

Texas Treasury Safekeeping Trust Company

(A Component Unit of the State of Texas)

Report to the Honorable Glenn Hegar
December 17, 2021





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Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Treasury Safekeeping Trust Company
Austin, Texas

Attention: Mr. Hegar

We are pleased to present this report related to our audit of the business-type activities and aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company (Texas Trust), a component unit of the State of Texas, as of and for the year ended August 31, 2021. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Texas Trust's financial reporting process.

This report is intended solely for the information and use of the Comptroller of Public Accounts of the State of Texas, management of Texas Trust and the State Auditor of Texas and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Texas Treasury Safekeeping Trust Company.

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REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and compliance reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated July 28, 2021. Our audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated July 28, 2021, regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by Texas Trust. Texas Trust did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached summary of Significant Accounting Estimates.

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Departure From the Auditor's Standard Report

Expected Emphasis-of-Matter Paragraph

The Texas Trust financial statements present only the financial statements of Texas Trust and do not purport to, and do not, present fairly the financial position of the State of Texas. In light of this matter, we will include an emphasis-of-matter paragraph in the auditor's report. Below is a draft of the paragraph to be included in the auditor's report:

Emphasis of Matter

As described in Note 1 to the financial statements, these financial statements present only the financial statements of Texas Trust and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2021, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Expected Other-Matter Paragraph

Other Matter paragraphs were included in the report related to required supplemental information, other supplemental information and other reporting required by *Government Auditing Standards*. In light of these matters, we will include other-matter paragraphs in the auditor's report. Below are the drafts of the paragraphs to be included in the auditor's report:

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Proportionate Share of the Net Pension Liability, Schedule of Contributions—Net Pension Liability, Schedule of Changes in Proportionate Share of the Net OPEB Liability, Schedule of Contributions—Net OPEB Liability and Notes to Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Texas Trust's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2021, on our consideration of Texas Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Texas Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texas Trust's internal control over financial reporting and compliance.

Observations About the Audit Process**Disagreements With Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the Texas Trust, including the representation letter provided to us by management, are attached as Exhibit A.

SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in Texas Trust's August 31, 2021, financial statements.

Significant Accounting Estimates	
Fair Value Measurements of the Individual Investment Securities Within the Investment Portfolio	
Accounting policy	Investments within Texas Trust are reported at fair value based upon quoted market prices, or when quoted market prices are not readily determinable, other observable significant inputs including, but not limited to, quoted prices for similar securities, interest rates, net asset values (NAVs) of underlying securities and fixed-income pricing models.
Management's estimation process	<p>Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.</p> <p>Management's estimate of the fair value of investments is based upon quoted market prices, or when quoted market prices are not readily determinable, other observable significant inputs including, but not limited to, quoted prices for similar securities, interest rates, NAVs of underlying securities and fixed-income pricing models, as provided by custodians or individual money managers.</p>
Basis for our conclusion on the reasonableness of the estimate	<p>We tested the fair value of investments at year-end.</p> <p>For investments measured using a published value, we estimated the fair value by using an internal specialist to price the securities.</p> <p>For investments measured using NAV as a practical expedient, we rolled forward balances from the prior-year audited amounts, tested fiscal year 2021 activity, and confirmed the value at year-end with the custodian and individual money managers.</p> <p>We concluded the valuation methods and estimates are reasonable.</p>
Pension Expense and Net Pension Asset/Liability	
Accounting policy	Texas Trust participates in the Employees Retirement System of Texas (ERS), a statewide cost sharing multiple-employer retirement system. Texas Trust's agent measures its pension expense and net pension asset/liability based on approved demographic and economic assumptions approved by the Plan. The measurement is used to record the pension expense and net pension asset/liability in its financial statements and discloses the pension expense and net pension asset/liability in its financial statements.

Significant Accounting Estimates

Management's estimation process

The pension expense and net pension asset/liability were measured as of August 31, 2020. This calculation is prepared by an independent actuarial company engaged by ERS, and Texas Trust's management reviews and considers the appropriateness of the assumptions.

Basis for our conclusion on the reasonableness of the estimate

We obtained the ERS actuarial valuation report and we confirmed Texas Trust's reported balances agreed with the actuarial report. We tested the significant assumptions and conclusions for reasonableness and tested the underlying data for completeness and accuracy.

We concluded the valuation methods and estimates are reasonable.

Other Post Employee Benefits Expense and Net Pension Asset/Liability

Accounting policy

Texas Trust participates in the ERS, a statewide cost sharing multiple-employer retirement postemployment health care, life and dental insurance. Texas Trust's agent measures its other post employee benefit (OPEB) expense and net OPEB asset/liability based on approved demographic and economic assumptions approved by the plan. The measurement is used to record the OPEB expense and net OPEB asset/liability in its financial statements and discloses the OPEB expense and net OPEB asset/liability in its financial statements.

Management's estimation process

The OPEB expense and net OPEB asset/liability were measured as of August 31, 2020. This calculation is prepared by an independent actuarial company engaged by ERS, and Texas Trust's management reviews and considers the appropriateness of the assumptions.

Basis for our conclusion on the reasonableness of the estimate

We obtained the ERS actuarial valuation report and we confirmed Texas Trust's reported balances agreed with the actuarial report. We tested the significant assumptions and conclusions for reasonableness and tested the underlying data for completeness and accuracy.

We concluded the valuation methods and estimates are reasonable.

EXHIBIT A

Significant Written Communications Between Management and Our Firm



December 17, 2021

RSM US LLP
811 Barton Springs Road Suite 500
Austin, Texas 78704

This representation letter is provided in connection with your audit of the basic financial statements of the Texas Treasury Safekeeping Trust Company (Texas Trust), as of and for the year ended August 31, 2021, for the purpose of expressing an opinion on whether the basic financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated July 28, 2021, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value and uncertainty for investments at net asset value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. The valuation methodologies have been consistently applied period to period and are appropriate for financial statement measurement and disclosure purposes.
7. There are no events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, that have been adjusted or disclosed.

8. There is no known actual or possible litigation and claims.
9. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private.
10. We have complied with all aspects of laws, regulations and provisions of contracts and agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
11. We have no knowledge of any uncorrected misstatements in the financial statements.
12. We believe that the information obtained from the audited financial statements of and other participant information provided by Employees Retirement System of Texas Plan (Plan) is appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the Plan or its auditor in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan or its auditor:

Information Provided

13. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the Texas Trust from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
14. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.
15. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.
16. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.

17. We have no knowledge of allegations of fraud or suspected fraud affecting the Texas Trust's basic financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the basic financial statements.
18. We have no knowledge of any allegations of fraud or suspected fraud affecting the Texas Trust's basic financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.
19. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.
20. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements. We have not consulted legal counsel concerning litigation or claims.
21. We have disclosed to you the identity of all of the Texas Trust's related parties and all the related-party relationships and transactions of which we are aware.
22. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Texas Trust's ability to record, process, summarize and report financial data.
23. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
24. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

25. With respect to supplementary information presented in relation to the basic financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with (U.S. GAAP).
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited basic financial statements, we will make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

26. With respect to Management's Discussion and Analysis, the Schedule of Changes in Proportionate Share of the Net Pension Liability, the Schedule of Contributions-Net Pension Liability, Schedule of Changes in Proportionate Share of the Net OPEB Liability, and Schedule of Contributions-Net OPEB Liability, all presented as required by GASB to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information include the actuarial assumptions for the pension plan and OPEB plan.


Compliance Considerations


In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

27. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
28. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the Texas Trust.
29. Is not aware of any instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
30. Is not aware of any programs and related activities subject to the compliance audit.
31. Is not aware of any laws, regulations, rules and provisions of contracts or grant agreements that have a direct and material effect on other financial data significant to audit objectives.
32. Is not aware of any violations (and possible violations) of laws, regulations, rules and provisions of contracts or grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
33. Is 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.
34. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
35. Has a process to track the status of audit findings and recommendations.

36. Is not aware of any investigations or legal proceedings that have been initiated with respect to the period under audit.
37. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
38. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services. Ms. Genoveva Minjares, Chief Financial Officer, assumed these responsibilities.

Texas Treasury Safekeeping Trust Company

DocuSigned by:

EC0299EEEDCE4E9
Mike Reissig,
Chief Executive Officer

DocuSigned by:

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Genoveva Minjares,
Chief Financial Officer