

# **Audit Committee Meeting**

**June 2015**



Teacher Retirement System of Texas  
1000 Red River Street, Austin, Texas 78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS  
BOARD OF TRUSTEES  
AND  
AUDIT COMMITTEE**

*(Mr. Moss, Chairman; Ms. Charleston; Mr. Corpus; Ms. Palmer; & Ms. Sissney, Committee Members)*

**AGENDA**

**June 12, 2015 – 8:00 a.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

1. Approve minutes of March 26, 2015 Audit Committee meeting  
– Mr. Christopher Moss, Chair
2. Receive State Auditor's Office Reports
  - A. Audit of Incentive Compensation at Selected Agencies – Ms. Angelica Ramirez and Sonya Tao, State Auditor's Office
  - B. Audit of Fiscal Year 2014 Employer Pension Liability Allocation Schedules – Ms. Angelica Ramirez and Mr. Michael Clayton, State Auditor's Office
3. Receive Internal Audit reports on Independent School District (ISD) Audits – Ms. Amy Barrett, Ms. Dinah Arce, and Mr. Art Mata
  - A. Santa Maria ISD Audit
  - B. College Station ISD Audit
  - C. Presidio ISD Audit
  - D. El Paso ISD Audit
4. Receive Internal Audit reports
  - A. Semi-Annual Testing of Benefits Payments (Agreed-Upon Procedures) – Mr. Dorvin Handrick
  - B. Quarterly Investment Testing (Agreed-Upon Procedures) – Mr. Hugh Ohn and Mr. Nick Ballard
5. Receive reports on the status of prior audit and consulting recommendations
6. Discuss or consider Internal Audit administrative reports and matters related to governance, risk management, internal control, compliance violations, fraud, regulatory reviews or investigations, new and outstanding complaints, fraud risk areas, audits for the annual internal audit plan, or auditors' ability to perform duties – Mr. Christopher Moss and Ms. Amy Barrett

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Audit Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Audit Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

**TAB 1**



**TEACHER RETIREMENT SYSTEM OF TEXAS  
AUDIT COMMITTEE MEETING  
March 26, 2015**

The Audit Committee of the Teacher Retirement System of Texas met on Thursday, March 26, 2015 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following persons were present:

**TRS Board Members**

Christopher Moss, Audit Committee Chair  
Nanette Sissney, Board Vice Chair, Audit Committee Member  
Anita Smith Palmer, Audit Committee Member  
T. Karen Charleston, Audit Committee Member  
David Corpus, Audit Committee Member  
R. David Kelly, Board Chair  
Joe Colonna, Board Member  
Todd Barth, Board Member

**TRS Staff**

Ken Welch, Deputy Director  
Karen Morris, Director, Pension Audit Services  
Hugh Ohn, Director, Investment Audit Services  
Dinah Arce, Senior Auditor, Internal Audit  
Lih-Jen Lan, Information Technology Audit Manager, Internal Audit  
Toma Miller, Senior Auditor, Internal Audit  
Nick Ballard, Senior Investment Auditor, Internal Audit  
Art Mata, Internal Audit Consultant, Internal Audit  
Carolina de Onís, General Counsel  
Don Green, Chief Financial Officer  
Jamie Pierce, Director, General Accounting  
Janie Duarte, Assistant Director, General Accounting & Budgeting  
Cindy Haley, Team Leader, Financial Reporting, General Accounting  
Belinda Field, Manager, Accounts Payable & Travel  
Scot Leith, Director, Investment Accounting  
Eric Lang, Senior Managing Director, Private Equity, Investment Division  
Neil Randall, Senior Director, Private Equity, Investment Division  
Jay LeBlanc, Director, Risk Management & Strategic Planning  
Michelle Pagan, ERM Program Manager, Risk Management & Strategic Planning  
Dan Herron, Communications Specialist

### **Other Attendees**

Steven Huff, Reinhart Boerner Van Deuren s.c.  
Keith C. Brown, PH.D., TRS Investment Advisor  
Brady O'Connell, HewittEnnisKnupp

Audit Committee Chair Christopher Moss called the meeting to order at 3:26 p.m. with a quorum of committee members present.

### **1. APPROVE MINUTES OF MARCH 26, 2015 AUDIT COMMITTEE MEETING**

On a motion by Ms. Anita Palmer, and seconded by Mr. David Corpus, the proposed minutes of the November 21, 2014 Audit Committee meeting were approved as presented.

### **2. RECEIVE INTERNAL AUDIT REPORTS**

#### **A. Payables Audit**

Ms. Toma Miller presented the results of the Payables Audit. She stated that the audit focused on three key areas: the initial approval process, the complete payment process, and evidence of any potential conflicts of interest. She reported that no significant findings were identified. One recommendation was made regarding implementing segregation of duties controls or compensating controls in the vendor setup and payment process. Ms. Miller said that management agreed to the recommendation.

#### **B. Semi-annual Status Report on Test Results of Investment Controls (Private Equity)**

Mr. Ohn presented the results of the private markets audit. He stated that the audit covered the private equity group, which is responsible for managing the private equity portfolio, as well as the investment accounting group that provides independent oversight of the valuation and reporting of the private equity portfolio. He stated that testing of the private equity group indicated that management controls are operating effectively, staff's due diligence was thorough, and key areas were well covered. No significant issues were identified. Two opportunities to enhance controls were identified: to increase general partners' disclosures on fees and expenditures and to clarify procedures relating to staff documentation of private equity staff's due diligence. Mr. Ohn said that management agreed to both recommendations.

He reported that testing of the investment accounting group found that most management controls are operating effectively. Two control weaknesses were identified. The first weakness was related to the outdated sections and references included in the securities valuation guidelines. It was recommended that the guidelines be updated to be consistent with the latest industry standards and current staff practices. The second weakness was related to the performance incentive pay calculations. During the course of the audit, it was discovered that initial calculations were incorrect. Management was able to correct the calculations before the payments were issued and had taken corrective action to establish more formalized procedures to prevent any similar issues in the future. As a result, no further recommendation was made.

### **C. Quarterly Investment Testing (Agreed-Upon Procedures)**

Mr. Nick Ballard presented the results of the quarterly investment testing. He gave a general overview of each of the four objectives covered by the testing and the results for the quarter. He stated that the first objective covers provisions within the Investment Policy Statement that requires that the Board be provided periodic reports of information important to the Investment Management Division. No exceptions related to this objective were found during testing. He stated that the second objective looks at the approval of new investments to ensure that staff are following prescribed policy and processes when approving new investments as well as ensuring that approved investments are within the delegated approval limits in policy. Testing of selected items did not identify any issues. However, Mr. Ballard noted that investment staff self-reported an instance of non-compliance during the quarter regarding two follow-on investments where placement agent questionnaires were collected after funding rather than prior to funding as required by policy.

Objective three tests compliance with other aspects of the Investment Policy Statement, Securities Lending Policy, wire transfer processes, as well as disclosures that were received from senior investment staff and legal staff during the quarter. Mr. Ballard stated that testing did not identify any issues. However, investment staff self-reported an instance of non-compliance where two currency contract trades were directed to a counterparty that was not authorized to execute trades with the particular provisions included in those contracts.

Mr. Ballard stated that objective four was new this fiscal year and includes testing of compliance with TRS ethics policies. Testing this quarter focused on provisions of the Employee Ethics Policy that require new key employees to file certain disclosures with TRS upon being hired as well as provisions of the code of ethics for contractors that require contractors to annually provide a signed copy of the ethics code and expenditure reports. No instances of non-compliance were found.

### **3. RECEIVE REPORTS ON THE STATUS OF PRIOR AUDIT AND CONSULTING RECOMMENDATIONS**

Ms. Karen Morris reviewed the outstanding audit recommendations. She stated that three significant as well as three other reportable recommendations were implemented during the quarter. She indicated that the implementation of the significant benefit-related recommendations will be reviewed during a follow-up audit performed later in the fiscal year.

### **4. DISCUSS OR CONSIDER INTERNAL AUDIT ADMINISTRATIVE REPORTS AND MATTERS RELATED TO GOVERNANCE, RISK MANAGEMENT, INTERNAL CONTROL, COMPLIANCE VIOLATIONS, FRAUD, REGULATORY REVIEWS OR INVESTIGATIONS, HOTLINE USAGE REPORT, FRAUD RISK AREAS, AUDITS FOR THE ANNUAL INTERNAL AUDIT PLAN, OR AUDITORS' ABILITY TO PERFORM DUTIES**

Ms. Morris reported that the department is on track to complete the audit plan as well as on target to achieve its performance goals for the year. She also informed the committee that Internal Audit has a student intern, Cody Conrado, from Texas State University, who is assisting with audit projects related to investments. Additionally, she stated that Ms. Dinah Arce will be leading a

group of students from the University of Texas at Austin in a project related to identifying best practices for retaining top performing employees.

The meeting adjourned at 3:53 p.m.

Approved by the Audit Committee of the Board of Trustees of the Teacher Retirement System of Texas on the 12th day of June, 2015.

Attested by:

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Christopher Moss  
Chair, Audit Committee  
Board of Trustees  
Teacher Retirement System of Texas

**TAB 2**

**TAB 2A**



**John Keel, CPA**  
**State Auditor**

An Audit Report on  
**Incentive Compensation at  
Selected Agencies**

May 2015  
Report No. 15-032



An Audit Report on  
**Incentive Compensation at Selected Agencies**

SAO Report No. 15-032  
May 2015

## Overall Conclusion

Through their incentive compensation plans for plan year 2014, the Teacher Retirement System (TRS), the Permanent School Fund (PSF) of the Texas Education Agency, and the General Land Office (GLO) awarded and paid incentive compensation awards in accordance with their policies and procedures.

While the Employees Retirement System (ERS) awarded plan year 2014 incentive compensation in accordance with its policies and procedures, it did not always pay incentive compensation accurately. Specifically, ERS did not accurately make necessary corrections to certain payment amounts to adjust for errors it had made in prior years. In addition, ERS should implement recommendations that its internal auditor made in November 2014 to strengthen plan performance goals, improve plan information that ERS provides to its board of trustees and key stakeholders, and formalize its plan review procedures.

In addition, GLO should strengthen its incentive compensation plan by formally approving its plan prior to the start of the plan performance period. The former land commissioner and the former chief clerk approved the GLO incentive compensation plan after the end of the plan performance period.

Auditors communicated other less significant issues separately in writing to management of TRS, the PSF, GLO, and ERS.

### Incentive Compensation for Plan Year 2014

TRS, the PSF, GLO, and ERS awarded a total of \$11,244,730 in incentive compensation to 226 employees through their incentive compensation plans for plan year 2014. Specifically:

- TRS awarded \$7,620,310 to 126 employees.
- The PSF awarded \$1,109,501 to 42 employees.
- GLO awarded \$290,105 to 4 employees.
- ERS awarded \$2,224,814 to 54 employees.

## Summary of Management's Response

Management of ERS and GLO agreed with the recommendations that this report addressed to them. This report did not address recommendations to TRS and the PSF.

## Summary of Information Technology Review

Auditors assessed the reliability of the incentive compensation award data used in this audit by tracing the data to supporting documentation and reviewing access to

This audit was conducted in accordance with Texas Government Code, Section 321.0132.

For more information regarding this report, please contact Angelica Ramirez, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

the data. Auditors verified the completeness of the incentive compensation award data by comparing information in the incentive compensation award calculation spreadsheets the audited agencies used to payroll information in the Uniform Statewide Payroll/Personnel System. Auditors determined that the incentive compensation award data was sufficiently reliable for the purposes of this audit.

For the PSF, auditors also determined that the investment performance data that the PSF obtained through Bank of New York Mellon was sufficiently reliable for the purposes of this audit.

For TRS, GLO, and ERS, auditors did not perform additional data reliability work related to investment performance data. For ERS, auditors relied on internal audit work. For GLO and TRS, auditors obtained investment performance data directly from third-party custodians.

## ***Summary of Objective, Scope, and Methodology***

The objective of this audit was to determine whether TRS, the PSF, GLO, and ERS calculate and pay incentive compensation in accordance with their policies and procedures.

The scope of this audit covered incentive compensation plan years ending September 30, 2014, at TRS; August 31, 2014, at the PSF and ERS; and June 30, 2014, at GLO.

The audit methodology included collecting information and documentation from the audited agencies; reviewing incentive compensation plans, policies, and procedures, and other guidance related to incentive compensation; and analyzing and evaluating data and the results of tests. Auditors selected non-statistical samples of incentive compensation awards primarily through random selection. Auditors used professional judgment to select additional samples of incentive compensation payments at TRS, ERS, and the PSF. Auditors tested the entire population of incentive compensation awards at GLO.

Auditors verified that recipients tested were eligible to receive incentive compensation payments, that data inputs used in calculations were correct, that calculated payment amounts were correct based on the terms of the incentive compensation plans, and that payment amounts distributed to recipients matched amounts calculated for each recipient. Auditors conducted additional procedures to determine whether auditors could rely on the work that ERS internal audit conducted. As noted above, auditors also tested access controls at each of the audited agencies and the reliability of investment performance data for the PSF.

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## ***Detailed Results***

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# Detailed Results

## Chapter 1

### ***TRS Awarded and Paid Incentive Compensation in Accordance With Its Policies and Procedures***

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The Teacher Retirement System (TRS) awarded and paid incentive compensation for its plan year ended September 30, 2014, in accordance with its policies and procedures. In addition, the TRS board of trustees formally approved the TRS incentive compensation plan before the beginning of the plan performance start date.

TRS awarded a total of \$7,620,310 in incentive compensation to 126 employees.<sup>1</sup> TRS awarded the most incentive compensation to its chief investment officer, who was awarded \$369,946 payable over a two-year period. That \$369,946 represented 5 percent of the \$7,620,310 in total incentive compensation that TRS awarded.

The TRS incentive compensation plan is based on a combination of investment performance and qualitative performance. The investment performance component compares investment performance with benchmarks (50 percent) and the performance of other large public funds (30 percent). The qualitative performance component (20 percent) assesses performance in a variety of areas such as interpersonal relationship skills, accountability, and effective teamwork.

The TRS incentive compensation plan measures investment performance of the total fund and of an employee's individual assigned asset classes on both a one-year and three-year basis. If the investment performance exceeds the benchmarks or the performance of other large public funds, that triggers the awarding of incentive compensation. For example, the total fund investment performance:

- Exceeded the target benchmark by 0.915 percent (91.5 basis points) for the three-year period from October 1, 2011, to September 30, 2014.
- Exceeded the target benchmark by 0.540 percent (54.0 basis points) for the one-year period from October 1, 2013, to September 30, 2014.

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<sup>1</sup> As of February 11, 2015, TRS had paid employees \$3,810,155 of the \$7,620,310 it awarded; the remaining \$3,810,155 was due to be paid in 2016.

Table 1 shows the positions eligible to earn incentive compensation in the TRS plan and the incentive compensation awards for each position for the 2014 plan year.

Table 1

TRS Incentive Compensation Awards for Plan Year 2014	
Eligible Position	Incentive Compensation Award (rounded to the nearest dollar) <sup>a</sup>
Chief investment officer	\$369,946
Deputy chief investment officer	\$225,819
Senior managing director	\$158,426 to \$258,218
Managing director	\$115,543 to \$181,802
Senior director	\$110,557 to \$164,543
Director	\$64,147 to \$149,472
Senior investment manager	\$46,490 to \$130,682
Investment manager	\$13,458 to \$86,931
Senior associate	\$25,332 to \$54,797
Associate	\$4,319 to \$31,239
Senior analyst	\$2,371 to \$17,200
Analyst	\$1,005 to \$11,257
Administrative assistant	\$260 to \$1,826
<sup>a</sup> A single amount is presented when only one individual was in the position for plan year 2014; a range of amounts is presented when multiple individuals were in the position for plan year 2014. Some amounts are based on partial year awards.	

Source: TRS.

## ***The PSF Awarded and Paid Incentive Compensation in Accordance With Its Policies and Procedures***

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The Permanent School Fund (PSF) of the Texas Education Agency awarded and paid incentive compensation for its plan year ended August 31, 2014, in accordance with its policies and procedures. In addition, the commissioner of education formally approved the PSF incentive compensation plan before the beginning of the plan performance start date.

The PSF awarded a total of \$1,109,501 in incentive compensation to 42 employees.<sup>2</sup> The PSF awarded the most incentive compensation to the deputy chief investment officer and director of fixed income, who was awarded \$102,213 payable over a three-year period. That \$102,213 represented 9 percent of the \$1,109,501 in total incentive compensation that the PSF awarded.

The PSF calculates incentive compensation based on an employee's achievement of goals related to total fund performance and the performance of the employee's individual assigned asset classes. The PSF does not include a qualitative component in its calculation. If the three-year investment performance exceeds the benchmarks, that triggers the awarding of incentive compensation. (The PSF measures employees who have participated in the plan for two or fewer years against one-year or two-year investment performance.) For example, the total fund investment performance:

- Exceeded the target benchmark by 0.297 percent (29.7 basis points) for the three-year period from September 1, 2011, to August 31, 2014.
- Exceeded the target benchmark by 0.155 percent (15.5 basis points) for the two-year period from September 1, 2012, to August 31, 2014.
- Exceeded the target benchmark by 0.574 percent (57.4 basis points) for the one-year period from September 1, 2013, to August 31, 2014.

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<sup>2</sup> As of January 19, 2015, the PSF had paid employees \$554,751 of the \$1,109,501 it awarded; two remaining payments of \$277,375 each were to be paid in the next two years.

Table 2 shows the positions eligible to earn incentive compensation in the PSF plan and the incentive compensation awards for each position for the 2014 plan year.

Table 2

PSF Incentive Compensation Awards for Plan Year 2014	
Eligible Position	Incentive Compensation Award (rounded to the nearest dollar) <sup>a</sup>
Chief investment officer	\$79,861
Deputy chief investment officer and director of fixed income	\$102,213
Director of private markets	\$52,180
Director of equities	\$73,271
Deputy executive administrator	\$50,281
Director of global risk control strategies	\$80,300
Risk manager	Vacant position
Portfolio manager I-IV	\$14,402 to \$67,005
Risk analyst	Vacant position
Investment analyst I-IV	\$5,060 to \$26,350
Director of investment operations	\$25,546
Director of operational due diligence	Vacant position
Director of finance	\$21,089
Financial analyst I-IV	\$2,530 to \$15,339
Accountant I-VII	\$13,994
Attorney I-VI	\$5,688
Director of investment technology	Vacant position
Systems analyst I-VI	\$1,677 to \$4,243
Program specialist I-VII	\$1,778
Staff services officer I-V	Vacant position
Executive assistant I-III	Vacant position
Director III	\$7,217 <sup>b</sup>

<sup>a</sup> A single amount is presented when only one individual was in the position for plan year 2014; a range of amounts is presented when multiple individuals were in the position for plan year 2014. Some amounts are based on partial year awards.

<sup>b</sup> Although director III is not specifically listed in the PSF incentive compensation plan as an eligible position, the individual in that position (an employee of the Texas Education Agency) was assigned to the PSF cost center in May 2014, and that individual's functions were equivalent to the vacant director of investment technology position. According to the PSF incentive compensation plan, positions assigned to the cost center for the PSF are considered eligible positions, and the commissioner of education has discretion to modify the definition of an eligible position.

Source: The PSF.

## ***GLO Awarded and Paid Incentive Compensation in Accordance With Its Policies and Procedures***

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The General Land Office (GLO) awarded and paid incentive compensation for its plan year ended June 30, 2014, in accordance with its policies and procedures. However, the former land commissioner and the former chief clerk did not formally approve the GLO incentive compensation plan until July 2014, which was after the plan performance end date. Obtaining formal approval of the incentive compensation plan prior to the beginning of the performance period could help ensure that the plan aligns with the intent of the land commissioner and the chief clerk.

In addition, GLO could not provide documentation of management's review of the incentive award calculation spreadsheet. According to GLO, management verbally asserted that it had reviewed the calculation spreadsheet. Documenting that review could help ensure that the incentive award calculations are accurate and calculated in accordance with incentive compensation plan requirements.

GLO awarded a total of \$290,105 in incentive compensation to 4 employees.<sup>3</sup> GLO awarded the most incentive compensation to its deputy commissioner of funds management, who was awarded \$209,718 payable over a two-year period. That \$209,718 represented 72 percent of the \$290,105 in total incentive compensation that GLO awarded.

The GLO incentive compensation plan compares investment performance of the total fund with a target benchmark on a one-year, three-year, and five-year basis. GLO calculates incentive compensation based on an employee's achievement of goals in investment performance (60 percent) and a qualitative component (40 percent) that is tied to employee job performance for the period. Because investment performance exceeded the benchmark, that triggered the awarding of incentive compensation. Specifically, the total fund investment performance:

- Exceeded the target benchmark by 6.37 percent (637 basis points) for the five-year period from July 1, 2009, to June 30, 2014.
- Exceeded the target benchmark by 7.94 percent (794 basis points) for the three-year period from July 1, 2011, to June 30, 2014.
- Exceeded the target benchmark by 7.62 percent (762 basis points) for the one-year period from July 1, 2013, to June 30, 2014.

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<sup>3</sup> As of February 11, 2015, the GLO had paid employees \$145,052 of the \$290,105 it awarded; the remainder was due to be paid in late 2015.

Table 3 shows the positions eligible to earn incentive compensation in the GLO plan and the incentive compensation awards for each position for the 2014 plan year.

Table 3

GLO Incentive Compensation Awards for Plan Year 2014	
Eligible Position	Incentive Compensation Award (rounded to the nearest dollar) <sup>a</sup>
Deputy commissioner of funds management	\$209,718
Real assets portfolio manager	\$52,003
Senior financial analyst	\$17,340
Program specialist	\$11,043
<sup>a</sup> Amounts do not sum to \$290,105 due to rounding.	

Source: GLO.

### Recommendations

GLO should:

- Ensure that the land commissioner and chief clerk formally approve the incentive compensation plan prior to the beginning of the plan year.
- Document management’s review of the incentive award calculation spreadsheet.

### Management’s Response

*Management agrees with the recommendation that the GLO should ensure the Land Commissioner and Chief Clerk formally approve the incentive compensation plan prior to the beginning of the plan year. The GLO will also retain formal documentation that the incentive award calculation spreadsheet was reviewed by management. The Director of Public Lands and Commercial Transactions, Office of General Counsel, will be responsible for the implementation related to the plan approval by June 30, 2015, and the Director of Budget and Planning will be responsible for documenting the spreadsheet review.*

## ***ERS Awarded Incentive Compensation in Accordance With Its Policies and Procedures, But It Should Strengthen Controls to Help Ensure That Related Payments Are Accurate***

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The Employees Retirement System (ERS) awarded incentive compensation for its plan year ended August 31, 2014, in accordance with its policies and procedures. In addition, the ERS board of trustees formally approved the ERS incentive compensation plan before the beginning of the plan performance start date. However, ERS did not always correctly calculate the amount of incentive compensation that it actually paid to employees in fiscal year 2015. ERS awarded \$2,224,814 in incentive compensation for its 2014 plan year, and it made payments of \$2,203,256 in fiscal year 2015.

Although ERS makes incentive compensation awards each year, it pays those awards in installments over time. Specifically, ERS pays most employees 50 percent of an incentive compensation award for the current plan year, 25 percent of that award in the next year, and 25 percent of that award in the following year.<sup>4</sup> As a result, its actual payments to employees consist of partial awards from three years. ERS did not correctly calculate payment amounts for certain employees for fiscal year 2015 because it did not accurately make certain payment adjustments necessary to correct award calculation errors that the State Auditor's Office identified for plan year 2013. As a result, ERS made \$8,813 in overpayments to 4 individuals and \$3,222 in underpayments to 3 individuals. ERS asserted that it would adjust future payments to those individuals to correct those errors.

ERS revised its calculation review process for the 2014 plan year and hired an external reviewer to verify the accuracy of the incentive compensation award calculations; the ERS internal auditor also performed an internal audit of incentive compensation. In conducting the audit at ERS, State Auditor's Office auditors relied on the ERS internal audit report entitled *Incentive Compensation Audit* released on November 12, 2014. The ERS internal audit report identified the following issues:

- The qualitative performance goals for participants in the ERS incentive compensation plan are not clearly defined to ensure alignment with the intent of the plan. The approved fiscal year 2014 and fiscal year 2015 plans did not provide direction on (1) how the weights of the qualitative performance goals should be determined or (2) how to assess the extent of qualitative performance goal achievement.
- Reports that ERS provides on the incentive compensation plan to the members of its board of trustees and key stakeholders are limited and do

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<sup>4</sup> For certain operations employees, ERS paid 50 percent of the employees' awards in fiscal year 2015 and will pay the remaining 50 percent in fiscal year 2016.

not allow for an overall assessment of the plan. Although ERS provided all required information to key stakeholders, it did not provide additional reports to allow for an overall assessment of the plan.

- ERS did not formalize its incentive compensation plan award review procedures to ensure that its review process was complete and consistent. Specifically, it did not clearly define the level of review procedures to be performed by internal staff. In addition, ERS investments and human resources management did not review and approve agreed-upon procedures that a third party would follow to review the accuracy of ERS's calculations of incentive compensation award amounts. That review and approval would help to ensure that the agreed-upon procedures are appropriate.

ERS awarded a total of \$2,224,814 in incentive compensation to 54 employees.<sup>5</sup> ERS awarded the most incentive compensation to its executive director, who was awarded \$217,757, half of which was paid for fiscal year 2014. However, due to a planned retirement, the executive director will forfeit the remaining half. ERS's policy requires that, to receive an incentive compensation payment, an individual must be an ERS employee on the date on which the payment is made. The \$217,757 award represented 10 percent of the \$2,224,814 in total incentive compensation that ERS awarded.

The ERS incentive compensation plan is based on a combination of investment performance and qualitative performance. The investment performance component compares investment performance to benchmarks. The qualitative (discretionary, non-performance based) performance component assesses a variety of achievements, such as involvement in and recognition from industry conferences and organizations and enhancement of the ERS external advisor program. The weights of the investment performance and qualitative performance components vary depending on an employee's role, and the ERS executive director approves those weights at the beginning of the plan year. The qualitative portion of the ERS incentive compensation payment ranges from 0 percent to 90 percent of the incentive compensation payment for each eligible employee.

ERS calculates the investment performance component of incentive compensation based on an employee's achievement of goals related to total fund performance and the performance of the employee's individual assigned asset classes. If the one-year, three-year, or five-year investment performance exceeds the benchmarks, that triggers the awarding of incentive compensation. For example, the total fund investment performance:

- Exceeded the target benchmark by 0.022 percent (2.2 basis points) for the five-year period from September 1, 2009, to August 31, 2014.

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<sup>5</sup> As of February 11, 2015, the ERS had paid employees \$1,112,407 of the \$2,224,814 it awarded; \$574,601 was due to be paid in fiscal year 2016 and \$537,806 was due to be paid in fiscal year 2017.

- Exceeded the target benchmark by 0.029 percent (2.9 basis points) for the three-year period from September 1, 2011, to August 31, 2014.
- Was less than the target benchmark by 0.352 percent (35.2 basis points) for the one-year period from September 1, 2013, to August 31, 2014.

Auditors did not identify any calculation errors in the incentive compensation awards for the plan year ended August 31, 2014.

Table 4 shows the positions eligible to earn incentive compensation in the ERS plan and the incentive compensation awards for each position for the 2014 plan year.

Table 4

ERS Incentive Compensation Awarded for Plan Year 2014	
Eligible Positions	Incentive Compensation Award (rounded to the nearest dollar) <sup>a</sup>
Executive director	\$217,757
Chief investment officer	\$11,481
Deputy chief investment officer	\$32,292
Chief of staff	Duties were transferred <sup>b</sup>
Director of investment services	\$40,299
General counsel and chief compliance officer	\$101,429
Investments and securities, attorney	\$72,426 to \$78,288
Investments and securities, paralegal	Ineligible for plan year 2014
Investment administrative support	Opted out of plan year 2014
Financial analyst I-IV	\$3,117 to \$14,635
Director of strategic research	Vacant position
Asset class portfolio managers/directors	\$10,011 to \$96,682
Chief trader I-II	\$40,089 to \$59,672
Trader I-II	\$24,970
Portfolio manager I-IV	\$4,045 to \$87,264
Investment analyst I-IV	\$6,535 to \$46,184
<sup>a</sup> A single amount is presented when only one individual was in the position for plan year 2014; a range of amounts is presented when multiple individuals were in the position for plan year 2014. Some amounts are based on partial year awards.	
<sup>b</sup> During the plan year, the chief of staff's job title changed to deputy chief investment officer and the duties of that position were transitioned into the deputy chief investment officer and the director of investment services.	

Source: ERS.

## Recommendations

ERS should:

- Strengthen its review of incentive compensation plan payment calculations and related documents to help ensure that payment amounts align with policies and procedures and are accurate.
- Implement its internal auditor's recommendations for the incentive compensation plan.

## Management's Response

*ERS management agrees with both recommendations. ERS will continue to enhance its review processes, including enhancing agreed upon procedures with its 3<sup>rd</sup>-party reviewer, to help ensure that payment amounts align with policies and procedures and are accurate. ERS management is working to implement the recommendations of its internal auditor for the 2016 incentive compensation plan year as noted in its management action plan in the referenced ERS Internal Audit report.*

# Appendix

## ***Objective, Scope, and Methodology***

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### **Objective**

The objective of this audit was to determine whether the Teacher Retirement System (TRS), the Permanent School Fund (PSF) of the Texas Education Agency, the General Land Office (GLO), and the Employees Retirement System (ERS) calculate and pay incentive compensation in accordance with their policies and procedures.

### **Scope**

The scope of this audit covered incentive compensation plan years ending September 30, 2014, at TRS; August 31, 2014, at the PSF and ERS; and June 30, 2014, at GLO.

### **Methodology**

The audit methodology included collecting information and documentation from the audited agencies; reviewing incentive compensation plans, policies, and procedures, and other guidance related to incentive compensation; and analyzing and evaluating data and the results of tests.

Auditors verified that recipients tested were eligible to receive incentive compensation payments, that data inputs used in the calculations were correct, that payment amounts were calculated correctly based on the terms of the incentive compensation plan, and that payment amounts distributed to recipients matched amounts calculated for each recipient.

Auditors reviewed calculations, personnel files, payroll data, and externally reported fund performance results to determine whether the audited agencies calculated and paid incentive compensation in accordance with policies and procedures. Auditors also tested access controls over the spreadsheets the audited agencies used to calculate incentive compensation and the reliability of investment performance data for the PSF.

Auditors conducted additional procedures to determine whether auditors could rely on the work that the ERS internal audit conducted. ERS internal audit released an audit of incentive compensation for plan year 2014 in November 2014.

### **Data Reliability and Completeness**

Auditors assessed the reliability of the incentive compensation award data used in this audit by tracing the data to supporting documentation and

reviewing access to the data. Auditors verified the completeness of the incentive compensation award data by comparing information in the incentive compensation award calculation spreadsheets the audited agencies used to payroll information in the Uniform Statewide Payroll/Personnel System. Auditors determined that the incentive compensation award data was sufficiently reliable for the purposes of this audit.

For the PSF, auditors also determined that the investment performance data obtained through Bank of New York Mellon was sufficiently reliable for the purposes of this audit. Auditors verified the completeness of the investment performance data by observing the PSF retrieve the monthly investment performance data, recalculating the annualized returns, and verifying that the data included all portfolios listed in the incentive compensation plan.

For TRS, GLO, and ERS, auditors did not perform additional data reliability work related to investment performance data. For ERS, auditors relied on internal audit work. For GLO and TRS, auditors obtained investment performance data directly from third-party custodians.

#### **Sampling Methodology**

Auditors selected non-statistical samples of incentive compensation awards primarily through random selection. In those cases, results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured. In addition, auditors used professional judgment to select a sample of items for testing at TRS, ERS, and the PSF. Those sample items generally were not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population. Auditors tested the entire population of incentive compensation awards at GLO.

Information collected and reviewed included the following:

- Incentive compensation plans at TRS, the PSF, GLO, and ERS.
- Incentive compensation payment calculation spreadsheets for incentive compensation plan years ending September 30, 2014, at TRS; August 31, 2014, at the PSF and ERS; and June 30, 2014, at GLO.
- Incentive compensation recipients' personnel files.
- Payroll data related to incentive compensation recipients.
- Investment performance reports from custodian banks.
- Agency internal audit documents.

Procedures and tests conducted included the following:

- Interviewed management and key personnel at TRS, the PSF, GLO, and ERS.
- Tested and recalculated incentive compensation awards for recipients of incentive compensation for incentive compensation plan years ending September 30, 2014, at TRS; August 31, 2014, at the PSF and ERS; and June 30, 2014, at GLO.
- Verified that incentive compensation award payments matched award calculations.
- Reviewed and tested compliance with the audited agencies' policies and procedures.
- Reviewed the ERS internal auditor's education, professional certification, and continuing education to comply with *Government Auditing Standards*, Sections 6.40 and 6.41.
- Examined, on a test basis, internal auditors' work to determine whether it could be used as audit evidence.

Criteria used included the following:

- *Teacher Retirement System of Texas Performance Incentive Pay Plan.*
- *Texas Permanent School Fund Performance Incentive Pay Plan.*
- *Texas General Land Office Performance Incentive Pay Plan.*
- *Employees Retirement System of Texas Incentive Compensation Plan.*
- TRS and ERS board of trustees meeting minutes.
- Section 44, Article III, Texas Constitution and related statutes.
- Rider 13, page III-34, and Rider 22, pages III-9 and III-10, General Appropriations Act (83rd Legislature).
- Texas attorney general opinions related to incentive compensation.
- *Government Auditing Standards*, Sections 6.40 and 6.41.

## **Project Information**

Audit fieldwork was conducted from January 2015 through March 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a

reasonable basis for our 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.

The following members of the State Auditor's staff performed the audit:

- Sonya Tao, CFE (Project Manager)
- Ann E. Karnes, CPA (Assistant Project Manager)
- Mariah Johnson
- Adam Ryan, MACT
- Yue Zhang, MPA
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair  
The Honorable Joe Straus III, Speaker of the House, Joint Chair  
The Honorable Jane Nelson, Senate Finance Committee  
The Honorable Robert Nichols, Member, Texas Senate  
The Honorable John Otto, House Appropriations Committee  
The Honorable Dennis Bonnen, House Ways and Means Committee

### **Office of the Governor**

The Honorable Greg Abbott, Governor

### **Employees Retirement System**

Members of the Employees Retirement System Board of Trustees  
Mr. Brian D. Ragland, Chair  
Mr. Frederick E. Rowe, Jr., Vice Chair  
Mr. Doug Danzeiser  
Ms. Cydney Donnell  
Ms. Yolanda Griego  
Mr. I. Craig Hester  
Ms. Ann S. Bishop, Executive Director  
Mr. Porter Wilson, Executive Director Designate

### **General Land Office**

The Honorable George P. Bush, Land Commissioner and Chairman of the  
School Land Board  
Members of the School Land Board  
Mr. David S. Herrmann  
Mr. Thomas Orr, Jr.

### **Permanent School Fund**

Members of the State Board of Education  
Ms. Barbara Cargill, Chair  
Mr. Thomas Ratliff, Vice Chair  
Mr. Ruben Cortez, Jr., Secretary  
Mr. Lawrence A. Allen, Jr.  
Ms. Donna Bahorich  
Ms. Erica Beltran  
Mr. David Bradley  
Dr. Martha M. Dominguez  
Ms. Patricia Hardy  
Mr. Tom Maynard  
Mr. Ken Mercer  
Ms. Sue Melton-Malone  
Ms. Geraldine Miller  
Ms. Marisa B. Perez  
Mr. Marty Rowley  
Mr. Michael L. Williams, Commissioner of Education  
Mr. Holland Timmins, CFA, Executive Administrator and Chief  
Investment Officer, Permanent School Fund

## **Teacher Retirement System**

Members of the Teacher Retirement System Board of Trustees

Mr. R. David Kelly, Chairman

Ms. Nanette Sissney, Vice Chair

Mr. Todd Barth

Ms. T. Karen Charleston

Mr. Joe Colonna

Mr. David Corpus

Mr. Christopher Moss

Ms. Anita Smith Palmer

Ms. Dolores Ramirez

Mr. Brian Guthrie, Executive Director



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# TAB 2B

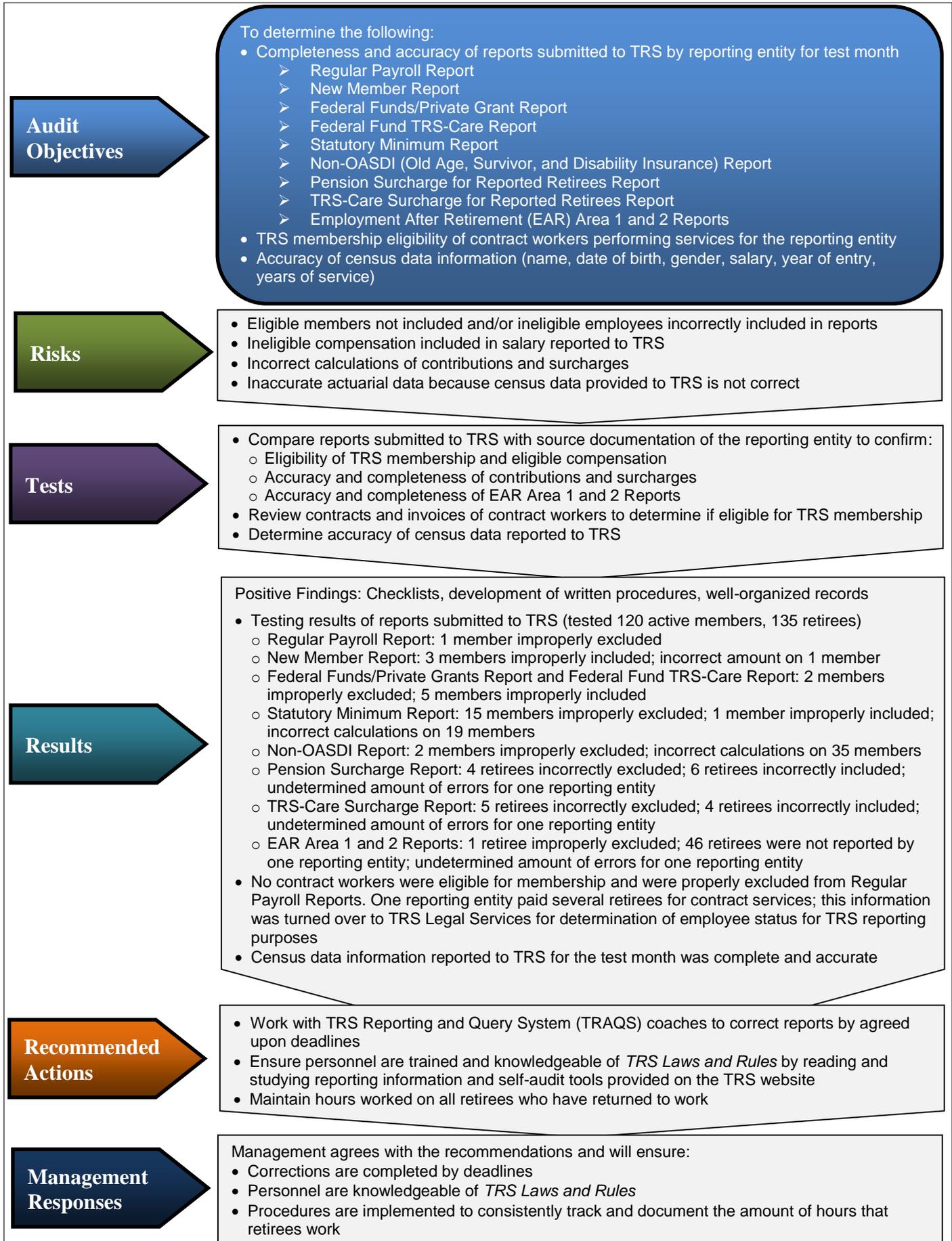
This agenda item will be discussed at a future  
Audit Committee Meeting

TAB 3

# SUMMARY OF AUDITS OF FOUR INDEPENDENT SCHOOL DISTRICTS

May 2015

## TRS Internal Audit Department

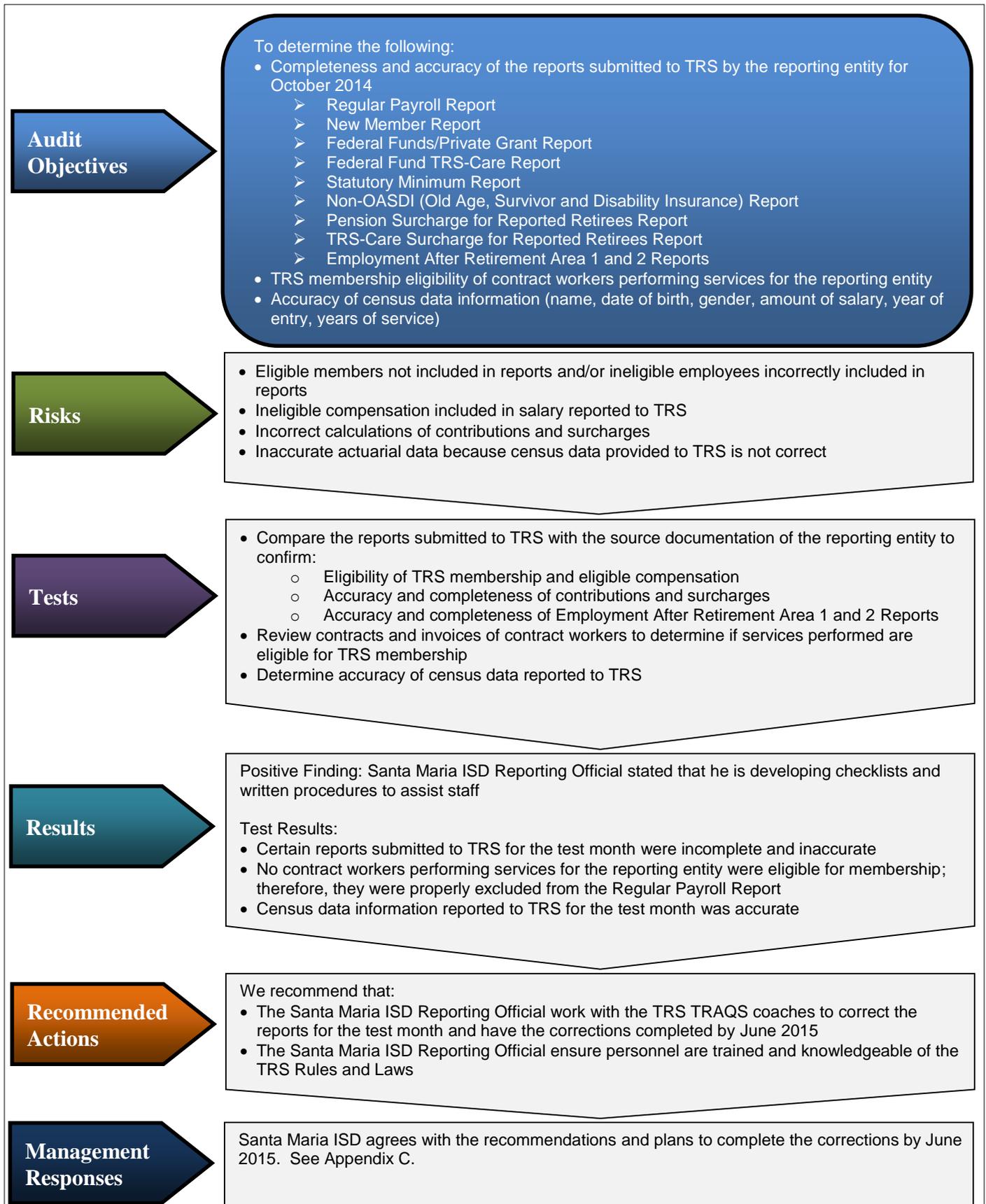


**TAB 3A**

# AUDIT OF SANTA MARIA INDEPENDENT SCHOOL DISTRICT

April 29, 2015

## TRS Internal Audit Department



April 29, 2015

Ms. Maria Chavez  
Superintendent of Schools  
Santa Maria Independent School District  
11119 U.S. Hwy 281  
Santa Maria, TX 78592

## AUDIT REPORT OF SANTA MARIA INDEPENDENT SCHOOL DISTRICT

### EXECUTIVE SUMMARY

We have completed the audit of eligibility and contributions, as included in the *Fiscal Year 2015 Audit Plan*. Our audit objectives were to determine the following:

- Completeness and accuracy of the reports submitted to TRS by the Santa Maria Independent School District (Santa Maria ISD) for October 2014
- Eligibility of contract workers performing services for Santa Maria ISD for TRS membership
- Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, years of service)

Based on our audit results, we noted a positive finding that the Santa Maria ISD Reporting Official stated that he is developing checklists and written procedures to assist staff in submitting correct monthly reports.

We concluded the following:

- Certain reports were incomplete and inaccurate
- No contract workers performing services for Santa Maria ISD were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report
- Census data information reported to TRS was accurate

# BACKGROUND

## PROJECT BACKGROUND

The Annual Audit Plan approved by the TRS Board of Trustees includes audits of reporting entities<sup>1</sup> in order to confirm member eligibility and accuracy of contributions and fees. 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 reaction 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 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 State Auditor's Office (SAO), or the Texas Education Agency (TEA)
- No audit history of census data by TRS or the SAO within last five years

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

## REPORTING ENTITY BACKGROUND<sup>2</sup>

Santa Maria Independent School District (Santa Maria ISD) resides in Santa Maria, Texas, located in the Rio Grande Valley. According to the 2010 United States Census, Santa Maria ISD had a total population of 2,542 and 572 family households. There are three campuses in the Santa Maria ISD: Tony Gonzales Elementary, Santa Maria Middle School, and Santa Maria High School. In 1993-94 AEIS (Academic Excellence Indicator System) reported 522 students attended school in Santa Maria ISD. According to the 2010 United States Census, 666 students attended.

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<sup>1</sup> A reporting entity is an employer, as defined in Texas Government Code, Title 8, Subtitle C, Chapter 821.001.

<sup>2</sup> Information obtained from internet sources and/or Reporting Entity website

## RESULTS AND RECOMMENDATIONS

### OVERALL RESULTS

#### Positive Findings

Based on our audit results, we noted a positive finding that the Santa Maria ISD Reporting Official stated that he is developing checklists and written procedures to assist staff in submitting correct monthly reports.

#### Other Findings

We tested:

- Thirty of the population of 150 employees reported in the Regular Payroll Report
- All four retirees who performed services in October 2014
- All three employees paid in October 2014 who were not reported to TRS in the Regular Payroll Report
- Nine of the 150 employees for source of salary funding for federal funds reimbursement to state and TRS-Care

We concluded the following about the completeness and accuracy of the October 2014 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	No	No
Reporting Entity Payment for New Member Report	Yes	No
Federal Funds/Private Grant Report	No	No
Federal Fund TRS-Care Report	No	No
Statutory Minimum Report	No	No
Reporting Entity Payment for Non-Old Age, Survivor and Disability Insurance (OASDI) Members Report	No	No
Reporting Entity Pension Surcharge for Reported Retirees Report	No	No
Reporting Entity TRS-Care Surcharge for Reported Retirees Report	Yes	Yes
Reporting Entity Employment After Retirement (EAR) Report	No	No

See the table at **Appendix B** for detailed information.

We also tested five of 52 contract workers that performed services for Santa Maria ISD and concluded that no contract workers performing services for Santa Maria ISD were eligible for membership. Therefore, they were properly excluded from the October 2014 Regular Payroll Report.

Census data information reported to TRS for October 2014 was accurate.

## RECOMMENDATION

The Santa Maria ISD Reporting Official should work with the TRS Reporting and Query System (TRAQS) coaches to correct the October 2014 reports and ensure that corrections are completed by June 2015.

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

Going forward, the Santa Maria ISD Reporting Official should ensure that retirees have the appropriate break in service in order that they not be at risk of forfeiting annuities.

## MANAGEMENT RESPONSES

Santa Maria ISD agrees with the recommendations and plans to complete the corrections by June 2015. Refer to **Appendix C**.

\* \* \* \* \*

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



Amy Barrett, CIA, CPA, CISA  
Chief Audit Executive



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



Art Mata, CEBS, CPM  
Internal Audit Consultant

cc: Santa Maria 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 following:

- Completeness and accuracy of the reports submitted to TRS by the Santa Maria Independent School District (Santa Maria ISD) for October 2014
- Eligibility of contract workers performing services for Santa Maria ISD 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:

1. Eligible members
2. Member contributions
3. Employer contributions, surcharges, and fees
4. Census data of eligible members

#### SCOPE

Payroll data was selected from the month of October 2014. We selected:

- Thirty sample items from 150 reported to TRS in the Regular Payroll Report
- All three sample items from the Santa Maria ISD payroll for employees that were not reported to TRS
- All four retirees on the payroll
- Nine of the 150 employees for source of salary funding for federal funds reimbursement to state and TRS-Care
- Five of the 52 vendors from the list of Federal 1099 forms issued for the calendar year 2013

With the exception of the superintendent, we did not test whether salary amounts were authorized by the Santa Maria ISD Board of Trustees and whether pension contributions included amounts that were not eligible (cell phone reimbursement, housing allowance, etc.).

We requested but were not provided with the methodology and support for calculating statutory minimum and Non-Old Age, Survivor and Disability Insurance (OASDI). Therefore, we used worst-case scenario estimates in determining questioned costs. These amounts should not be used to make actual corrections. Santa Maria ISD must work with their TRS TRAQS coach to determine the amount of actual corrections.

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

## **METHODOLOGY**

We specifically performed the procedures below.

### **1. To determine completeness and accuracy of reported 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
- 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 report of employer contributions and surcharges remitted to TRS on the regular payroll report
- Review detail supporting records for the employer calculations and recalculate employer contributions for the following:
  - New member contributions
  - Employment after retirement surcharges
  - Adjusted State Minimum Salary contributions
- Review list of employees whose salary is paid from federal funds and private grants, percentage allocation of salary paid from federal funds and private grants, and supporting detail for reports
- Determine if reporting entity owes surcharges on employees who are TRS retirees

### **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 or termination/retirement

## CONCLUSION

Based on our audit results, we noted a positive finding that the Santa Maria ISD Reporting Official stated that he is developing checklists and written procedures to assist staff in submitting correct monthly reports.

We concluded the following:

- Certain reports were incomplete and inaccurate
- No contract workers performing services for Santa Maria ISD were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report
- Census data information reported to TRS was accurate

See the table at **Appendix B** for information.

## APPENDIX B

### TABLE OF FINDINGS FROM REPORT TESTING

#### TEST RESULTS

##### Population and sampling:

- Tested 30 out of 150 total members reported in the October 2014 TRS Regular Payroll Report
- Tested all three employees not reported to TRS in the October 2014 Regular Payroll Report
- Tested four out of four retirees on payroll for the month of October 2014
- Tested nine out of 150 total employees for source of salary funding for the federal funds reports (six paid with federal funds and three not paid with federal funds)

	TOTAL REPORTED	QUESTIONED COSTS		REVISED TOTAL	% ERROR
		Understated	(Overstated)		
<b>REGULAR PAYROLL REPORT</b>					
One of the three employees from the “not reported sample items” was improperly excluded from all October reports and no contributions were paid. The payroll register reflected deductions for TRS contributions; however, these were not reported nor submitted to TRS. Contributions were understated as follows:					
a. Member Contributions to Pension Fund - \$507.36	\$31,675.23	\$507.36		\$32,182.59	1.60%
b. Member Contributions to TRS-Care - \$49.22	\$3,072.83	\$49.22		\$3,122.05	1.60%
c. Reporting Entity Contributions to TRS-Care - \$41.65	\$2,600.15	\$41.65		\$2,641.80	1.60%

	TOTAL REPORTED	QUESTIONED COSTS		REVISED TOTAL	% ERROR
		Understated	(Overstated)		
<p><b>REPORTING ENTITY PAYMENT FOR NEW MEMBER REPORT</b></p> <p>Three out of 30 were improperly included in the New Member Report. These three are not new members to TRS, though they may be new to the Santa Maria ISD. Therefore, the October New Member report was overstated by \$843.96.</p> <p>The amount paid on one new member of the 30 “reported sample items” was understated by \$108.44.</p>	\$8,723.24	\$108.44	\$843.96	\$7,987.72	8.43%
<p><b>FEDERAL FUNDS/PRIVATE GRANT REPORT</b></p> <p>One of six employees selected from the source of funds listing that was paid with federal funds was improperly excluded from the Federal Funds Reports. The report was understated by \$381.25.</p> <p>Two employees of the three not paid with federal funds were incorrectly included in the Federal Grants Private Funds Reimbursement to State Report. The report was overstated by \$167.47.</p>	\$2,292.27	\$381.25	\$167.47	\$2,506.05	9.33%
<p><b>FEDERAL FUND TRS-CARE REPORT</b></p> <p>One of six employees selected from the source of funds listing that was paid with federal funds was improperly excluded from the Federal Funds Reports. The report was understated by \$56.07.</p> <p>All three employees that were not paid with federal funds were incorrectly included in the Federal Funds TRS-Care Reimbursement to State. The report was overstated by \$33.52.</p>	\$393.66	\$56.07	\$33.52	\$416.21	5.73%

	TOTAL REPORTED	QUESTIONED COSTS		REVISED TOTAL	% ERROR
		Understated	(Overstated)		
<p><b>STATUTORY MINIMUM REPORT</b></p> <p>To estimate the Statutory Minimum contributions, TRS used TRS Years of Service because Santa Maria ISD may have used the wrong years of experience credit and/or the wrong state minimum salary amount. We requested but were not provided with Years of Experience Credit (Salary Step) and an explanation to support Santa Maria ISD calculations. Therefore, we used worst-case scenario estimates in determining questioned costs. These amounts should not be used to make actual corrections. Santa Maria ISD must work with their TRAQS coach to determine the amount of actual corrections.</p> <p>From our sample, we identified 13 employees that should have been included in the Statutory Minimum Report for October.</p> <ul style="list-style-type: none"> <li>• One of the 30 was properly included in the Statutory Minimum Report; however, the contribution of \$22.25 reported for this one employee was understated by an estimated \$1.06.</li> <li>• Eleven employees out of the 30 were subject to Statutory Minimum but were improperly excluded from the Statutory Minimum Report. The report was understated by an estimated \$1,112.46.</li> <li>• One of the three “not reported sample items” was improperly excluded from the Statutory Minimum report. The report was understated by an estimated \$224.18.</li> <li>• For one of the 30 sample items that should have been reported, the monthly salary is less than statutory</li> </ul>	\$793.95	\$1,337.70		\$2,131.65	168.48%

	TOTAL REPORTED	QUESTIONED COSTS		REVISED TOTAL	% ERROR
		Understated	(Overstated)		
minimum and showed a negative amount (an amount due to reporting entity). The amount was adjusted to zero.					
<p><b>REPORTING ENTITY PAYMENT FOR NON-OLD AGE, SURVIVOR AND DISABILITY INSURANCE (OASDI) MEMBERS REPORT</b></p> <p>The Non-OASDI contributions for 11 of the 30 were improperly overstated by an estimated amount of \$177.27 because Santa Maria ISD may have used the wrong years of experience credit and/or the wrong state minimum salary amount. We requested but were not provided with an explanation to support Statutory Minimum calculations.</p> <p>One of the 30 was improperly excluded from the Non-OASDI Report. The report was understated by an estimated \$39.29 because of the omission of the one employee on this report.</p> <p>One of the three “not reported sample items” was improperly excluded from the Non-OASDI Report. The report was understated by an estimated \$64.14.</p>	\$6,900.20	\$103.43	\$177.27	\$6,826.36	1.07%
<p><b>REPORTING ENTITY PENSION SURCHARGE FOR REPORTED RETIREES REPORT</b></p> <p>One of the four retirees tested worked more than one-half time and was improperly excluded from the Pension Surcharge Report. The amount of \$970.95 is due for this retiree.</p> <p>We confirmed with Santa Maria ISD that this retiree worked full-time, thus this person should not have</p>	\$510.10	\$970.95		\$1,481.05	190.34%

	TOTAL REPORTED	QUESTIONED COSTS		REVISED TOTAL	% ERROR
		Understated	(Overstated)		
received an annuity for the test month of October 2014, as the retirement date occurred after January 1, 2011 and is subject to working one-half time or less in order to receive an annuity. Due to Santa Maria ISD omitting this retiree from Employment After Retirement (EAR) reports, we were unable to determine if retiree had satisfied the 12-month break in service.					
<b>REPORTING ENTITY TRS-CARE SURCHARGE FOR REPORTED RETIREES REPORT</b> There were no exceptions.	\$1,160.00			\$1,160.00	0.00%
<b>EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT</b> The same retiree was also improperly excluded from the TRS EAR Area 1 report*. * Retirement date determines how a retiree is reported to TRS. Retirees with a retirement date AFTER January 1, 2011 are reported on Area 1.					
<b>GRAND TOTAL DUE TO/(FROM TRS)</b>	<b>\$58,121.63</b>	<b>\$3,556.07</b>	<b>\$1,222.22</b>	<b>\$60,455.48</b>	<b>4.02%</b>
<b>ERROR RATE SUMMARY</b>					
<ul style="list-style-type: none"> <li>• Fourteen out of the 30 sample items reported to TRS contained errors (47% error rate).</li> <li>• One out of the three sample items not reported to TRS contained errors (33% error rate).</li> <li>• Four out of nine sample items from the funding source listing were reported incorrectly (44% error rate).</li> <li>• One out of the four retirees contained errors (25% error rate).</li> </ul>					

**OTHER EXCEPTIONS NOTED**

The October 2014 Regular Payroll Report was submitted late. These monthly reports are due by the 6<sup>th</sup> of the month following the close of the calendar month for which the report is prepared. The October 2014 report was not received until December 2, 2014 after notification of the audit. Deposits were remitted by the due date.

# APPENDIX C



## Santa Maria Independent School District

Military Highway 281

P.O. Box 448/11119 Military Road

*Ms. Maria J. Chavez*

*Superintendent of Schools*

**Board Officers:**

Belinda Lugo

***Board President***

***Rambaldo Rivera, Jr.***

***Board Vice-President***

Miguel Zavala

***Board Secretary***

**Board Members:**

Noe Aleman

Consuelo De La Rosa

Adolfo Hinojosa

Oralia Ortiz

Telephone: 956-565-6308

Central Office

Fax: 956-565-4422

April 7, 2015

Art Mata, CPM, CEBS  
Internal Audit Consultant  
Texas Retirement Systems of Texas  
1000 Red River Street  
Austin, Texas 78701

Mr. Mata:

Please note, this is the Management Response letter to the TRS Audit Exit Report of March 3, 2015. Based on the TRS Audit preliminary findings, district has taken necessary measures to ensure that all TRS Audit finding are addressed. Based on ongoing contact between the SMISD and TRS Auditors during the audit process, changes as necessary were addressed for proper submissions.

District will continue to monitor as per your positive finding of SMISD Official, using checklist and written procedures to assist staff with monthly submissions of reports. District will determine if other factors need to be addressed, including further communication and collaboration with Region One ESC training on TxEIS Business Management Software. As noted during audit process, the Payroll Systems are maintained and updated by our local Education Service Center (ESC), in addition to maintenance of the TxEIS Business Management Software.

The District welcomes your recommendation of TRS training in collaboration with ESCs to ensure alignment on practices and requirements for reporting. Further more, the district will proceed with the payment required to TRS based on the recommendations addressed as per your audit findings.

We appreciate the opportunity to have been selected for your TRS Audit, and to address inconsistencies with both systems, software issues, and further training to ISD's.

Respectfully,

Mr. Enrique Cuellar  
Business Manager

It is the policy of Santa Maria ISD not to discriminate on the basis of race, color, national origin, sex or handicap in its vocational programs, services or activities as required by Title VI of the Civil Rights Act of 1964, as amended; Title IX of the Education Amendments of 1972; and Section 504 of the Rehabilitation Act of 1973, as amended.

**TAB 3B**

# AUDIT OF COLLEGE STATION INDEPENDENT SCHOOL DISTRICT

May 21, 2015

## TRS Internal Audit Department

### Audit Objectives

To determine the following:

- Completeness and accuracy of reports submitted to TRS by reporting entity for October 2014
  - Regular Payroll Report
  - New Member Report
  - Federal Funds/Private Grant Report
  - Federal Fund TRS-Care Report
  - Statutory Minimum Report
  - Non-OASDI (Old Age, Survivor, and Disability Insurance) Report
  - Pension Surcharge for Reported Retirees Report
  - TRS-Care Surcharge for Reported Retirees Report
  - Employment After Retirement (EAR) Area 1 and 2 Reports
- 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

- Eligible members not included and/or ineligible employees 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

- Compare reports submitted to TRS with source documentation of reporting entity to confirm:
  - Eligibility of TRS membership and eligible compensation
  - Accuracy and completeness of contributions and surcharges
  - Accuracy and completeness of Employment After Retirement Area 1 and 2 Reports
- Review contracts and invoices of contract workers to determine if eligible for TRS membership
- Determine accuracy of census data reported to TRS

### Results

Positive Finding: Maintains accurate and readable records on active members and promptly provided us with supporting documentation.

Test Results (Sample size – 30 active members and all 46 retirees):

- Reports –
  - Statutory Minimum contributions: incorrectly excluded one member, incorrectly calculated contributions on two members
  - Non-OASDI contributions: incorrectly calculated on two members
  - Pension Surcharges: incorrectly submitted surcharges on six retirees, incorrectly excluded surcharges on three retirees
  - TRS-Care Surcharges: incorrectly submitted surcharges on four retirees, incorrectly excluded surcharges on five retirees
  - EAR Area 1 and 2 reports not submitted
- No contract workers performing services for the reporting entity were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report
- Census data information reported to TRS for the test month was accurate

### Recommended Actions

- Work with TRS Reporting and Query System (TRAQS) coaches to correct reports and ensure corrections are completed timely
- Implement procedures to consistently track and document amount of hours that retirees work
- Ensure personnel are knowledgeable of TRS Rules and Laws by reading and studying reporting information and self-audit tools provided on TRS website

### Management Responses

College Station ISD agrees with the recommendations to correct reports by November 2015, implement procedures to track retirees' hours worked, and ensure personnel are knowledgeable of TRS Rules and Laws

May 21, 2015

Dr. Clark Ealy  
Superintendent of Schools  
College Station Independent School District  
1812 Welsh  
College Station, TX 77840

## AUDIT REPORT OF COLLEGE STATION INDEPENDENT SCHOOL DISTRICT

### EXECUTIVE SUMMARY

We have completed the audit of eligibility and contributions, as included in the *Fiscal Year 2015 Audit Plan*. Our audit objectives were to determine:

- Completeness and accuracy of the reports submitted to TRS by the College Station Independent School District (College Station ISD) for the October 2014
- Eligibility of contract workers performing services for the College Station ISD for TRS membership
- Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, years of service)

Based on our audit results, we noted a positive finding. For active members, College Station Independent School District (College Station ISD) maintains accurate and readable records and was able to promptly provide us with supporting documentation.

We concluded the following:

- Reports –
  - Statutory Minimum contributions: incorrectly omitted one member, incorrectly calculated contributions on two members
  - Non-OASDI (Old Age, Survivor, and Disability Insurance) contributions incorrectly calculated on two members
  - Pension Surcharges: incorrectly included surcharges on six retirees, incorrectly excluded three retirees
  - TRS-Care Surcharges: incorrectly included surcharges on four retirees, improperly excluded surcharges on five retirees
  - Employment After Retirement (EAR) Area 1 and 2 reports were not submitted
- No contract workers performing services for the College Station ISD were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report.
- Census data information reported to TRS was accurate.

# BACKGROUND

## PROJECT BACKGROUND

The Annual Audit Plan approved by the TRS Board of Trustees includes audits of reporting entities<sup>1</sup> in order to confirm member eligibility and accuracy of contributions and fees. 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 reaction 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 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 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<sup>2</sup>
- Weaknesses in finance area reported by the Legislative Budget Board (LBB), the State Auditor's Office (SAO), or the Texas Education Agency (TEA)
- No audit history of census data by TRS or the SAO within last five years

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

## REPORTING ENTITY BACKGROUND<sup>3</sup>

College Station Independent School District (College Station ISD) resides in College Station, Texas. According to the Ballotpedia website, College Station ISD is the 96<sup>th</sup> largest school district in Texas with over 10,000 students throughout their 15 campuses. College Station ISD has been a consolidated district since 1941 when the public school was moved from the Texas A&M University campus to facilities on Timber Street.

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<sup>1</sup> A reporting entity is an employer, as defined in Texas Government Code, Title 8, Subtitle C, Chapter 821.001.

<sup>2</sup> Pursuant to Section 403.055 of the Texas Government Code, TRS must request that the Texas Comptroller withhold payments to Reporting Entities where the Reporting Entity has failed to submit reports and/or surcharges and contributions.

<sup>3</sup> Information obtained from internet and/or Reporting Entity website

In 2009 College Station ISD was rated as “academically acceptable” by the Texas Education Agency. According to the College station ISD’s website, their mission is to join with the community in preparing their students for life challenges by providing quality education.

## RESULTS AND RECOMMENDATIONS

### OVERALL RESULTS

#### Positive Findings

Based on our audit results, we noted a positive finding. For active members, College Station ISD maintains accurate and readable records and was able to promptly assist us by providing supporting documentation.

#### Other Findings

We tested:

- Thirty of the population of 1,667 from the TRS Regular Payroll Report for October 2014
- All 46 retirees who performed services in October 2014
- Five employees paid in October 2014 who were not reported to TRS in the Regular Payroll Report

We concluded the following about the completeness and accuracy of the October 2014 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 Payment for New Member Report	Yes	Yes
Federal Funds/Private Grant Report	Yes	Yes
Federal Fund TRS-Care Report	Yes	Yes
Statutory Minimum Report	No	No
Reporting Entity Payment for Non-OASDI Members Report	No	No
Reporting Entity Pension Surcharge for Reported Retirees Report	No	No
Reporting Entity TRS-Care Surcharge for Reported Retirees Report	No	No
Reporting Entity Employment After Retirement (EAR) Report	No	No

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

We tested five contract workers that performed services for the reporting entity and concluded that no contract workers were eligible for TRS membership. Census data information reported to TRS was accurate.

## Recommendation

The College Station ISD Reporting Official should work with the TRS Reporting and Query System (TRAQS) coaches to correct the reports and ensure that corrections are completed by November 30, 2015.

The College Station ISD Reporting Official should implement procedures to consistently track and document the amount of hours that retirees work.

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

## Management Responses

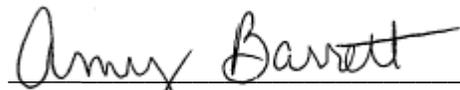
We concur with the recommendation made by Internal Audit. The College Station ISD Reporting Official will work with the TRS TRAQS coach to adjust the reports. We plan to have all adjustments complete by November 30, 2015.

Procedures are now in place to identify retirees returning to work and to have them set up on the TRS Reports Employment After Retirement Area 1 and 2 Report correctly. In addition, all retirees will either use Kronos, the time keeping system or if a time clock is not easily accessible, then time sheets will be submitted to the payroll department each pay period. The Reporting Official will review actual hours worked and make corrections as required for the Pension Surcharge and TRS-Care Surcharge reports.

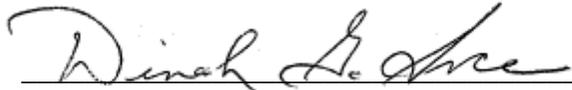
The Director of Business Services and the College Station ISD Reporting Official will provide training and the necessary resources to staff to ensure the accuracy of reports submitted to TRS. The Director of Human Resources in conjunction with the Reporting Official will ensure that retirees have met the required break in service returning to work.

\* \* \* \*

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



Amy Barrett, CIA, CPA, CISA  
Chief Audit Executive



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



Art Mata, CEBS, CPM  
Internal Audit Consultant

cc: College Station 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 following:

- Completeness and accuracy of the reports submitted to TRS by the College Station ISD for October 2014
- Eligibility of contract workers performing services for the College Station ISD for TRS membership
- Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, and years of service)

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

1. Eligible members
2. Member contributions
3. Employer contributions, surcharges, and fees
4. Census data of eligible members

We also tested the accuracy of census data of eligible members.

#### SCOPE

Payroll data was selected from the month of October 2014. We selected:

- Thirty sample items from 1,667 reported to TRS as eligible on the TRS Regular Payroll Report for the test month
- Five sample items that were not reported to TRS as eligible for the test month
- Forty-six retirees on the employer's payroll for the test month
- Five contract workers from the vendor list of IRS Form 1099s issued for the calendar year 2013

With the exception of the superintendent, we did not test whether salary amounts were authorized by the Board of Trustees.

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

## METHODOLOGY

We specifically performed the procedures below.

### **1. To determine completeness and accuracy of reporting eligible members:**

- Compare the position description from the TRS Regular Payroll Report to the position title per the Reporting Entity's payroll register
- Confirm eligibility through contract agreements, 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 report of employer contributions and surcharges remitted to TRS on the regular payroll report.
- Review detail supporting records for the employer calculations and recalculate employer contributions for the following:
  - New member contributions
  - Federal Funds/Private Grant contributions
  - Employment After Retirement surcharges
  - Statutory Minimum contributions
- Review list of employees whose salary is paid from federal funds and private grants and percentage allocation of salary and supporting detail for reports

### **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 or termination/retirement

## CONCLUSION

Based on our audit results, we noted a positive finding. For active members, College Station ISD maintains accurate and readable records and was able to promptly assist us in providing supporting documentation.

We concluded the following:

- Reports –
  - Statutory Minimum contributions: incorrectly omitted one member and incorrectly calculated contributions on two members
  - Non-OASDI contributions incorrectly calculated on two members

- Pension Surcharges: incorrectly included surcharges on six retirees and incorrectly excluded three retirees
- TRS-Care Surcharges: incorrectly included surcharges on four retirees and improperly excluded surcharges on five retirees
- EAR Area 1 and 2 reports were not submitted
- No contract workers performing services for the College Station ISD were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report
- Census data information reported to TRS was accurate

## APPENDIX B

### COLLEGE STATION ISD DETAIL OF ADJUSTMENTS TO REPORTS

Population and sampling:

- Tested 30 out of 1,667 total members reported in the October 2014 TRS Regular Payroll Report
- Tested 5 employees not reported to TRS in the October 2014 Regular Payroll Report
- Tested all 46 retirees on payroll for the month of October 2014
- Tested 5 out of 117 contract workers paid in October 2014 for performing services for College Station ISD

ERROR #	REGULAR PAYROLL REPORT	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
	No exceptions					
		\$ 370,219.96	\$ -	\$ -	\$ 370,219.96	0.00%
ERROR #	NEW MEMBER REPORT	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
	No exceptions					
		\$ 14,165.99	\$ -	\$ -	\$ 14,165.99	0.00%
ERROR #	FEDERAL FUNDS/PRIVATE GRANT REIMBURSEMENT TO STATE REPORT	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
	No exceptions					
		\$ 35,238.40	\$ -	\$ -	\$ 35,238.40	0.00%

<b>ERROR #</b>	<b>FEDERAL FUNDS REIMBURSEMENT TO TRS-CARE</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 4,397.93	\$ -	\$ -	\$ 4,397.93	0.00%
<b>ERROR #</b>	<b>STATUTORY MINIMUM REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
1	Did not report and pay contribution on 1 member		\$ 64.74			
2	Underpaid contribution for 1 member		\$ 4.64			
3	Overpaid contribution on 1 member			\$ 127.67		
		\$ 57,606.17	\$ 69.38	\$ 127.67	\$ 57,547.88	-0.10%
<b>ERROR #</b>	<b>NON-OASDI REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
1	Overpaid contribution on 2 members			\$ 15.30		
2	Underpaid contribution on 1 member		\$ 28.16			
		\$ 69,095.23	\$ 28.16	\$ 15.30	\$ 69,108.09	0.02%
<b>ERROR #</b>	<b>PENSION SURCHARGE FOR RETIREES REPORT</b>	<b>TOTAL REPORTED</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
1	Improperly included and paid surcharges for 6 retirees with retirement dates prior to 9/1/2005.			\$ 3,243.92		
2	Improperly excluded and did not pay surcharges on 3 retirees with retirement dates after 9/1/2005.		\$ 1,322.41			
		\$ 7,155.91	\$ 1,322.41	\$ 3,243.92	\$ 5,234.40	-26.85%

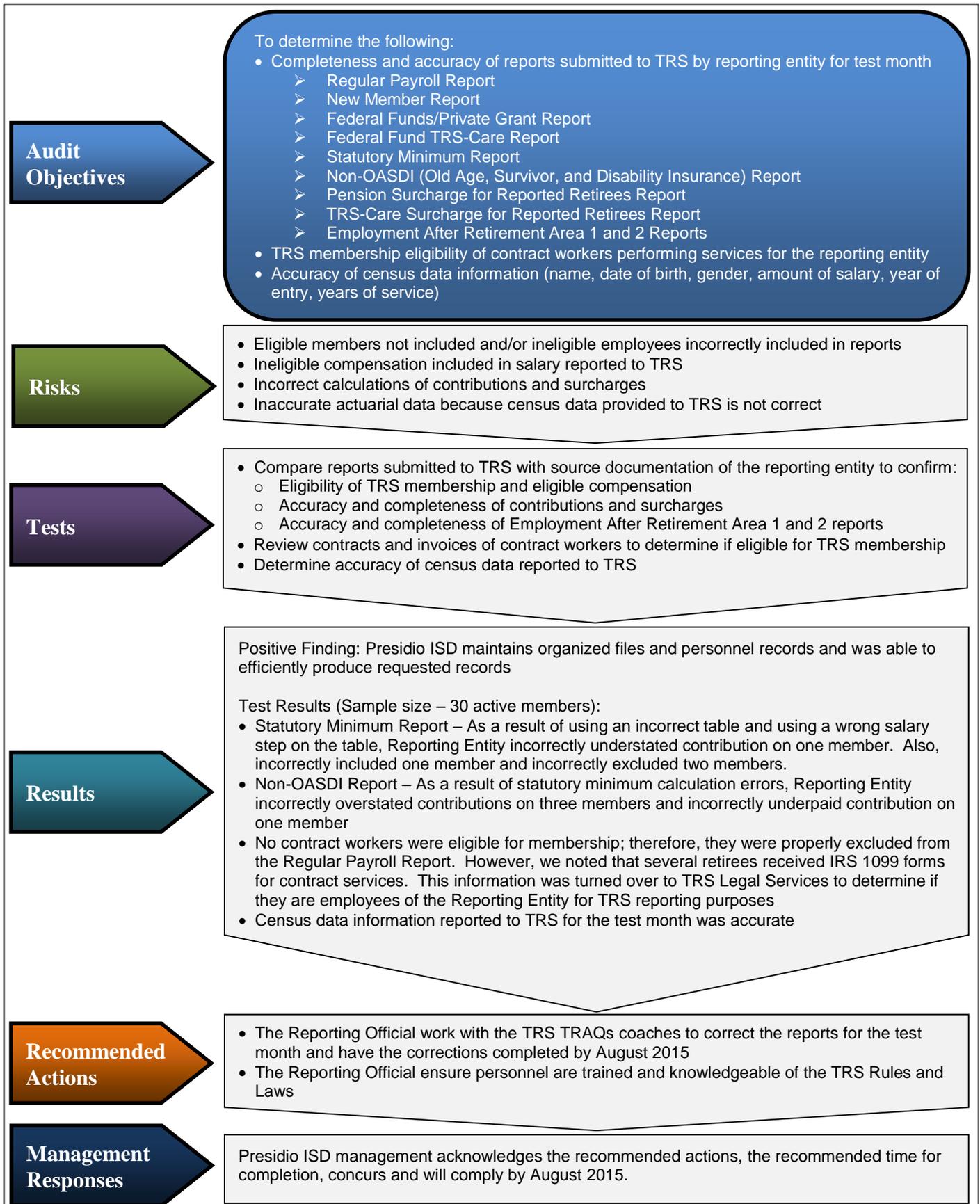
<b>ERROR</b>		<b>REPORT</b>	<b>UNDER</b>	<b>OVER</b>	<b>REVISED</b>	
<b>#</b>	<b>TRS-CARE SURCHARGE FOR RETIREES REPORT</b>	<b>TOTAL</b>	<b>STATED</b>	<b>STATED</b>	<b>REPORT TOTAL</b>	<b>% ERROR</b>
1	Improperly reported and paid surcharges on 4 retirees with retirement date prior to 9/1/2005.			\$ 2,457.00		
2	Improperly excluded and did not pay surcharges on 5 retirees with retirement date after 9/1/2005.		\$ 3,029.00			
		\$ 2,457.00	\$ 3,029.00	\$ 2,457.00	\$ 3,029.00	23.28%
<b>ERROR EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2</b>		<b>REPORT</b>	<b>UNDER</b>	<b>OVER</b>	<b>REVISED</b>	
<b>#</b>	<b>REPORT</b>	<b>TOTAL</b>	<b>STATED</b>	<b>STATED</b>	<b>REPORT TOTAL</b>	<b>% ERROR</b>
1	No report submitted					
		Not applicable				
<b>GRAND TOTALS</b>		\$ 560,336.59	\$ 4,448.95	\$ 5,843.89	\$ 558,941.65	-0.25%

**TAB 3C**

# AUDIT OF PRESIDIO INDEPENDENT SCHOOL DISTRICT

May 21, 2015

## TRS Internal Audit Department





May 21, 2015

Mr. Dennis McEntire  
Superintendent of Schools  
Presidio Independent School District  
P.O. Box 1401  
Presidio, TX 79845

## AUDIT REPORT OF PRESIDIO INDEPENDENT SCHOOL DISTRICT

### EXECUTIVE SUMMARY

We have completed the audit of eligibility and contributions, as included in the *Fiscal Year 2015 Audit Plan*. Our audit objectives were to determine the following:

- Completeness and accuracy of the reports submitted to TRS by the reporting entity<sup>1</sup> 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)

Based on our audit results, we noted a positive finding. Presidio Independent School District (Presidio ISD) maintains organized files and personnel records and was able to efficiently produce requested records.

We concluded the following:

- Statutory Minimum Report – As a result of using an incorrect table and using a wrong salary step on the table, Reporting Entity incorrectly understated contribution on one member. Also, incorrectly included one member and incorrectly excluded two members.
- Non-OASDI Report – As a result of statutory minimum calculation errors, Reporting Entity incorrectly overstated contributions on three members and incorrectly underpaid contribution on one member
- No contract workers were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report. However, we noted that several retirees received IRS 1099 forms for contract services. This information was turned over to TRS Legal Services to determine if they are employees of the Reporting Entity for TRS reporting purposes
- Census data information reported to TRS for the test month was accurate

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<sup>1</sup> A reporting entity 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 fees. 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 reaction 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 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 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<sup>2</sup>
- Weaknesses in finance area reported by the Legislative Budget Board (LBB), the State Auditor's Office (SAO), or the Texas Education Agency (TEA)
- No audit history of census data by TRS or the SAO within last five years

Presidio Independent School District (Presidio ISD) was chosen for audit using a consistent risk assessment methodology that included the variables listed above.

## REPORTING ENTITY BACKGROUND<sup>3</sup>

Presidio ISD, in Presidio, Texas, is located along the Rio Grande River in west Texas, only 100 miles from Big Bend National Park. This school district is one of the smallest in Texas. Approximately 150 faculty and support staff serve the 1,462 students.

In 2009, Presidio ISD was rated as "academically acceptable" by the Texas Education Agency. There are three campuses in the Presidio ISD: Presidio Elementary School, Lucy Rede Franco Middle School, and Presidio High School. In September 2011, Presidio ISD held a ribbon cutting for the restructured high school, which has been referred to as a "high school of tomorrow." The

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<sup>2</sup> Pursuant to Section 403.055 of the Texas Government Code, TRS must request that the Texas Comptroller withhold payments to Reporting Entities where the Reporting Entity has failed to submit reports and/or surcharges and contributions.

<sup>3</sup> Information obtained from various internet sources and/or Reporting Entity website

all new design and features are more efficient, environmentally friendly, and was planned to save taxpayer dollars.

According to the 2000 United States Census, Presidio had a little over 4,000 in population and in 2010 had increased to a little over 5,000 residents.

## RESULTS AND RECOMMENDATIONS

### OVERALL RESULTS

#### Positive Findings

Based on our audit results, we noted a positive finding. Presidio Independent School District (Presidio ISD) maintains organized files and personnel records and was able to efficiently produce requested records.

#### Other Findings

We tested:

- Thirty of the population of the 266 reported to TRS in the Regular Payroll Report for October 2014
- All four retirees who performed services in October 2014
- Five employees paid in October 2014 who were not reported to TRS in the Regular Payroll Report

We concluded the following about the completeness and accuracy of the October 2014 reports submitted to TRS:

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

See the table at **Appendix B** for information.

We tested five contract workers that performed services for the reporting entity and concluded that no contract workers were eligible for TRS membership. However, we noted that several

retirees received an IRS 1099 form for contract services. This was turned over to TRS Legal Services to determine if they are employees of the Reporting Entity for TRS reporting purposes.

Census data information reported to TRS for the test month was accurate

**RECOMMENDATION**

The Reporting Official should work with the TRS TRAQs coaches to correct the reports and ensure that corrections are completed by August 2015.

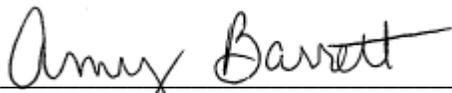
The Reporting Official should ensure that personnel are knowledgeable of TRS Rules and Laws by reading and studying the reporting information and self-audit tools provided on the TRS website.

**MANAGEMENT RESPONSES**

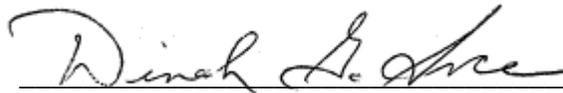
Presidio ISD management acknowledges the recommended actions, the recommended time for completion, concurs and will comply by August 2015.

\* \* \* \* \*

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



Amy Barrett, CIA, CPA, CISA  
Chief Audit Executive



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



Art Mata, CEBS, CPM  
Internal Audit Consultant

cc: School Board Members

## 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 following:

- Completeness and accuracy of the reports submitted to TRS by the reporting entity for October 2014
- 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)

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

1. Eligible members
2. Member contributions
3. Employer contributions, surcharges, and fees
4. Census data of eligible members

#### SCOPE

Payroll data was selected from the month of October 2014. We selected:

- Thirty sample items from 266 reported to TRS in the Regular Payroll Report for October 2014
- All four retirees who performed services in October 2014
- Five employees paid in October 2014 who were not reported to TRS in the Regular Payroll Report
- Five vendors from the list of IRS 1099 forms issued for the calendar year 2013

With the exception of the superintendent, we did not test whether salary amounts were authorized by the Board of Trustees and whether pension contributions included amounts that were not eligible (cell phone reimbursement, housing allowance, etc.).

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

## 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 the payroll
- 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 report of employer contributions and surcharges remitted to TRS on the regular payroll report.
- Review detail supporting records for the employer calculations and recalculate employer contributions for the following:
  - New member contributions
  - Federal Grants/Private Funds contributions
  - Employment After Retirement surcharges
  - Adjusted State Minimum Salary 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 or termination/retirement

## CONCLUSION

Based on our audit results, we noted a positive finding. The Presidio ISD maintains organized files and personnel records and was able to efficiently produce requested records.

We concluded the following:

- Statutory Minimum Report – As a result of using an incorrect table and using a wrong salary step on the table, Reporting Entity incorrectly understated contribution on one member. Also, incorrectly included one member and incorrectly excluded two members.
- Non-OASDI Report – As a result of statutory minimum calculation errors, Reporting Entity incorrectly overstated contributions on three members and incorrectly underpaid contribution on one member
- No contract workers performing services for reporting entity were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report.

However, we noted that several retirees received an IRS 1099 form for contract services. This was turned over to TRS Legal Services to determine if they are employees of the Reporting Entity for TRS reporting purposes.

- Census data information reported to TRS for the test month was accurate

See the table at **Appendix B** for information.

**APPENDIX B**  
**PRESIDIO ISD**  
**DETAIL OF ADJUSTMENTS TO REPORTS**

Population and sampling:

- Tested 30 of 266 total members reported in the October 2014 TRS Regular Payroll Report
- Tested five employees not reported to TRS in the October 2014 Regular Payroll Report
- Tested all four retirees on payroll for the month of October 2014
- Tested five contract workers that performed services for the reporting entity

<b>ERROR #</b>	<b>REGULAR PAYROLL REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 51,810.83	\$ -	\$ -	\$ 51,810.83	0%
<b>ERROR #</b>	<b>NEW MEMBER REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 4,603.06	\$ -	\$ -	\$ 4,603.06	0%
<b>ERROR #</b>	<b>FEDERAL FUNDS/PRIVATE GRANT REIMBURSEMENT TO STATE REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 5,138.78	\$ -	\$ -	\$ 5,138.78	0%
<b>ERROR #</b>	<b>FEDERAL FUNDS REIMBURSEMENT TO TRS-CARE</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 804.89	\$ -	\$ -	\$ 804.89	0%

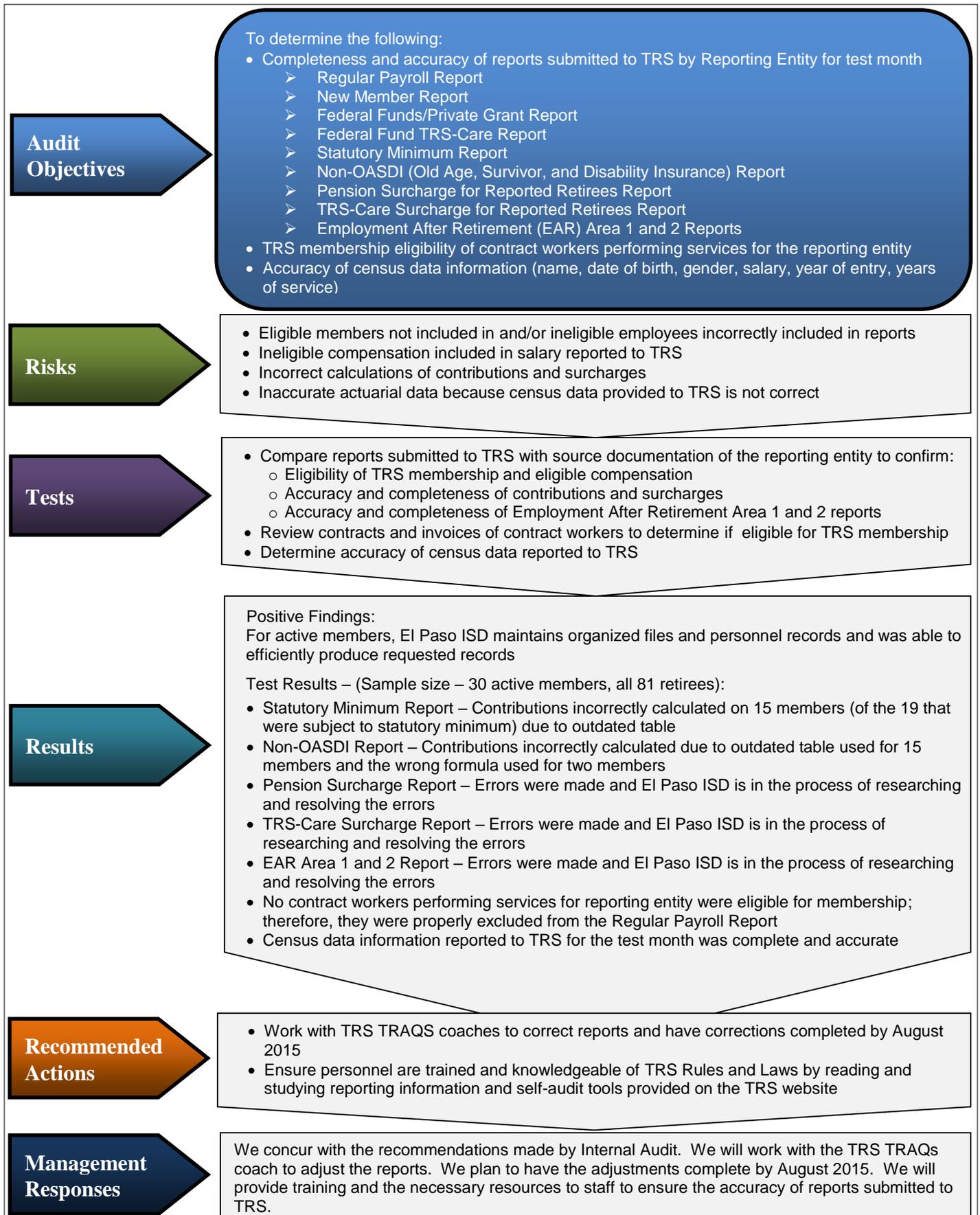
<b>ERROR #</b>	<b>STATUTORY MINIMUM REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
1	Incorrectly understated contribution on one member		\$ 63.01			
2	Incorrectly included one member			\$ 18.63		
3	Incorrectly excluded two members		\$ 73.37			
		\$ 3,930.93	\$ 136.38	\$ 18.63	\$ 4,048.68	3%
<b>ERROR #</b>	<b>NON-OASDI REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
1	Incorrectly overstated contributions on three members			\$ 33.15		
2	Incorrectly underpaid contributions on one member		\$ 4.11			
		\$ 10,714.78	\$ 4.11	\$ 33.15	\$ 10,685.74	0%
<b>ERROR #</b>	<b>PENSION SURCHARGE FOR RETIREES REPORT</b>	<b>TOTAL REPORTED</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ -	\$ -	\$ -	\$ -	0%
<b>ERROR #</b>	<b>TRS-CARE SURCHARGE FOR RETIREES REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ -	\$ -	\$ -	\$ -	0%
<b>ERROR #</b>	<b>EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		Not Applicable				
<b>GRAND TOTALS</b>		\$ 77,003.27	\$ 140.49	\$ 51.78	\$ 77,091.98	0%

**TAB 3D**

# AUDIT OF EL PASO INDEPENDENT SCHOOL DISTRICT

May 21, 2015

## TRS Internal Audit Department



May 21, 2015

Mr. Juan Cabrera  
Superintendent of Schools  
El Paso Independent School District  
P.O. Box 20100  
El Paso, TX 79998

## AUDIT REPORT OF EL PASO INDEPENDENT SCHOOL DISTRICT

### EXECUTIVE SUMMARY

We have completed the audit of eligibility and contributions, as included in the *Fiscal Year 2015 Audit Plan*. Our audit objectives were to determine the following:

- Completeness and accuracy of the reports submitted to TRS by the reporting entity<sup>1</sup> 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)

Based on our audit results, we noted a positive finding. For active members, the El Paso Independent School District (El Paso ISD) maintains organized files and personnel records and was able to efficiently produce requested records.

We concluded the following:

- Statutory Minimum Report – Contributions incorrectly calculated on 15 members (of the 19 that were subject to statutory minimum) due to outdated table
- Non-OASDI Report – Contributions incorrectly calculated due to outdated table used for 15 members and the wrong formula used for two members
- Pension Surcharge Report – Errors were made and El Paso ISD is in the process of researching and resolving the errors
- TRS-Care Surcharge Report – Errors were made and El Paso ISD is in the process of researching and resolving the errors
- EAR Area 1 and 2 Report – Errors were made and El Paso ISD is in the process of researching and resolving the errors
- No contract workers performing services for the reporting entity were eligible for membership; therefore, they were properly excluded from the Regular E Report
- Census data information reported to TRS was complete and accurate.

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<sup>1</sup> A reporting entity 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 fees. 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 reaction 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 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 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<sup>2</sup>
- Weaknesses in finance area reported by the Legislative Budget Board (LBB), the State Auditor's Office (SAO), or the Texas Education Agency (TEA)
- No audit history of census data by TRS or the SAO within last five years

El Paso Independent School District (El Paso ISD) was chosen for audit using a consistent risk assessment methodology that included the variables listed above.

## REPORTING ENTITY BACKGROUND<sup>3</sup>

El Paso ISD resides in El Paso County, Texas and is the 11<sup>th</sup> largest school district in Texas with a total of 93 campuses. During the school year 2013-2014, over 61,000 students were enrolled in the El Paso ISD.

During fiscal year 2014 the district exceeded all four performance requirements on state standards of the Texas State Accountability System. A part of the district's vision is that education will become the community's highest priority. Their core belief statements are:

1. Students come first in all actions and decision-making.

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<sup>2</sup> Pursuant to Section 403.055 of the Texas Government Code, TRS must request that the Texas Comptroller withhold payments to Reporting Entities where the Reporting Entity has failed to submit reports and/or surcharges and contributions.

<sup>3</sup> Information obtained from the ISD website and other internet sources.

2. In an appropriate setting and with the proper instruction, every child can learn.
3. Every child is entitled to a teacher that is the best we can hire for that position and who believes every child can learn.
4. Students will be more productive community members if they value community service and civic mindedness.
5. We must be open and transparent in our dealings with the public and be fiscally responsible with our resources in order to allocate appropriately.
6. The District will have zero tolerance for immoral, unethical, and illegal behavior.
7. We have a competitive advantage as our community is bilingual, bicultural, and biliterate, and should be supported in the classroom.
8. Family engagement is critical to the success of students.

## RESULTS AND RECOMMENDATIONS

### OVERALL RESULTS

#### Positive Findings

Based on our audit results, we noted a positive finding. For active members, El Paso ISD maintains organized files and personnel records and was able to efficiently produce requested records.

#### Other Findings

We tested:

- Thirty of the population of 8,320 reported to TRS in the Regular Payroll Report for October 2014
- All 81 retirees who performed services in October 2014
- Five employees paid in October 2014 who were not reported to TRS in the Regular Payroll Report

We concluded the following about the completeness and accuracy of the October 2014 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 Payment for New Member Report	Yes	Yes
Federal Funds/Private Grant Report	Yes	Yes
Federal Fund TRS-Care Report	Yes	Yes
Statutory Minimum Report	Yes	No
Reporting Entity Payment for Non-Old Age, Survivor, and Disability Insurance (OASDI) Members Report	Yes	No
Reporting Entity Pension Surcharge for Reported Retirees Report	No	No
Reporting Entity TRS-Care Surcharge for Reported Retirees Report	No	No
Reporting Entity Employment After Retirement (EAR) Report	No	No

See the table at **Appendix B** for information.

We tested five contract workers that performed services for the reporting entity and concluded that no contract workers were eligible for TRS membership; therefore, they were properly excluded from the TRS Regular Payroll Report.

Census data information reported to TRS was complete and accurate.

### **Recommendation**

The Reporting Official should work with the TRS TRAQs coaches to correct the reports and ensure that corrections are completed by August 2015.

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 August 2015.

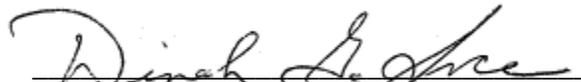
We will provide training and the necessary resources to staff to ensure the accuracy of reports submitted to TRS.

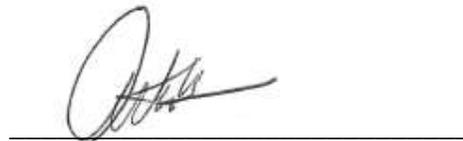
See **Appendix C** for detailed information.

\* \* \* \* \*

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

  
\_\_\_\_\_  
Amy Barrett, CIA, CPA, CISA  
Chief Audit Executive

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

  
\_\_\_\_\_  
Art Mata, CEBS, CPM  
Internal Audit Consultant

cc: School Board Members

## 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 following:

- Completeness and accuracy of the reports submitted to TRS by the reporting entity for October 2014
- 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)

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

1. Eligible members
2. Member contributions
3. Employer contributions, surcharges, and fees
4. Census data of eligible members

#### SCOPE

Payroll data was selected from the month of October 2014. We selected:

- Thirty of the population of 8,320 reported to TRS in the Regular Payroll Report for October 2014
- All 81 retirees who performed services in October 2014
- Five employees paid in October 2014 who were not reported to TRS in the Regular Payroll Report
- Five contract workers from the vendors list of IRS 1099 forms issued for the calendar year 2013

With the exception of the superintendent's salary, we did not test whether salary amounts were authorized by the Board of Trustees and whether pension contributions included amounts that were not eligible (cell phone reimbursement, housing allowance, etc.).

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

## **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, 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 report of employer contributions and surcharges remitted to TRS on the regular payroll report.
- Review detail supporting records for the employer calculations and recalculate employer contributions for the following:
  - New member contributions
  - Federal Grants/Private Funds contributions
  - Employment After Retirement surcharges
  - Statutory Minimum 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**

Based on our audit results, we noted a positive finding. For active members, the El Paso ISD maintains organized files and personnel records and was able to efficiently produce requested records.

We concluded the following:

- Statutory Minimum Report – Contributions incorrectly calculated on 15 members (of the 19 that were subject to statutory minimum) due to outdated table
- Non-OASDI Report – Contributions incorrectly calculated due to outdated table used for 15 members and the wrong formula used for two members
- Pension Surcharge Report – Errors were made and El Paso ISD is in the process of researching and resolving the errors
- TRS-Care Surcharge Report – Errors were made and El Paso ISD is in the process of researching and resolving the errors

- EAR Area 1 and 2 Report – Errors were made and El Paso ISD is in the process of researching and resolving the errors
- No contract workers performing services for the reporting entity were eligible for membership; therefore, they were properly excluded from the Regular Payroll Report
- Census data information reported to TRS for the test month was complete and accurate.

See the table at **Appendix B** for information.

**APPENDIX B**  
**EL PASO ISD**  
**DETAIL OF ADJUSTMENTS TO REPORTS**

Population and Sampling

- Tested 30 of 8,320 total members reported in the October 2014 TRS Regular Payroll Report
- Tested 5 employees not reported to TRS in the October 2014 Regular Payroll Report
- Tested all 81 retirees on payroll for the month of October 2014
- Tested 5 contract workers performing services for El Paso ISD

<b>ERROR #</b>	<b>REGULAR PAYROLL REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 2,051,886.93	\$ -	\$ -	\$ 2,051,886.93	0%
<b>ERROR #</b>	<b>NEW MEMBER REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 34,571.83	\$ -	\$ -	\$ 34,571.83	0%
<b>ERROR #</b>	<b>FEDERAL FUNDS/PRIVATE GRANT REIMBURSEMENT TO STATE REPORT</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 230,287.07	\$ -	\$ -	\$ 230,287.07	0%
<b>ERROR #</b>	<b>FEDERAL FUNDS REIMBURSEMENT TO TRS-CARE</b>	<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
	No exceptions					
		\$ 34,181.88	\$ -	\$ -	\$ 34,181.88	0%

<b>ERROR</b>		<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
<b>#</b>	<b>STATUTORY MINIMUM REPORT</b>					
1	Incorrectly underpaid contributions for <b>6</b> members		\$ 119.30			
2	Incorrectly overstated contributions for <b>9</b> members			\$ 61.18		
		\$ 270,210.94	\$ 119.30	\$ 61.18	\$ 270,269.06	0%
<b>ERROR</b>		<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
<b>#</b>	<b>NON-OASDI REPORT</b>					
1	Incorrectly understated <b>15</b> members		\$ 16.20			
2	Incorrectly overstated <b>2</b> members			\$ 34.41		
		\$ 393,842.63	\$ 16.20	\$ 34.41	\$ 393,824.42	0%
<b>ERROR</b>		<b>TOTAL REPORTED</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
<b>#</b>	<b>PENSION SURCHARGE FOR RETIREES REPORT</b>					
1	Errors were made and El Paso is in the process of researching and resolving the errors					
		\$ 6,907.91	Underdetermined*			
<b>ERROR</b>		<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
<b>#</b>	<b>TRS-CARE SURCHARGE FOR RETIREES REPORT</b>					
1	Errors were made and El Paso is in the process of researching and resolving the errors					
		\$ 4,860.00	Underdetermined*			
<b>ERROR</b>		<b>REPORT TOTAL</b>	<b>UNDER STATED</b>	<b>OVER STATED</b>	<b>REVISED REPORT TOTAL</b>	<b>% ERROR</b>
<b>#</b>	<b>EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT</b>					
1	Errors were made and El Paso is in the process of researching and resolving the errors					
		Not Applicable				Underdetermined*
<b>GRAND TOTALS</b>		\$ 3,026,749.19	\$ 135.50	\$ 95.59	\$ 3,015,021.19	0%

\*Errors were made and El Paso is in the process of researching and resolving the errors

### Financial Services

#### Addendum

Note: Statutory Minimum contributions incorrectly calculated on 15 members due to outdated table.

Management Response: The statutory minimum salary schedules changed during fiscal year 2014-2015 and the district did not update the salary schedule for the teacher group in the financial system to reflect this change by the effective date. It is important to note that the statutory minimum salary schedules have not changed for a number of years and a lack of notification to school districts by the Texas Education Agency contributed to this noncompliance. EPISD staff has identified several stipends that were not included as part of the total pay, as such, the financial system did not calculate a statutory minimum contribution. Furthermore, El Paso ISD has been impacted by a number of vacancies in the Financial Services Department dated back to the fall of 2013, particularly in the Payroll Department, which has also been a major constraint in allowing the staff to keep up with these type of changes. As a result, management of El Paso ISD has been working with the software developer to correct the statutory minimum salary schedules and project the result could possibly create an immaterial overpayment to TRS. The Payroll Accountant has reconciled all previous TRS reports and submissions and the District is prepared to submit adjustments accordingly. District will periodically verify the statutory minimum schedules for changes or updates and will obtain the necessary training to ensure the accuracy of reports submitted to TRS. District staff will also be working with the TRAQS coach to adjust the reports and plan to have the adjustments completed by August 2015.

Note: Non-OASDI contributions incorrectly calculated on 17 members due to outdated table.

Management Response: The new Non-OASDI contribution is directly affected by the statutory minimum salary schedules. As noted on recommendation and management response #1 above, the statutory minimum salary schedules were not updated in the financial system by the effective date and several stipends were not included as part of the total pay; as such, the financial system did not calculate a Non-OASDI contribution. The end result could possibly create an immaterial underpayment to TRS.

## Financial Services

Note: Employment After Retirement (EAR) Pension Surcharge errors were made and El Paso is in the process of researching and resolving the errors

Management Response: During fiscal year 2014-2015, the District's Payroll Manager identified that working retirees were no longer included in the retiree reports generated by the financial system. It appears the key elements in the retiree setup, such as retirement date, were not retained in the employee record. The retirement date is a key factor that determines the reporting TRS Area (such as Area 1 or Area 2) and whether to include in the calculation of the TRS Pension Surcharge and TRS Care Surcharge. The retiree information in the TRAQS system no longer includes the disability designation, as such, Districts are unable to determine the inclusion of a retiree in the Area 1 report section. District staff has created an independent list of all retirees and is tracking retirement dates, type of retiree, hours worked and related TRS surcharges. A reconciliation has been put in place to compare to system generated calculations and information. District staff will continue to work with the software developer to make improvements and corrections to the logic in place in order to ensure compliance with TRS rules and regulations and will obtain the necessary training to ensure the accuracy of reports submitted to TRS. District staff will also be working with the TRAQS coach to adjust the reports and plan to have the adjustments completed by August 2015.

Note: Employment After Retirement (EAR) TRS Care Surcharge errors were made and El Paso is in the process of researching and resolving the errors

Management Response: Refer to management response above.

Note: Employment After Retirement (EAR) Area 1 and 2 Reports errors were made and El Paso is in the process of researching and resolving the errors

Management Response: Refer to management response above.

**TAB 4**

**TAB 4A**

# SEMI-ANNUAL TESTING OF BENEFIT PAYMENTS

JULY 2014 – DECEMBER 2014

TRS Internal Audit Department

<b>Business Objectives</b>	<b>To deliver retirement and related benefits authorized by law for members and their beneficiaries.</b>		
<b>Business Risks</b>	<b>Fraud / Errors</b> Benefit payments could be incorrect or fraudulent in these areas: <ul style="list-style-type: none"> <li>Benefit payments to recent retirees</li> <li>Benefit payments with an expiration date</li> </ul>	<b>Eligibility</b> TRS members could retire with full normal-age retirement benefits without meeting the normal-age retirement eligibility requirements for their membership tier	<b>Manual Voucher Payments</b> Manual voucher payments could be processed incorrectly or without proper authorization
<b>Management Assertions</b>	All benefit payments are valid	All retirees who received benefit payments are eligible	All manually processed voucher payments are valid
<b>Agreed-upon Procedures</b>	Match benefit payments to supporting documents in two areas: <ol style="list-style-type: none"> <li>Recent retiree benefit recalculations</li> <li>Benefit payment expiration dates</li> </ol>	3. Recalculate the normal-age retirement eligibility for all recent normal-age service retirements during the testing period	4. Match 60 randomly selected manually processed voucher payments to supporting documentation
<b>Test Results</b>	No Exceptions	One recent retiree retired before meeting normal-age retirement eligibility due to a transposition error during the data entry of their date of birth resulting in an overpayment of \$4,055.96	No Exceptions
<b>Management Responses</b>	N/A	Management agrees with the test results and is taking corrective actions including adding a preventive control to the system and working with the member to resolve the overpayment	N/A

Legend of Results: **Red** - Significant to TRS      **Orange** - Significant to Business Objectives  
**Yellow** - Other Reportable Exception      **Green** - Positive Test Result/No Exception



May 29, 2015

Don Green, Chief Financial Officer  
Barbie Pearson, Chief Benefit Officer  
Bob Jordan, Interim Director, Health Care Policy and Administration

We have completed the first testing period for the **Semi-Annual Testing of Benefit Payments** as included in the *Fiscal Year 2015 Audit Plan*.

We performed the procedures listed below that were agreed to by management of Benefit Services, Health and Insurance Benefits, and the Financial Division. These procedures included four data-mining tests designed to identify anomalies in benefit payments during the current testing period and possible deviations from management's benefit processing controls.

For this testing period, the tests performed included testing gross payment amounts made to recent retirees, manual benefit payments, normal-age retirement criteria, and expiry date testing for five or ten year guaranteed period payments, disability retirement payment calculations for retirees with less than 10 years of service, and expiration dates greater than 50 years. There was one exception identified as a result of the test procedures performed. The detailed procedures and results of our testing are explained in **Appendix A**.

This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

The sufficiency of the agreed-upon procedures performed is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

### **Internal Control Structure**

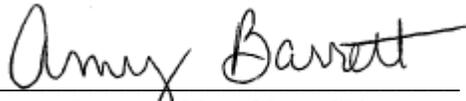
We were not engaged to and did not perform an examination of the internal controls nor the operating effectiveness pertaining to the subject areas tested. Accordingly, we do not express an opinion on the suitability of the design of internal controls nor the operating effectiveness of the subject areas tested.

Had we performed additional procedures, or had we made an examination of the system of internal control, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified above and does not extend to the internal control structure.

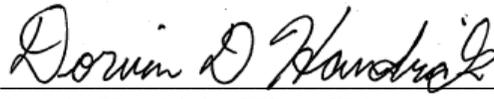
This report is intended solely for information and use by TRS management, the Board of Trustees, and oversight agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

\* \* \* \* \*

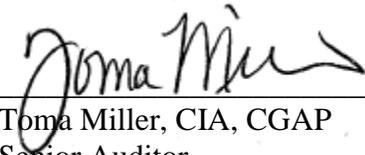
We express our appreciation to management and key personnel of Information Technology, Benefit Services, Health and Insurance Benefits, and the Financial Division for their cooperation and professionalism shown to us during the testing.



Amy Barrett, CIA, CPA, CISA  
Chief Audit Executive



Dorvin Handrick, CISA, CDP  
Senior IT Auditor



Toma Miller, CIA, CGAP  
Senior Auditor



Ian Engler, CIA, CISA, CFE  
Internal Audit Manager

## APPENDIX A

### AGREED UPON PROCEDURES AND RESULTS

1. Test Purpose: Identify gross annuity payments to recent retirees (June 2014 or later retirements) from July to December 2014 that are not calculated accurately.

Test Description: Query the *July to December 2014 Benefit Payments Data File* for all gross annuity payments that were related to recent member retirements since June 2014 and randomly select three service retirement sample items and two disability retirement sample items from each month for a total of 30 sample items. Recalculate the gross payment amount by recalculating the annuitant's standard annuity payment based on the member's number of years of service and the average salary amount at the time of retirement and adjusting the payment amount by the applicable option, Partial Lump Sum Option (PLSO), or early-age reduction factors. Agree the recalculations to the supporting documentation in the TRS *Imaging System*.

Test Result: All 30 gross annuity payments to recent retirees from July to December 2014 were recalculated and traced to supporting documentation. No exceptions were identified.

2. Test Purpose: Identify expiration dates to stop the annuity payments timely that are not properly recorded in the system.

Test Description: Determine the expiration date accuracy for a sample of annuity payments from July to December 2014 for the three groups described below. Agree the recorded expiration date to the auditor's calculation based on the imaged documents maintained in the TRS *Imaging System*. Each test is described as follows:

- a. Expiration date of guaranteed-period annuity options retirement

- i.) For guaranteed-period (5-year and 10-year) annuity options where TRS is paying the beneficiary because the retiree was deceased before the guaranteed period ended, obtain all records with an expiration date that is greater than the retirement date plus the guaranteed period. Agree these records to supporting documentation indicating the expiration date.
- ii.) Obtain all records where the payment status is active but there is no expiration date. Trace these records to the supporting documentation.

- b. Expiration date of disability retirement with less than 10 years of service

A disability retiree with less than 10 years of service should receive a standard benefit amount of \$150 per month for the shortest period of the retiree's disability period, the retiree's life, or the total number of creditable service months.

- i.) Obtain all records with a retiree death date but payment status is still active. Trace to the supporting documentation.

- ii.) Obtain all records that the gross payment amount is not the standard amount of \$150 and report differences.
  - iii.) Obtain all records where the expiration date has expired but the payment status is still active. Trace to the supporting documentation.
  - iv.) Obtain all records where the member was not the payee. Trace to the supporting documentation.
  - v.) Obtain all records where the expiration date is greater than the retirement date plus years of member service. Select five random samples from each monthly data file to test by adding the number of creditable service months, based on the imaged documents in the TRS *Imaging System*, to the retirement date and comparing that number with the expiration date in the retirement system. Agree sample items to supporting documentation.
- c. Expiration date is longer than 50 years from the date of current payment record.  
Obtain items from all payment records with an expiration date that is more than 50 years from each data file from July to December 2014 that have not been previously tested. Recalculate and agree the recorded expiration date to the supporting documentation.

Test Results:

- a. Expiration date of guaranteed-period annuity options retirement
    - i.) No exceptions were identified where the expiration date was greater than the retirement date plus the guaranteed period.
    - ii.) All 45 unique sample items of records, with an active payment status but no expiration date, were traced to the supporting documentation. No exceptions were identified.
  - b. Expiration date of disability retirement with less than 10 years of service  
No exceptions were identified.
  - c. Expiration date is beyond 50 years from current payment records  
The recalculated expiration date for the two records identified agreed to the recorded expiration date in the supporting documentation. No exceptions were identified.
3. Test Purpose: Identify recent retirees who retired with normal-age service retirement benefits from July to December 2014 who did not meet the normal-age retirement eligibility requirements based on their membership tier.

Test Description: Query the *July to December 2014 Benefit Payments Data File* for all payments that were related to normal-age service retirements since June 2014. Exclude all proportionate retirements, early-age retirements, and disability retirements. Calculate the annuitant's retirement age based on the year and month of the member's retirement date and birth date in the annuity system records. Determine the annuitant's membership tier by the TRS start date of their current membership, their "grandfathered" status, and by their amount

of TRS service credit as of August 31, 2014. Recalculate the annuitant's normal-age retirement eligibility according to the eligibility requirements for their membership tier. Determine eligibility based on the following requirements:

- For all Tiers - Minimum retirement age of 65 with at least five years of service.
- For Tiers 1 and 2 - Meets Rule of 80 (member's age plus years of service credit total at least 80) with at least five years of service
- For Tiers 3 and 4 - Minimum retirement age of 60 and meets Rule of 80 with at least five years of service
- For Tiers 5 and 6 - Minimum retirement age of 62 and meets Rule of 80 with at least five years of service

Test Result: One exception was identified, out of the 5,102 unique members tested, where the member retired with normal-age service retirement benefits before she met the normal-age eligibility requirements due to a transposition error during the data entry of her date of birth. At retirement she was 64 years of age with eight years of service. She received two annuity payments of \$235.66 each and a PLSO of \$3,584.64 for a total overpayment of \$4,055.96 before she was eligible to retire with normal-age service retirement benefits.

Management Response: Management agrees with the test results and corrective actions are in progress to minimize the risk in the future. The entry error was compounded by a system deficiency that allowed the retirement paperwork to go to payroll after the date of birth was corrected. To minimize the risk in the future the system is being enhanced to change the status to pending when the record is corrected during verification. This enhancement will allow time to recalculate benefits considering the changes. A letter has been mailed to the annuitant which provides options to recover the funds. The annuitant has 30 calendar days to either change the retirement date or keep the current date with a reduced benefit and reimburse TRS for the overpayment of funds.

4. Test Purpose: Identify manual voucher payments that are not properly authorized and supported.

Test Description: Select a random sample of 10 manual voucher payments per month from the *July to December 2014 Benefit Payments Data File*. Trace and agree these manual voucher payments to the supporting documents maintained in the *TRS Imaging System*.

Test Results: Out of the 60 manual voucher payments randomly selected to test, there were 20 premium refunds, nine annuity pop-ups, four qualified domestic relations order (QDRO) related payments, seven payments re-issued due to returned payments, five retiree requests to re-issue payment, nine payments re-issued due to retiree/beneficiary death, and six other related manual payments. All payments were traced and agreed to the supporting documents. No exceptions were identified.

**TAB 4B**

**QUARTERLY INVESTMENT TESTING**  
**INVESTMENT POLICY STATEMENT (IPS), SECURITIES LENDING POLICY (SLP), EMPLOYEE ETHICS POLICY, BOARD OF TRUSTEES**  
**ETHICS POLICY, PERFORMANCE INCENTIVE PAY PLAN (PIP), AND WIRE TRANSFER PROCEDURES**  
 CALENDAR QUARTER ENDED MARCH 31, 2015, EXCEPT AS NOTED

<b>Business Objectives</b>	1. <u>Board Reports</u> All required information is reported to the TRS Board of Trustees	2. <u>Investment Selection and Approval</u> Investments made are within delegated limits and established selection criteria	3. <u>Other (IPS, SLP, PIP, wire transfers)</u> Policies and procedures are followed for other investment programs and activities	4. <u>Ethics Policies</u> Ethics filing and reporting requirements are met
<b>Business Risks</b>	Board is not informed of key investment decisions and critical information	Approvals and fundings exceed delegated limits	Risks exceed Board established tolerances or established procedures are not followed	Ethics policy requirements are not performed or filed
<b>Management Assertions</b>	All required reports are made to the Board	Approvals and fundings are within limits and made for qualified managers	Programs are within risk limits and activities follow established policies and procedures	Ethics policies and requirements are being followed
<b>Agreed-Upon Procedures</b>	<ul style="list-style-type: none"> <li>Compare Board reports to IPS requirements</li> </ul>	<ul style="list-style-type: none"> <li>Vouch Internal Investment Committee (IIC) approved investments to supporting documentation</li> <li>Verify approval limits of new investments</li> </ul>	<ul style="list-style-type: none"> <li>Verify monitoring of the securities lending agent and the program performance</li> <li>Obtain senior management disclosures about known compliance violations</li> <li>Test accuracy of PIP calculations for the quarter ended December 31, 2014</li> <li>Test supporting documentation for wire transfers</li> </ul>	<ul style="list-style-type: none"> <li>Obtain evidence that Key Employees acknowledged their Key Employee status</li> <li>Obtain evidence that Trustees participated in annual ethics training</li> </ul>
<b>Test Results</b>	<ul style="list-style-type: none"> <li>All reporting requirements tested are met</li> <li>Documentation provides support for reports tested</li> </ul>	<ul style="list-style-type: none"> <li>All supporting documentation exists</li> <li>All investments tested were in compliance with approval limits</li> </ul>	<ul style="list-style-type: none"> <li>All other requirements of the IPS, SLP, PIP, wire transfer procedures, etc. tested are met</li> </ul>	<ul style="list-style-type: none"> <li>All ethics filing and training requirements tested are met</li> </ul>
<b>Management Responses</b>	None	None	None	None

Legend: **Red** - Significant to TRS    **Orange** - Significant to Business Objectives    **Yellow** - Other Reportable Exception    **Green** - Positive Test Result/ No Exception



May 20, 2015

Carolina de Onis, TRS General Counsel

We have completed the **Quarterly Investment Testing** of compliance with the requirements of the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Employee Ethics Policy, Board of Trustees Ethics Policy, the Performance Incentive Pay Plan, and procedures for wire transfers as included in the *Fiscal Year 2015 Audit Plan*.

We performed the procedures listed below that were agreed to by the TRS Legal Services division. These procedures include tests that supplement the current compliance monitoring procedures performed by State Street and the Senior Compliance Specialist.

This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

The sufficiency of the agreed-upon procedures performed is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our testing procedures and results are included in **Appendix A**.

### **Internal Control Structure**

We were not engaged to and did not perform an examination of the internal controls nor the operating effectiveness pertaining to the subject areas tested. Accordingly, we do not express an opinion on the suitability of the design of internal controls nor the operating effectiveness of the subject areas tested.

Had we performed additional procedures, or had we made an examination of the system of internal control, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified below and does not extend to the internal control structure.

This report is intended solely for information and use by TRS management, the Board of Trustees, and oversight agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

\* \* \* \* \*

We express our appreciation to management and key personnel of the Investment Management Division and Investment Accounting for their cooperation and professionalism shown to us during this quarterly testing.



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Amy Barrett, CIA, CPA, CISA  
Chief Audit Executive



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Hugh Ohn, CFA, CPA, CIA, FRM  
Director of Investment Audit Services



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Nick Ballard, CFA  
Senior Investment Auditor

## APPENDIX A

### AGREED-UPON PROCEDURES AND RESULTS

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
1	1	IPS Article 1.7 - Verify that all requirements were reported to Board of Trustees. Quarterly reporting requirements include investment performance, asset class exposures, and external investments under consideration. Semiannual reports include outstanding derivatives, leverage, liquidity positions, and risk limits	Obtain copies of all reports required to be reported to Board of Trustees and compare to reporting requirements per Investment Policy Statement (IPS)	Reports required to be reported to Board of Trustees complied with IPS.	No response required
2	2	IPS Article 2.6 – Verify that Investment Management Division (IMD) evaluated hedge fund classification	<ul style="list-style-type: none"> <li>• Select sample of approved investments in hedge funds and external managers</li> <li>• Obtain analysis indicating whether each investment is hedge fund or not. If analysis is unavailable, inconclusive, or erroneous, report that result</li> <li>• For any analysis requiring Board approval of classification, obtain Board minutes to test whether approval was obtained</li> </ul>	Each of approved investments in hedge funds and external managers tested had analysis indicating whether investment was a hedge fund or not. No Board approval was required.	No response required
3	2	IPS Article 2.7g – Verify funds added to previously approved investments for purposes of rebalancing or adjusting risk did not exceed 2% of associated portfolios	<ul style="list-style-type: none"> <li>• Inquire with Director of External Public Markets whether portfolios were adjusted for the purposes of rebalancing or adjusting risks</li> <li>• If funds added, did such additional investments or allocations exceed 2% of Hedge Fund Portfolio, External Manager Portfolio, or Other Absolute Return Portfolio (as appropriate) per investment on a monthly basis</li> <li>• Obtain documentation from IMD staff supporting rebalancing analytics. Report on exceptions.</li> </ul>	Funds added to previously approved investments or purposes of rebalancing or adjusting risk did not exceed 2% of associated portfolios.	No response required

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
4	3	IPS Article 10.3d – Obtain evidence of IMD’s examination of requirements of its securities lending agent	Obtain monthly securities lending review reports for the quarter to test whether the securities lending agent is an organization rated A- or better by a Nationally Recognized Statistical Rating Organization (NRSRO)	The rating for State Street was A- or better per Moody’s, Fitch, and Standard and Poor’s.	No response required
5	2	IPS Article 10.9 – Verify leverage used meets requirements	<ul style="list-style-type: none"> <li>• Obtain leverage report provided to the TRS Board and compare reported leverage uses to leverage use allowed by the IPS</li> <li>• Inquire whether any risk parameters were exceeded and if so, was the limit caused by leverage</li> </ul>	Leverage was used only as authorized and no risk parameters were exceeded.	No response required
6	2	IPS Article 12 - Verify existence of placement agent questionnaire for each new investment selected for testing and test for inclusion in summary report to Board	<ul style="list-style-type: none"> <li>• For each investment selected for testing, test whether IMD obtained responses to the questionnaire</li> <li>• Obtain transparency reports to test whether IMD compiled responses to the questionnaires and reported all results to Board at least semi-annually</li> </ul>	Each investment tested had a completed questionnaire and was included in the summary report to the Board.	No response required
7	2	IPS Appendix B – Verify investments approved are within policy limits	<ul style="list-style-type: none"> <li>• Select sample of approved investments and obtain tear sheet for each, observe the approved amounts are within authorized limits <ul style="list-style-type: none"> <li>a) Initial allocation – .50%</li> <li>b) Additional or follow-on – 1%</li> <li>c) Total Manager Limits – 3%</li> <li>d) Total limit each manager organization – 6%</li> </ul> </li> <li>• Obtain documentation from IMD staff that supports the calculations of the authorized limits</li> <li>• Inquire if any “Special Investment Opportunities” were made for the quarter</li> </ul>	For the sample selected for testing, no manager or partner organization exceeded the authorized limits and documentation existed for IMD staff calculations of authorized limits. There were no Special Investment Opportunities.	No response required

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
8	3	Quarterly Disclosures – Verify all known compliance violations have been reported	Send request for disclosure to IMD management, Legal Investment staff, and CIO requesting disclosure of any known compliance violations during testing period	Obtained all disclosures from IMD management, Legal Investment staff, and CIO of any known compliance violations during testing period. No compliance violations were disclosed.	No response required
9	3	Test authorizations of wire transfers – Verify wire transfers are authorized and properly supported	Obtain wire transfer reports for testing period, select sample of wire transfers, and test that supporting documentation, including manager authorizations, exists for each	All wire transfers tested were properly authorized and correct amounts were wired.	No response required
10	3	Securities Lending Policy – Verify IMD review of securities lending program and performance of lender	Obtain evidence for the following securities lending policy requirements: a) Cash collateral received from borrowers is invested in either securities that qualify as “first tier securities” within Rule 2a-7 under the Investment Company Act of 1940, or Moody’s A3 or Standard & Poor’s A- or greater. b) The fair market value of the cash collateral investments portfolio must not decline by more than .0035 percent per 1 basis point change in interest rates. c) The maximum market value of securities on loan at any one time shall not exceed 30% of the market value of the total TRS investment portfolio.	a) Cash collateral received from borrowers was invested in authorized securities. b) Testing of the interest rate sensitivity of the cash collateral investment pool indicated that the portfolio fair market value would not decline by more than .0035 percent per a 1 basis point change in interest rates. c) During the quarter, the market value of TRS securities on loan did not exceed 30% of the market value of the total TRS portfolio.	No response required

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
11	4	Employee Ethics Policy – Verify that Key Employees acknowledged their Key Employee status through the annual Ethics Compliance Statement.	Obtain evidence that the sample TRS Key Employees submitted their Key Employee Status Acknowledgment forms to Legal Services for 2015.	All sampled Key Employee Acknowledgment forms were filed with TRS Legal for 2015.	No response required
12	4	Board of Trustees Ethics Policy – Verify that every TRS Trustee attends annual ethics training.	Review TRS Board Meeting Minutes to determine that Trustees attended annual ethics training.	All TRS Trustees attended annual ethics training during the February 2015 board meetings.	No response required
13	3	Performance Incentive Pay Plan – Verify that investment performance results used in quarterly Internal Public Markets (IPM) portfolio matches data from TRS financial applications and custodian bank and that the excess return calculations for individual portfolio managers and sector analysts are correct.	Trace quarterly Internal Public Markets individual component calculation spreadsheet to TRS financial performance application data and TRS custodian bank data.  Test whether employee assignments were approved by Senior Director in TRS Internal Public Markets prior to quarter start by obtaining approval email from Senior Director in TRS Internal Public Markets to Investment Operations Performance Analyst. If any assignment changes are included in the approval, compare the approved changes to the assignments in the quarterly Internal Public Markets individual component calculation spreadsheet.  Test whether formulas in the quarterly Internal Public Markets individual component calculation spreadsheet are correct by recalculating investment return totals by portfolio manager and sector manager, and comparing total investment returns to returns provided by the TRS Custodian Bank.	There were no data, employee assignment, or formula errors included in the quarterly Internal Public Markets individual component calculation spreadsheet. Thus, excess return calculations for individual portfolio managers and sector analysts for the IPM portfolio were correct for the quarter ended December 31, 2014.	No response required

**Note: Testing procedures for the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Employee Ethics Policy, Board of Trustees Ethics Policy, Performance Incentive Pay Plan, and Wire Transfers are for the quarter ended March 31, 2015. Testing procedures for the Performance Incentive Pay Plan are for the quarter ended December 31, 2014.**

**TAB 5**

**TRS Internal Audit  
Summary of Audit Recommendations Status  
June 2015**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
<b>13-602 Fraud Risk Identification and Prevention Audit*</b>					
	Benefit Accounting - Improve system access reviews to ensure access privileges remain current with job duties	Implemented	Significant	12/2013	12/2013
	Benefit Processing - Improve system access reviews to ensure access privileges remain current with job duties and are appropriately balanced between the need for cross-training staff and the need for restricted access to limit opportunity for fraud	Implemented	Significant	12/2013	9/2013
<b>14-104 Refunds of Inactive and Dormant Accounts*</b>					
	Fraud , Waste, and Abuse Policy (FWAP) refresher training needs to occur for existing employees as required by policy	Implemented	Significant	12/2014	11/2014
	Benefit Accounting department should assess risk and control options for enhancing account safeguards and decreasing the risk of fraudulent account refunds	Implemented	Significant	2/2015	2/2015
	Benefit Processing department should assess risk and control options for enhancing account safeguards and decreasing the risk of fraudulent account refunds	Implemented	Significant	2/2015	2/2015

\*A follow-up audit is included in the Audit Plan for Fiscal Year 2015.

**Other Reportable**

**Significant to Business Objectives**

	<ul style="list-style-type: none"> <li>Past <i>original</i> estimated completion date</li> <li>No management action plan <u>or</u> No progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li>Past <i>original</i> estimated completion date</li> <li>Progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li><i>Original</i> estimated completion date has not changed</li> <li>Progress on management action plan</li> </ul>
	Satisfactory implementation of management action plan <u>or</u> Acceptance of risk by management
	Implementation of management action plan pending Internal Audit validation

	<ul style="list-style-type: none"> <li>Past <i>original</i> <u>or</u> first <i>revised</i> estimated completion date</li> <li>No management action plan <u>or</u> No progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li>Past <i>original</i> <u>or</u> first <i>revised</i> estimated completion date</li> <li>Progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li>Within <i>original</i> <u>or</u> first <i>revised</i> estimated completion date</li> <li>Progress on management action plan</li> </ul>
	Satisfactory implementation of management action plan <u>or</u> Acceptance of risk by management

**TRS Internal Audit  
Summary of Audit Recommendations Status  
June 2015**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
<b>14-301 FY 2014 Overall IMD Internal Control Opinion</b>					
	The ENR team should tailor the manager and investment certification questionnaires to address ENR-specific topics	Implemented	Other Reportable	2/2015	5/2015
	The ENR team should explore leveraging consultants and expanding consultant coverage to obtain additional services and reporting	In Progress	Other Reportable	8/2015	
<b>14-401 Purchasing and Contract Administration</b>					
	<p>TRS' Contract Administration Manual revision process should ensure:</p> <ul style="list-style-type: none"> <li>➤ revisions are made by a coordinated workgroup across various TRS departments</li> <li>➤ the competitive selection process is well defined and new procedures are inclusive of various procurement processes</li> <li>➤ new procedures include a clear process for documenting the justification and approval for all exceptions</li> </ul>	In Progress	Other Reportable	9/2015	10/2015
	TRS' Contract Administration Manual should have a coaching component for all contract sponsors, their designees, and anyone involved in procurement at TRS. Coaching should be provided to the Board and include information regarding fiduciary responsibility and TRS fiduciary obligation.	In Progress	Other Reportable	12/2015	
	TRS' Contract Administration Manual should have a monitoring component to ensure compliance with the revised Contract Administration Manual and a method for follow-up and/or escalation of non-compliance.	In Progress	Other Reportable	9/2015	10/2015
	The Purchasing Department should update written procedures to match current and new processes	In Progress	Other Reportable	10/2015	

**TRS Internal Audit  
Summary of Audit Recommendations Status  
June 2015**

<b>14-401 Purchasing and Contract Administration (continued)</b>					
	Financial Services management should work with Legal Services to improve control over who is authorized to obligate TRS during purchasing or contracting activities	In Progress	Other Reportable	2/2015	10/2015
	Improve central contract files to include all necessary documentation and train purchasing staff and contract sponsors on these requirements. Implement an escalation process to ensure required documentation is provided to the owner of the contract file.	In Progress	Other Reportable	12/2014	10/2015
	Update TRS record retention schedules to clearly define who the official record holders are for all contracts and related documentation	In Progress	Other Reportable	2/2015	10/2015
<b>15-301 FY 2015 Overall IMD Internal Control Opinion</b>					
	Clarify guidelines to ensure consistent documentation of Private Equity staff's due diligence and monitoring activities	In Progress	Other Reportable	6/2015	8/2015
	Continue efforts to increase General Partners' transparency on fees and expenses	In Progress	Other Reportable	6/2015	8/2015
	Provide clear guidelines for acceptable accounting and valuation standards for Private Equity investments	In Progress	Other Reportable	9/2015	
<b>15-403 Payables Audit</b>					
	Improve segregation of duties within the vendor setup and payment process	Implemented	Other Reportable	5/2015	5/2015

**TAB 6**

**Teacher Retirement System of Texas**  
**June 2015 Audit Committee Agenda Items Mapped to TRS Stoplight Report**

403(b)	<b>Accounting &amp; Reporting</b> <b>Agenda Item 2B</b>	Active Health Care Sustainability	Budget	Business Continuity
Communications & External Relations	Credit	Customer Service	<b>Employer Reporting</b> <b>Agenda Item 3</b>	Ethics & Fraud Prevention
Facilities Management & Planning	Governmental/ Association Relations & Legislation	Health Care Administration	Information Security & Confidentiality	<b>Investment Accounting</b> <b>Agenda Item 2A</b>
Investment Operations	Legacy Information Systems	Liquidity/Leverage	Market	<b>Open Government</b> <b>Agenda Items 5, 6</b>
<b>Pension Benefit Administration</b> <b>Agenda Item 4A</b>	Pension Funding	Purchasing & Contracts	Records Management	<b>Regulatory, Compliance &amp; Litigation</b> <b>Agenda Item 4B</b>
Retiree Health Care Funding	Talent Continuity	TEAM Program		

## Status of Fiscal Year 2015 Planned Assurance, Consulting, and Advisory Services as of May 2015

Title and Project #	Type	Status
<b>Executive</b>		
University of Texas Students' Projects (15-606A)	Consulting	<b>Complete</b>
Internal Ethics and Fraud Hotline Administration	Advisory	<b>Ongoing</b>
Meetings Participation	Advisory	<b>Ongoing</b>
Special Requests	Advisory	<b>Ongoing</b>
<b>Finance</b>		
Payables Audit (15-403)	Audit	<b>Complete</b>
Actuarial Data Controls (14-402)	Audit	<b>In Progress</b>
Reporting Entity Audits and Investigations (15-401)	Audit	<b>In Progress</b>
Business Process Analysis of Activities Involving Multiple Departments (15-404)	Consulting	<b>Complete</b>
TRS Reporting Entity Website Audit Information	Advisory	<b>Complete</b>
State Auditor's Office (SAO) Financial (CAFR) Audit Coordination	Advisory	<b>Complete</b>
Meetings Participation	Advisory	<b>Ongoing</b>
Special Requests and Surprise Inspections	Advisory	<b>Ongoing</b>
<b>TEAM Program</b>		
TEAM Program Internal Controls Assessment (15-601)	Advisory	<b>Delayed Due to LOB Project Schedule Delay</b>
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	<b>Ongoing</b>
TEAM Committees and TEAM Projects Participation	Advisory	<b>Ongoing</b>
<b>Pension Benefits</b>		
Follow-Up Audit on Significant Findings of Prior Benefits Audits (15-102)	Audit	
Benefits Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR) (15-100)	Audit	<b>Complete</b>
Semi-Annual Benefits Testing (11-501)	Agreed-Upon Procedures	<b>1 of 2 Complete</b>
<b>Health Care</b>		
Health Care Audit Services Review	Advisory	<b>Complete</b>
Health Care Vendor Selection Observation	Advisory	<b>None in FY15</b>
Health Care Vendor Update Meetings	Advisory	<b>Ongoing</b>

## Status of Fiscal Year 2015 Planned Assurance, Consulting, and Advisory Services as of May 2015

Title and Project #	Type	Status
<b>Information Technology</b>		
Electronic Records (15-501)	Audit	<b>In Progress</b>
Cloud Computing, Mobile Device Security, Co-Location/Disaster Recovery, IT Security	Consulting and Advisory	<b>In Progress</b>
Network Penetration Test; Security Risk Assessment Review	Advisory	
Technology Committees Meeting Participation	Advisory	<b>Ongoing</b>
<b>Investment Management</b>		
Overall Internal Control Opinion on Investment Activities (includes periodic status reports) (15-301)	Audit	<b>In Progress</b>
Quarterly Investment Compliance and Ethics Policies Testing (15-302)	Agreed-Upon Procedures	<b>1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> Quarters Complete</b>
Emerging Risks Reviews	Advisory	<b>Ongoing</b>
Incentive Compensation Plan Review	Advisory	<b>Complete</b>
Investment Committees Attendance	Advisory	<b>Ongoing</b>
<b>Internal Audit Department</b>		
Annual Internal Audit Report (15-603)	Audit	<b>Complete</b>
Quarterly Audit Recommendations Follow-up	Audit	<b>Ongoing</b>
Internal Quality Assurance Review	Advisory	<b>In Progress</b>
Fiscal Year 2016 Audit Plan	Advisory	<b>In Progress</b>
Internal Audit Vendor Request for Qualifications (RFQ) – Health Care Audits	Advisory	<b>In Progress</b>
Audit Committee Meetings Preparation	Advisory	<b>Ongoing</b>

**Fiscal Year 2015 Internal Audit Advisory Services<sup>1</sup>  
March 2015 – May 2015**

<b>BENEFIT SERVICES</b>
<p><b>Participated in the TEAM Program</b></p> <ul style="list-style-type: none"> <li>• Executive Steering Committee</li> <li>• Budget Committee</li> <li>• Data Management Project</li> <li>• Decommissioning Project</li> <li>• Security Architecture meetings</li> <li>• Organizational Change Management Advisory Group</li> <li>• Business Procedures and Training Project</li> <li>• Detailed Level Requirements Reviews – Member Account Maintenance, Reporting Entity Reporting</li> <li>• Monthly meetings with TEAM Program Manager and vendor personnel</li> <li>• Independent Program Assessment Vendor Coordination and Support</li> </ul>
<b>HEALTH BENEFITS</b>
<ul style="list-style-type: none"> <li>• Attended the Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM) Vendor Quarterly Update Meetings</li> </ul>
<b>INVESTMENTS</b>
<ul style="list-style-type: none"> <li>• Coordinated State Auditor’s Office audit of incentive compensation</li> <li>• Attended Internal Investment Committee (IIC) meetings</li> <li>• Attended Proxy Voting Committee</li> <li>• Attended monthly securities lending monitoring calls with State Street Bank</li> <li>• Attended Internal Public Markets (IPM) Performance Analysis meeting for Incentive Pay Plan</li> <li>• Participated in Executive Director’s Incentive Compensation Plan Task Force</li> </ul>
<b>FINANCIAL SERVICES</b>
<ul style="list-style-type: none"> <li>• Coordinated State Auditor’s Office (SAO) Audit of Fiscal Year 2014 Employer Pension Liability Allocation Schedules</li> <li>• Coordinated SAO audit of proportionality controls</li> <li>• Participated in meetings discussing revisions to Contract Administration Manual</li> <li>• Provided input on approach to GASB 72 implementation (related to investment valuation)</li> </ul>
<b>EXECUTIVE</b>
<ul style="list-style-type: none"> <li>• Facilitated SAO’s Quarterly Update Meetings</li> <li>• Administered SAO Hot Line Calls</li> <li>• Participated in the Risk Oversight Committee</li> <li>• Participated in Chief Benefit Officer and Chief Health Care Officer Interviews</li> <li>• Reviewed and commented on proposed board purchasing policy</li> </ul>
<b>INFORMATION TECHNOLOGY (IT)</b>
<ul style="list-style-type: none"> <li>• Observed Co-Location Disaster Recovery Test</li> <li>• Participated in Cloud Computing Committee</li> <li>• Participated in the Enterprise Risk Management (ERM) Data Protection Project</li> <li>• Participated in Information Security Officer interviews</li> </ul>

<sup>1</sup> Advisory Services (non-audit services) - The scope of work performed does not constitute an audit under Generally Accepted Government Auditing Standards (GAGAS).

**Internal Audit Goals and Performance Measures - Fiscal Year 2015  
3rd Quarter Ending May 31, 2015**

Target Performance	Activity	Status
<b>Goal 1: Enhance Effectiveness of Internal Audit Organization</b>		
1. Spend a minimum of 75% of total available department hours (excludes uncontrollable leave) for professional staff on direct assurance, consulting, and advisory services.	Achieved 81% for year to date fiscal year 2015	On Task
2. Complete an internal self-assessment and report annually on the results of the Quality Assurance and Improvement Program.	Internal self-assessment is in progress and will be reported in the 4 <sup>th</sup> quarter.	On Task
<b>Goal 2: Develop and Implement Internal Audit Annual Audit Plan based on Formal Risk Assessment</b>		
3. Prepare an annual audit plan based on a documented risk assessment and obtain input from trustees and staff.	Audit planning and risk assessment update is underway and plan development is scheduled for the 4 <sup>th</sup> quarter.	On Task
4. Execute 80% of audit and agreed-upon procedures projects (80% allows for flexibility due to changes in TRS business practices and special requests).	Planned assurance and agreed-upon procedures projects are on schedule and assigned to staff.	On Task
5. Prepare a formal reporting entity risk assessment to identify reporting entities for audit.	Internal Audit staff has completed a formal risk assessment and audits of reporting entities are underway. See <b>TAB 3</b> for audit reports of four independent school districts	On Task
<b>Goal 3: Enhance Internal Audit Staff Skills and Knowledge in Emerging Risks and Controls with Emphasis on Information Technology, Investment and Health Care</b>		
6. Enhance staff knowledge of services provided to the Investment Management Division by visiting one TRS asset manager or service provider	The Director of Investment Audit Services and the Senior Investment Auditor will visit Bloomberg offices in New York by early Summer 2015.	On Task
7. Engage a service provider for conducting or co-sourcing health care audits	Internal Audit procured Ernst and Young (EY) for a data analytics development project that includes health care data. In Fall 2015, Internal Audit will post a RFQ for audit services for fiscal years 2016 - 2017 that will includes health care audits.	Partially Complete

**Internal Audit Goals and Performance Measures - Fiscal Year 2015  
3rd Quarter Ending May 31, 2015**

<b>Goal 4: Deliver Value-Added Consulting and Advisory Activities</b>		
8. Facilitate coordination of TEAM Independent Program Assessment (IPA) Vendor by coordinating meetings with Executive Director, Executive Steering Committee (ESC) and Core Management Team (CMT), quarterly presentations to the TRS Board of Trustees, and other contractual activities.	Coordination and support of IPA vendor is ongoing	On Task
9. Facilitate timely completion and success of State Auditor's Office (SAO) audits in fiscal year 2015 by effectively providing audit support, coordinating meetings, reserving facilities and gathering schedule and documentation requests.	Internal Audit staff is currently providing audit and coordination support for SAO audit of proportionality controls. Internal Audit has completed support for the following SAO audits: <ul style="list-style-type: none"> <li>• Audit of Incentive Compensation</li> <li>• Audit of FY 2014 Employer Pension Liability Allocation Schedules</li> <li>• Audit of FY 2014 Comprehensive Annual Financial Report (CAFR)</li> </ul>	On Task
<b>Goal 5: Enhance Participation in Professional and Peer Organizations</b>		
10. Participate in professional organizations (APPFA, IIA, ISACA, ACFE, SAIAP, CFA Institute) through monthly chapter meetings and participate in leadership roles in at least two of the professional organizations	The CAE is secretary for APPFA and IT Audit Manager is the web administrator for APPFA. One audit manager is on the Board of Governors for the Austin Chapter of the IIA. Participation in professional organizations is ongoing.	On Task
11. Support staff in obtaining additional certifications including the CFA, CPA, and CIA certifications and have a minimum of two staff seek additional professional certifications in fiscal year 2015.	One staff member has passed the CPA exam. Another staff member has passed the CIA exam.	Achieved

**Legend: Target Status**

-  Target not achieved
-  Behind in achieving target or partially complete
-  On task to achieve target
-  Achieved target

## Internal Audit Staff Quarterly Accomplishments

- Dinah Arce and Art Mata gave presentations at the Texas Association of School Business Officials (TASBO) conferences in Abilene, Longview, and Graham, Texas.
- Hugh Ohn and Nick Ballard attended the Association of Public Pension Fund Auditors (APPFA) Conference in May. Nick Ballard participated in a panel discussion on the topic, “Auditing Alternative Investments” during the conference.
- Lih-Jen Lan attended the ISACA 2015 North America COBIT Conference in March. ISACA was previously known as the Information Systems Audit and Control Association. COBIT stands for Control Objectives for Information and Related Technology.
- Nick Ballard passed the final part of the Certified Public Accountant (CPA) exam and has submitted his application for the CPA license.
- Toma Miller passed the final part of the Certified Internal Auditor (CIA) exam and has achieved the CIA designation.
- Amy Barrett received the Claritas Investment Certificate from the CFA Institute. CFA stands for Chartered Financial Analyst.
- Internal Audit hosted three students from the Management Audit and Control class at the University of Texas at Austin. The students’ project at TRS fulfills part of their graduate audit class requirements. They were tasked with a consulting project in which they researched and identified best practices related to retaining top performing employees and managers and then provided TRS Human Resources with their recommendations on May 1, 2015. Dinah Arce was the project lead. Below is feedback from the students to Ms. Arce:

*“I would just like to say thank you on behalf of the team for a wonderful semester. This was by far one of the biggest learning experiences we’ve had this year. The level of care and attention to detail you dedicated to the project exceeded any of our expectations and really helped launch our experience to another level.”*

- Art Mata was awarded the *Silver Beaver Award* by the Boy Scouts of America. This award is the highest and most prestigious award given to an adult volunteer in the council-level. He serves as the District Commissioner for the Waterloo District, Capitol Area Council along with district chairman and Austin Police Chief Art Acevedo. These groups deliver the promise of scouting to at-risk youth primarily in the East Austin area.