sum annuity payments	2,660,647	2,531,305	(129,342)
Death benefits - retirees	1,020,020	1,304,691	284,671
Death benefits - actives	1,801,133	965,486	(835,647)
Total benefit payments, including refunds of member contributions	197,891,650	184,222,571	(13,669,079)
General and administrative expenses	4,895,215	4,763,365	(131,850)
Total deductions	202,786,865	188,985,936	(13,800,929)
Net increase/(decrease) in net position	(766,897,247)	190,358,058	(957,255,305)
Net position restricted for pensions:			
Beginning of year	3,565,159,844	3,199,566,583	365,593,261
End of period	\$ 2,798,262,597	\$ 3,389,924,641	\$ (591,662,044)

AGENDA ITEM 6:
Receive Staff reports on the following matters:

B. Cybersecurity update

AGENDA ITEM OBJECTIVE

This agenda item allows the Committee to review COAERS cybersecurity and network security activities.

RELEVANCE TO STRATEGIC PLAN

This agenda item is related to **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.**

RECOMMENDATION FOR BOARD ACTION

No action required; for informational purposes only.

ATTACHMENT

1. Cybersecurity Program Update (CONFIDENTIAL)

7. Review 2022 Committee Work Plan and discuss development of 2023 Work Plan

Presented by Christopher Hanson

AGENDA ITEM 7:
Review 2022 Committee Work Plan and
discuss development of 2023 Committee Work Plan

AGENDA ITEM OBJECTIVE

This agenda item is for the Committee to review the work done by the Committee in 2022 and discuss the development of the 2023 Committee work plan.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and Implement Best Practices**. It is an industry best practice to establish and review Committee work plans.

RECOMMENDATION FOR BOARD ACTION

At the Committee's discretion.

ATTACHMENTS

1. 2022 Committee Work Plan
2. Draft 2023 Committee Work Plan

2022 Audit and Risk Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting (3/10/22)
 - ✓ Required Communications for 12/31/2021 audit
 - ✓ Quarterly review of Enterprise Risk Management program
 - ✓ Review of cybersecurity program
 - ✓ Quarterly Financial Statements

2. June meeting (6/2/22)
 - ✓ 12/31/2021 financial statement audit presentation
 - ✓ Quarterly review of Enterprise Risk Management program
 - ✓ Review of cybersecurity program
 - ✓ Quarterly Financial Statements

3. August meeting (8/25/22)
 - ✓ Quarterly review of Enterprise Risk Management program
 - ✓ Review of cybersecurity program
 - ✓ Annual review of financial audit service provider
 - ✓ Quarterly Financial Statements

4. November meeting (11/10/22)
 - ✓ Annual review of Enterprise Risk Management program
 - ✓ Review of cybersecurity program
 - ✓ Quarterly Financial Statements
 - ✓ Engagement Letter - Auditor
 - ✓ 2023 Committee Work Plan

2023 Audit and Risk Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting
 - Required Communications for 12/31/2022 audit
 - Quarterly review of Enterprise Risk Management program
 - Review of cybersecurity program
 - Quarterly Financial Statements
2. June meeting
 - 12/31/2022 financial statement audit presentation
 - Quarterly review of Enterprise Risk Management program
 - Review of cybersecurity program
 - Quarterly Financial Statements
3. August meeting
 - Quarterly review of Enterprise Risk Management program
 - Review of cybersecurity program
 - Annual review of financial audit service provider
 - Quarterly Financial Statements
4. November meeting
 - Annual review of Enterprise Risk Management program
 - Review of cybersecurity program
 - Quarterly Financial Statements
 - Engagement Letter - Auditor
 - 2024 Committee Work Plan

8. Review key meeting takeaways and call for future agenda items

Presented by Committee Chair Sinclair

AGENDA ITEM 8:

Review key meeting takeaways and call for future agenda items

AGENDA ITEM OBJECTIVE

This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to review key meeting takeaways to summarize what was accomplished at the meeting as well as ensure Staff has clear direction on further work and future agenda items.

RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.