



**PSERB Resolution 2024-55**  
**Re: SB & Company Financial Statement Audit Report**  
**October 16, 2024**

**RESOLVED**, that the Public School Employees' Retirement Board accepts the recommendation of the Audit, Compliance, and Risk Committee and approves the attached SB & Company Independent Auditor's Report for the audited financial statements.

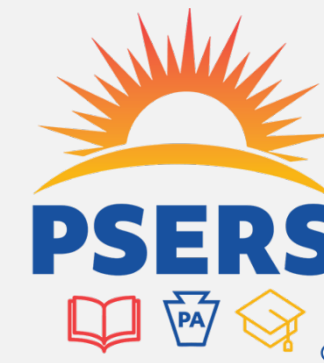


Certified Public  
Accountants &  
Business Advisors

# Presentation to Those Charged with Governance

June 30, 2024 Audit Results

*Pennsylvania Public School  
Employees' Retirement System*



**PENNSYLVANIA**  
Public School Employees'  
Retirement System

October 16, 2024

# Agenda

- Executive Summary
  - Scope of Services
  - Results
- Audit Approach
  - Areas of Audit Emphasis
  - Assessment of Control Environment
  - Evaluation of Key Processes
- Audit Results
  - Financial Statement Highlights
  - Summary Actuarial Information
- Required Communications

# Executive Summary

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## I. Scope of Services

- Audit of June 30, 2024 financial statements
- Review of the annual comprehensive financial report
- Audit of the June 30, 2024 schedule of pension and OPEB employer allocations
- Year-round advice and consultation

## II. Results

- Issued an unmodified opinion on financial statements
- Discovered no instances of fraud
- No material weaknesses in internal controls were identified during the audit
- Received full cooperation from management

# SBC Audit Approach

*“Focus on Risk, Controls, and Account Misstatement”*

## FORCAM Audit Approach

*Focus on Risk, Controls, and Account Misstatement*

Agree on Expectations and Deliverables

### Planning - Understand the Business & Risk

Client Acceptance • Client Environment • Tone at the Top  
Materiality • Initial Risk Assessment • Audit Plan • Client Expectations

### Assess & Test Design & Operations of Controls

What Can Go Wrong? • Test Key Controls • Walkthrough  
Map Accounts & Transactions • Identify Key Controls

### Financial Close & Reporting Misstatement Analysis

Analyze Balances • Financial Close Process  
Principles Applied • Management's Verification

### Substantive Testing

Negative Account Analysis • Negative Financial Close  
Firm & GAAS Required • Significant Estimates  
Negative Operating Controls • Unusual Transactions

### GAAS Compliance & Reporting

GAAS Checklist • Review Reports • Wrap Up  
Draft Board/Management Presentation  
Did We Meet Your Expectations?

#### Goals:

Detect Financial Statement Misstatement Risk

Detect Error

- Accounting Principle
- Estimate
- Information Processing
- Account Balances

Fraud

Business Failure

Business Improvement Opportunities

Client Expectations

Communicate Value Delivered and Measure Satisfaction



## Timing

Planning

Preliminary Testing

Final Fieldwork

Final Reporting & Wrap Up

# Areas of Audit Emphasis

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The main areas of audit emphasis included key industry, business and technical issues as identified during our audit planning and the accounts with greater risk of misstatement due to their inherent risk, error or fraud. Our audit results and comments relating to the issues are presented below.

## **The significant accounting principles, estimates and judgments were as follows:**

- Market Valuation of Investments
- Plan Benefit Obligations
- Actuarial Assumptions

## **The principal areas of audit emphasis were as follows:**

- Members and Employers Contributions
- Cash disbursements
- Benefit payments
- Regulatory compliance
- Eligibility process
- Investment accounting and valuation
- Census data accounting
- Use of third-party service providers
- Footnote disclosure
- Administrative expenses
- Actuarial valuation
- Actuarial assumptions
- Related party transactions

# Assessment of Control Environment

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- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring



# Assessment of Control Environment

Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring Activities
<ul style="list-style-type: none"> <li>▪ Key executive integrity, ethics, and behavior</li> <li>▪ Control consciousness and operating style</li> <li>▪ Commitment to competence</li> <li>▪ Board's participation in governance and oversight</li> <li>▪ Organizational structure, responsibility, and authority</li> <li>▪ HR policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mechanisms to anticipate, identify, and react to significant events</li> <li>▪ Processes and procedures to identify changes in GAAP, business practices, and internal control</li> </ul>	<ul style="list-style-type: none"> <li>▪ Existence of necessary policies and procedures</li> <li>▪ Clear financial objectives with active monitoring</li> <li>▪ Logical segregation of duties</li> <li>▪ Periodic comparisons of book-to-actual and physical count-to-books</li> <li>▪ Adequate safeguards of documents, records, and assets</li> <li>▪ Assess controls in place</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adequate performance reports produced from information system</li> <li>▪ Information systems are connected with business strategy</li> <li>▪ Commitment of HR and Finance to develop, test, and monitor IT systems and programs</li> <li>▪ Business continuity/disaster plan for IT</li> <li>▪ Established communication channels for employees to fulfill responsibilities</li> <li>▪ Adequate communication across the organization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Periodic evaluations of internal controls (annual audit)</li> <li>▪ Implementation of improvement recommendations</li> <li>▪ Perform monitoring activities</li> <li>▪ Remediate deficiencies</li> <li>▪ Internal compliance review function</li> </ul>
Effective	Effective	Effective	Effective	Effective



# Evaluation of Key Processes

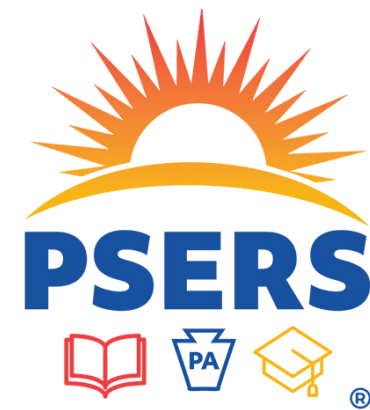
Treasury	Estimation	Financial Reporting	Participant Data	Compliance
<ul style="list-style-type: none"> <li>▪ Cash management</li> <li>▪ Investment accounting</li> <li>▪ Investment monitoring</li> <li>▪ Investment valuation</li> <li>▪ Interest calculation</li> <li>▪ Investment policy</li> <li>▪ Investment commitments</li> <li>▪ Reconciliations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Methodology</li> <li>▪ Information</li> <li>▪ Calculation</li> <li>▪ Assumption</li> </ul>	<ul style="list-style-type: none"> <li>▪ Accounting principles and disclosure</li> <li>▪ Closing the books</li> <li>▪ Report preparation</li> <li>▪ General ledger and journal entry processing</li> <li>▪ Verification and review of results</li> <li>▪ Funding management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Data control</li> <li>▪ Eligibility</li> <li>▪ Data transfer</li> <li>▪ Employer/member collections</li> <li>▪ Allocations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Assess internal and external risk</li> <li>▪ Regulatory compliance</li> <li>▪ Monitor compliance</li> </ul>
Effective	Effective	Effective	Effective	Effective

# Evaluation of Key Processes (cont.)

Payroll	Expenditures	Benefit Payments	Actuarial Information	Information Technology
<ul style="list-style-type: none"> <li>▪ Hiring</li> <li>▪ Attendance reporting</li> <li>▪ Payroll accounting and processing</li> <li>▪ Payroll disbursements</li> <li>▪ Separation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vendor life maintenance</li> <li>▪ Purchasing</li> <li>▪ Receiving</li> <li>▪ Accounts payable and cash</li> <li>▪ Disbursements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefit calculations</li> <li>▪ Claims processing</li> <li>▪ Cash disbursements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participant data</li> <li>▪ Data verification</li> <li>▪ Estimation and assumption</li> <li>▪ Reporting</li> <li>▪ Methodology</li> <li>▪ Experience study</li> <li>▪ Calculation</li> <li>▪ Contribution requirements</li> <li>▪ Funding requirements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Information technology policy framework</li> <li>▪ Physical and environmental controls</li> <li>▪ Logical access to data and applications</li> <li>▪ Change management</li> <li>▪ System operations</li> <li>▪ Data backup and recovery</li> <li>▪ Encryption</li> <li>▪ Cyber security preparedness</li> <li>▪ System maintenance and version updates</li> <li>▪ Cloud provider oversight</li> <li>▪ Networks and communications</li> </ul>
Effective	Effective	Effective	Effective	Effective

# Audit Results

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**PENNSYLVANIA**  
Public School Employees'  
Retirement System

# Financial Statement Highlights

Statements of Fiduciary Net Position as of June 30,

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	<u>2024</u>	<u>2023</u>	<u>2022</u>
Receivables	\$ 2,565,806	\$ 2,543,417	\$ 2,472,480
Investments	76,496,369	71,733,876	70,904,736
Securities lending collateral pool	-	6,147,770	9,828,590
Other assets	88,775	80,763	46,445
Total assets	<u>79,150,950</u>	<u>80,505,826</u>	<u>83,252,251</u>
Benefits payable and premium advances	915,305	735,819	610,102
Obligations under securities lending	-	6,147,770	9,828,590
Other liabilities	863,554	780,296	1,661,081
Total liabilities	<u>1,778,859</u>	<u>7,663,885</u>	<u>12,099,773</u>
Restricted net position	<u>\$ 77,372,091</u>	<u>\$ 72,841,941</u>	<u>\$ 71,152,478</u>

# Financial Statement Highlights

Statements of Changes in Fiduciary Net Position for the Years Ended June 30,

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	<b>2024</b>	<b>2023</b>	<b>2022</b>
Members contributions	\$ 1,267,619	\$ 1,225,256	\$ 1,166,926
Employer contributions	5,418,721	5,403,067	5,140,514
Premiums	510,761	478,861	480,843
Investment income/(loss), net	5,771,997	2,830,392	(282,401)
Total additions	<u>12,969,098</u>	<u>9,937,576</u>	<u>6,505,882</u>
Benefits, refunds, and distributions	8,338,361	8,151,007	7,794,495
Administrative expenses	100,587	97,106	91,728
Total deductions	<u>8,438,948</u>	<u>8,248,113</u>	<u>7,886,223</u>
Net change	<u>\$ 4,530,150</u>	<u>\$ 1,689,463</u>	<u>\$ (1,380,341)</u>

# Financial Statement Highlights

Actuarial Information for Pension for the Years Ended June 30,

	<b>2024</b>	<b>2023</b>
Total pension liability	\$ 118,347,937	\$ 116,598,710
Less: Plan fiduciary net position	76,492,994	72,112,330
Employer net pension liability	<u>\$ 41,854,943</u>	<u>\$ 44,486,380</u>
Plan fiduciary net position as a % of TPL	64.63%	61.85%
Covered payroll	<u>\$ 15,872,930</u>	<u>\$ 15,320,427</u>

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
	<b>6.00%</b>	<b>Discount Rate</b>	<b>8.00%</b>
	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
Net pension liability	<u>\$ 55,135,720</u>	<u>\$ 41,854,943</u>	<u>\$ 30,640,267</u>



# Financial Statement Highlights

Summary of Actuarial Information for the Year Ended June 30, 2024

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<b>Actuarial Cost Method</b>	Entry Age Normal - level % of pay
<b>Salary Growth</b>	Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases
<b>Payroll Growth</b>	3.25%
<b>Investment Rate of Return</b>	7.00%, includes inflation at 2.50%
<b>Mortality</b>	Blended table based on 50% PubT-2010 Employee (Total Teacher dataset) and 50% PubG-2010 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2020.

# Industry Updates

## New Accounting and Audit Pronouncements

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<b>GASB No.</b>	<b>Statement</b>	<b>Effect On PSERS</b>	<b>Effective Date</b>
100	Accounting Changes and Error Corrections	How you will make accounting changes and correct errors, if any	Fiscal Year 2024 – No material effect
101	Compensated Absences	Recording liability for leave time	Fiscal Year 2025
102	Certain Risk Disclosures	Assessing concentrations and constraints	Fiscal Year 2025
103	Financial Reporting Model Improvements	Updating key components of financial reporting model	Fiscal Year 2026

# Required Communications

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# Required Communications

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## 1. Auditor's Responsibilities Under Generally Accepted Auditing Standards (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America, and provide for reasonable, rather than absolute assurance that the financial statements are free of material misstatement.

## 2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

*The significant accounting policies used by management are described in the notes to the financial statements.*

## 3. Auditor's Judgments About the Quality of Accounting Principles

We discuss our judgments about the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of the financial statements, which include related disclosures.

*We have reviewed the significant accounting policies adopted by PSERS, and have determined that these policies are acceptable accounting policies.*

# Required Communications (cont.)

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## 4. **Audit Adjustments**

We are required to inform PSERS' oversight body about adjustments arising from the audit (whether recorded or not) that could, in our judgment, either individually or in the aggregate, have a significant effect on PSERS' financial reporting process.

We are also required to inform PSERS' oversight body about unadjusted audit differences that were determined by management to be individually and in the aggregate, immaterial.

*There were no passed adjustments identified during the audit process.*

## 5. **Fraud and Illegal Acts**

We are required to report to PSERS' oversight body any fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

*During our discussions with management, we were not aware of suspected or alleged fraud that occurred.*

## 6. **Material Weaknesses in Internal Control**

We are required to communicate all significant deficiencies in PSERS' systems of internal controls, whether or not they are also material weaknesses.

*There were no material weaknesses noted during the audit.*

## 7. **Disagreements with Management on Financial Accounting and Reporting Matters**

*None were identified.*

# Required Communications (cont.)

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**8. Serious Difficulties Encountered in Performing the Audit**

*None were identified.*

**9. Major Issues Discussed with Management Prior to Continuance**

*None were identified.*

**10. Consultation with Other Accountants**

*To our knowledge, there were no consultations with other accountants since our appointment as PSERS' independent public accountants.*

**11. Management Representations**

*We received certain written representations from management as part of the completion of the audit.*

**12. Non-attest Services**

*None.*

**13. Independence**

*Our independence has not been impaired*



# Required Communications (cont.)

## Our Responsibility Related to Fraud

- Plan and perform the audit to obtain reasonable assurance that there is no material misstatement caused by error or fraud;
- Comply with GAAS AU-C 240, *“Consideration of Fraud in a Financial Statement Audit”*;
- Approach all audits with an understanding that fraud could occur in any entity, any time, by anyone; and
- Perform mandatory procedures required by GAAS and our firm policies.

## Examples of Procedures Performed

- Discuss thoughts and ideas in areas where the financial statements might be susceptible to material misstatement due to fraud;
- Understand pressures on the financial statement results;
- Understand the tone and culture of the organization;
- Look for unusual or unexpected transactions, relationships, or procedures;
- Discussions with individuals outside of finance;
- Evaluate key processes and controls; and
- Consider information gathered throughout the audit.



# Responsibility for Mitigating Fraud

## External Auditor:

- Evaluate management programs and controls to deter and detect fraud for identified risks
- Reasonable assurance that financial statements are free of material misstatement due to fraudulent financial reporting or misappropriation of assets
- Compliance with fraud standard (SAS 99)
  - Conversations with finance and operations personnel
  - Disaggregated analytics
  - Surprise audit procedures
  - Journal entry testing



## Management:

- CFO/Controller: controls to deter and detect fraud
- General Counsel/Compliance: monitoring

## Audit Committee:

- Evaluate management identification of fraud risk
- Evaluate implementation of fraud controls
- Reinforce “tone at the top”
- Conduct special investigations

# Questions & Answers

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# Engagement Team

## *Contact Information*



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Knowledge,  
Quality,  
Client Service.

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