

AUDIT OF BEAUMONT INDEPENDENT SCHOOL DISTRICT

March 4, 2016

TRS Internal Audit Department

Audit Objectives	<p>To determine the following:</p> <ul style="list-style-type: none"> • Completeness and accuracy of reports submitted to TRS by the Reporting Entity (RE) for the test month • TRS membership eligibility of contract workers performing services for the Reporting Entity • Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, years of service)
Risks	<ul style="list-style-type: none"> • Eligible members not included and/or ineligible employees are incorrectly included in reports • Ineligible compensation included in salary reported to TRS • Incorrect calculations of contributions and surcharges • Inaccurate actuarial data because census data provided to TRS is not correct
Tests	<ul style="list-style-type: none"> • Compare reports submitted to TRS with source documentation of Reporting Entity to confirm: <ul style="list-style-type: none"> ○ Eligibility of TRS membership and eligible compensation ○ Accuracy and completeness of contributions and surcharges ○ Accuracy and completeness of Employment After Retirement (EAR) Area 1 and 2 Reports • Review contracts/invoices of contract workers to determine if eligible for TRS membership • Determine accuracy of census data reported to TRS
Results	<ul style="list-style-type: none"> • Positive Finding: <ul style="list-style-type: none"> ○ School officials were prompt in responding to questions and providing supporting documentation • Test Results (Tested 30 of the 2,373 members reported to TRS, five of the 123 vendor/independent contractor payments, all 90 retirees): <ul style="list-style-type: none"> Member Contributions <ul style="list-style-type: none"> ○ No exceptions Employer Contributions and Surcharges <ul style="list-style-type: none"> ○ New Member Report - Improperly excluded and did not pay contributions on one new member ○ Statutory Minimum Report - Improperly excluded and did not pay contributions for four employees ○ Non-OASDI Report - Improperly calculated contributions for eight employees ○ Employment After Retirement Report - Improperly excluded 15 retired members in Area 1 ○ Employment After Retirement Report - Improperly excluded 36 retired members in Area 2 ○ Employment After Retirement Report - Improperly included one retired member in Area 1 ○ Pension Surcharge Report - Improperly excluded and did not pay surcharges on six retirees ○ TRS-Care Surcharge Report - Improperly excluded and did not pay surcharges on one retiree Other Results: <ul style="list-style-type: none"> ○ No independent contract workers were eligible for TRS membership and were, therefore, properly excluded from the Regular Payroll Report ○ Census data information reported to TRS was complete and accurate ○ All report totals per TRAQS reports submitted to TRS agreed with the RE supporting documentation with the exception of the Federal Fund/Private Grant and TRS-Care Federal Grant reports
Recommended Actions	<p>We recommend that the Reporting Official:</p> <ul style="list-style-type: none"> • Work with TRAQS coaches to correct reports by June 2016 • Ensure personnel are knowledgeable of <i>TRS Rules and Laws</i> • Maintain sufficient and accurate records of time worked for all substitutes and retirees
Management Responses	<p>Beaumont ISD officials concur with the recommendations made by Internal Audit and will:</p> <ul style="list-style-type: none"> • Work with the TRS TRAQS coach to adjust the reports by June 2016 • Provide training and the necessary resources to staff to ensure the accuracy of reports submitted to TRS • Will develop and implement a process to ensure the accuracy of time worked for substitutes and retirees

March 4, 2016

Dr. John W. Frossard
Superintendent of Schools
Beaumont Independent School District
3395 Harrison Ave.
Beaumont, TX 77706

AUDIT REPORT OF BEAUMONT INDEPENDENT SCHOOL DISTRICT

EXECUTIVE SUMMARY

We have completed the audit of eligibility and contributions, as included in the *Fiscal Year 2016 Audit Plan*. Our audit objectives were to determine the following¹:

- Completeness and accuracy of the reports submitted to TRS by the Reporting Entity² for the test month
- Eligibility of contract workers performing services for the Reporting Entity for TRS membership
- Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, years of service)

During the audit, we observed the following:

- School officials were prompt in responding to questions and providing supporting documentation.

Based on our audit results, some reports submitted to TRS were incomplete and inaccurate, no independent contract workers were eligible for TRS membership and were therefore properly excluded from the Regular Payroll Report, and census data was accurate. In addition, all report totals per TRAQS reports submitted to TRS agreed with the Reporting Entity supporting documentation with the exception of the Federal Fund/Private Grant and TRS-Care Federal Grant reports.

Refer to Appendix B for detailed results of testing.

¹ Assuming the completeness and accuracy of the official records maintained by the Reporting Entity.

² A Reporting Entity (RE) is an employer, as defined in Texas Government Code, Title 8, Subtitle C, Chapter 821.001.

BACKGROUND

PROJECT BACKGROUND

The Annual Audit Plan approved by the TRS Board of Trustees includes audits of reporting entities in order to confirm member eligibility and accuracy of contributions and surcharges. The type of information submitted by reporting entities to TRS includes:

- Regular Payroll Reports of positions, salary/hourly rate, contract dates, position codes
- Contributions
- Surcharges
- Census data
- Lump sum payments

In response to new requirements of the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants (AICPA) issued a white paper indicating that reporting entities' census data should be audited. As a result, we have included testing of census data (name, date of birth, gender, amount of salary, year of entry, and years of service) in the scope of this audit. Separately, the Texas State Auditor's Office is performing audits of reporting entities' census data as part of the audit of *TRS Comprehensive Annual Financial Statements*.

The population of reporting entities from which the sample was selected for testing included all Texas public schools. These were selected based on criteria including the following:

- Frequency of adjustments and corrections to reports
- Complaints about the Reporting Entity
- Warrant Holds
- Weaknesses in finance area reported by the Legislative Budget Board (LBB), the Texas State Auditor's Office (SAO), and the Texas Education Agency (TEA)
- No audit history of census data by TRS within the last five years or the SAO within the current fiscal year

Beaumont ISD was chosen for audit using a consistent risk assessment methodology that included the variables listed above.

REPORTING ENTITY BACKGROUND³

Beaumont is a city in and county seat of Jefferson County, Texas, United States, within the Beaumont–Port Arthur Metropolitan Statistical Area. Located on the Neches River and about 90 miles from Houston, the city had a population of 118,296 at the 2010 census, making it the twenty-fourth most populous city in the state of Texas.

Beaumont Independent School District was established in 1983 through the merger of the former Beaumont School District (founded in 1883) with South Park Public Schools (founded in 1891). The citywide district encompasses 153.34 square miles in Jefferson County in Southeast Texas.

³ Information obtained from the ISD website and other internet sources.

STUDENTS

Enrollment

High School.....	5,040
Middle School.....	3,799
Elementary School.....	<u>10,389</u>

TOTAL 19,228

RESULTS AND RECOMMENDATIONS

OVERALL RESULTS

Positive Findings

During the audit, we observed the following:

- School officials were prompt in responding to questions and providing supporting documentation

Other Findings

We tested:

- Thirty of the population of 2,373 members reported to TRS in the Regular Payroll Report for the test month
- All 90 retirees who performed services in the test month

With the exception of the superintendent's salary, we did not test whether salary amounts included in the reporting entity's payroll register were complete, accurate, and authorized.

We did not test the eligibility to receive an annuity for those retirees who have returned to work.

We concluded the following about the completeness and accuracy of the reports submitted to TRS:

NAME OF REPORT	COMPLETE?	ACCURATE?
Regular Payroll Report - Member Contributions to Pension Fund - Member Contributions to TRS-Care - Reporting Entity Contributions to TRS-Care	Yes	Yes
Reporting Entity Contributions for New Member Report	No	No
Reporting Entity Contributions for Federal Fund/Private Grant Report	Unable to Determine*	Unable to Determine*
Reporting Entity Contributions for Federal Grant TRS-Care Report	Unable to Determine*	Unable to Determine*
Reporting Entity Contributions for Statutory Minimum Report	No	No
Reporting Entity Contributions for Non-OASDI Members Report	Yes	No
Reporting Entity Employment After Retirement (EAR) Area 1 and 2 Report	No	No
Reporting Entity Employment After Retirement Pension Surcharge for Reported Retirees Report	No	No
Reporting Entity Employment After Retirement TRS-Care Surcharge for Reported Retirees Report	No	No

*Although the detail for the sample of 30 tested was complete and accurate, the totals reported to TRS in TRAQS did not agree with the totals per the RE supporting documentation. Therefore, we were unable to conclude on the completeness and accuracy of the report.

See the table at **Appendix B** for detailed results of testing.

RECOMMENDATION

The Reporting Official should work with the TRS Reporting and Query System (TRAQs) coaches to correct the reports and ensure that corrections are completed by June 2016.

The Reporting Official should ensure that personnel are knowledgeable of *TRS Rules and Laws* by reading and studying the reporting information and using the self-audit tools provided on the TRS website.

MANAGEMENT RESPONSES

We concur with the recommendations made by Internal Audit. We will work with the TRS TRAQs coach to adjust the reports. We plan to have the adjustments complete by June 2016.

We will provide training and the necessary resources to staff to ensure the accuracy of reports submitted to TRS.

* * * * *

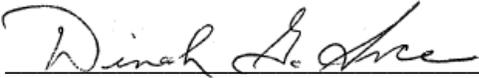
We appreciate Beaumont ISD management and staff for their cooperation, courtesy, and professionalism extended to us during this audit.



Amy Barrett, CIA, CPA, CISA
Chief Audit Executive



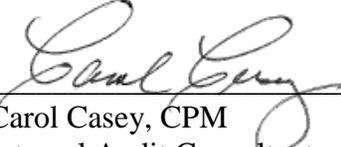
Jan Engler, CIA, CISA, CFE
Director of Benefit Audits



Dinah G. Arce, CIA, CPA, CFE, CIDA
Senior Auditor



Art Mata, CEBS, CPM
Senior Internal Audit Consultant



Carol Casey, CPM
Internal Audit Consultant

cc: Beaumont ISD Board of Trustees

APPENDIX A

AUDIT OBJECTIVE, SCOPE, METHODOLOGY, AND CONCLUSION

We conducted this audit in accordance with generally accepted government auditing standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT OBJECTIVE

Our audit objectives were to determine the following⁴:

- Completeness and accuracy of the reports submitted to TRS by the Reporting Entity for the test month
- Eligibility of contract workers performing services for the Reporting Entity for the test month for TRS membership
- Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, years of service)

Specifically, we performed tests to determine whether the following was complete and accurate:

- Eligible members
- Member contributions
- Employer contributions and surcharges
- Census data of eligible members

SCOPE

Payroll data was selected from the month of October 2015. We selected:

- Thirty sample items from TRS Regular Payroll Report for the test month
- All 90 retirees on the payroll
- Five contract workers paid for the test month for services performed
- Five employees paid during the test month who were not reported to TRS in the TRS Regular Payroll Report

With the exception of the superintendent's salary, we did not test whether salary amounts included in the reporting entity's payroll register were complete, accurate, and authorized.

We did not test the eligibility to receive an annuity for those retirees who have returned to work.

⁴ Assuming the completeness and accuracy of the official records maintained by the RE.

METHODOLOGY

We specifically performed the procedures below.

- 1. To determine completeness and accuracy of reporting eligible members:**
 - Compare the Regular Payroll Report and detail records submitted to TRS with position title on the Reporting Entity's payroll register
 - Confirm eligibility through contract agreements, personnel files, third-party agreements, time reports, job descriptions, and compensation information
 - Determine if the payroll register contains employees who have not been reported to TRS but are eligible for membership in TRS

- 2. To determine that member contributions are reported and are accurate:**
 - Recalculate member contributions and compare to the TRS Regular Payroll Report

- 3. To determine that employer contributions/surcharges are reported and are accurate:**
 - Obtain the reports of employer contributions and surcharges remitted to TRS on the Regular Payroll Report
 - Compare report totals per TRAQS to the report totals per the RE supporting documentation
 - Review detail supporting records for the employer calculations and recalculate employer contributions for the following:
 - New Member contributions
 - Federal Fund/Private Grant contributions
 - Employment After Retirement Pension and TRS-Care Surcharges
 - Statutory Minimum contributions
 - Non-OASDI contributions

- 4. To determine accuracy of census data of eligible members:**
 - Pull supporting documentation for each item in sample to confirm date of birth, hire date/years of service, eligible compensation, gender, and dates of termination/retirement

CONCLUSION

During the audit, we observed that the school officials were prompt in responding to questions and providing supporting documentation.

Based on our audit results, some reports submitted to TRS were incomplete and inaccurate, no independent contract workers were eligible for TRS membership and were therefore properly excluded from the Regular Payroll Report, and census data was accurate. In addition, all report totals per TRAQS reports submitted to TRS agreed with the Reporting Entity supporting documentation with the exception of the Federal Fund/Private Grant and TRS-Care Federal Grant reports. See the table at **Appendix B** for detailed testing results.

APPENDIX B
BEAUMONT ISD
DETAIL OF ADJUSTMENTS TO REPORTS

POPULATION, SAMPLE, TESTING:

- Test month: October 2015

SECTION 1 - ELIGIBILITY TESTING AND EMPLOYER CONTRIBUTIONS (See details below)

- Tested 30 of 2,373 total members reported in the TRS Regular Payroll Report for the test month to determine eligibility and completeness and accuracy of member and Reporting Entity RE contributions
- Tested five of the 123 vendor/independent contract payments during the test month to determine TRS eligibility

SECTION 2 - EMPLOYMENT AFTER RETIREMENT (See details below)

- Tested time worked for four of the 90 retirees that worked in the test month in a position other than a substitute
- Tested the 90 retirees to determine the accuracy and completeness of the Area 1 and Area 2 reports for the test month

SECTION 3 - OTHER TESTS AND RESULTS

- Tested census data information on all 30 sample items
Test Results - Census data information for the 30 sample items was correct

- Tested all TRAQS Reports submitted to TRS and verified totals reported to the RE detailed supporting documentation
Test Results - All report totals per TRAQS reports submitted to TRS agreed with the RE supporting documentation with the exception of Federal Fund/Private Grant and TRS-Care Federal Grant

SECTION 1 - ELIGIBILITY TESTING

REGULAR PAYROLL REPORT - ELIGIBILITY TESTING

Includes the following contributions: member contributions to pension fund, member contributions to TRS-Care, Reporting Entity contributions to TRS-Care

	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
Member Contributions to Pension Fund					
No exceptions					
TOTAL	\$ 588,438.12	\$ -	\$ -	\$ 588,438.12	0%
Member Contributions to TRS-Care					
No exceptions					
TOTAL	\$ 53,123.76	\$ -	\$ -	\$ 53,123.76	0%
RE Contributions to TRS-Care					
No exceptions					
TOTAL	\$ 44,949.26	\$ -	\$ -	\$ 44,949.26	0%

Independent contract workers were not eligible for TRS membership and were therefore properly excluded from the Regular Payroll Report.

	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
NEW MEMBER REPORT					
Improperly excluded and did not pay contributions on one new member		\$ 106.71			
TOTAL	\$ 22,714.08	\$ 106.71	\$ -	\$ 22,820.79	0%

	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
FEDERAL FUND/PRIVATE GRANT REPORT					
No exceptions					
TOTAL	\$ 42,249.17	\$ -	\$ -	\$ 42,249.17	0%

	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
FEDERAL GRANT TRS-CARE REPORT					
No exceptions					
TOTAL	\$ 6,539.36	\$ -	\$ -	\$ 6,539.36	0%

STATUTORY MINIMUM REPORT	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
Improperly excluded and did not pay contributions for four employees		\$ 1,878.72			
TOTAL	\$ 47,758.99	\$ 1,878.72	\$ -	\$ 49,637.71	3.93%

NON-OASDI REPORT	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
Improperly calculated contributions for eight employees			\$ 420.09		
TOTAL	\$ 117,348.77	\$ -	\$ 420.09	\$ 116,928.68	-0.36%

SECTION 2 - EMPLOYMENT AFTER RETIREMENT

EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT

Improperly excluded 15 retired members in Area 1					
Improperly excluded 36 retired members in Area 2					
Improperly included one retired member in Area 1					

PENSION SURCHARGE FOR RETIREES REPORT	TOTAL REPORTED	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
Improperly excluded and did not pay surcharges on six retirees		\$ 1,233.79			
TOTAL	\$ 7,033.07	\$ 1,233.79	\$ -	\$ 8,266.86	18%

TRS-CARE SURCHARGE FOR RETIREES REPORT	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
Improperly excluded and did not pay surcharges on one retiree		\$ 294.00			
TOTAL	\$ 4,962.00	\$ 294.00	\$ -	\$ 5,256.00	0.00%

GRAND TOTALS	\$ 935,116.58	\$ 3,513.22	\$ 420.09	\$ 938,209.71	0.3%
---------------------	---------------	-------------	-----------	---------------	------