

# AUDIT OF DAINGERFIELD-LONE STAR INDEPENDENT SCHOOL DISTRICT

May 13, 2016

## TRS Internal Audit Department

<b>Audit Objectives</b>	<p>To determine the following:</p> <ul style="list-style-type: none"> <li>Completeness and accuracy of reports submitted to TRS by the Reporting Entity (RE) for the test month</li> <li>TRS membership eligibility of contract workers performing services for the Reporting Entity</li> <li>Accuracy of census data information (name, date of birth, gender, amount of salary, year of entry, years of service)</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>Eligible members not included and/or ineligible employees are incorrectly included in reports</li> <li>Ineligible compensation included in salary reported to TRS</li> <li>Incorrect calculations of contributions and surcharges</li> <li>Inaccurate actuarial data because census data provided to TRS is not correct</li> </ul>
<b>Tests</b>	<ul style="list-style-type: none"> <li>Compare reports submitted to TRS with source documentation of Reporting Entity to confirm: <ul style="list-style-type: none"> <li>Eligibility of TRS membership and eligible compensation</li> <li>Accuracy and completeness of contributions and surcharges</li> <li>Accuracy and completeness of Employment After Retirement Area 1 and 2 Reports</li> </ul> </li> <li>Review contracts/invoices of contract workers to determine if eligible for TRS membership</li> <li>Determine accuracy of census data reported to TRS</li> </ul>
<b>Results</b>	<ul style="list-style-type: none"> <li>Positive Finding: <ul style="list-style-type: none"> <li>School officials were prompt in responding to questions and providing supporting documentation</li> <li>Personnel files were well organized</li> </ul> </li> <li>Test Results (Test month – January 2016, Tested 30 of the 181 members reported to TRS, five of the 205 payments to vendors/independent contract workers, five employees not reported, and 23 retirees that worked in the test month.): <p>Member Contributions</p> <ul style="list-style-type: none"> <li>No exceptions for the 30 sampled; however, one of the five employees not reported to TRS was determined to be eligible and therefore was improperly excluded and did not pay pension or TRS-Care contributions</li> </ul> <p>Employer Contributions and Surcharges</p> <ul style="list-style-type: none"> <li>Regular Payroll Report – Improperly excluded and did not pay TRS-Care contribution for one employee not reported to TRS who was determined to be eligible</li> <li>New Member Report – No exceptions</li> <li>Federal Fund/Private Grant Report – No exceptions</li> <li>Federal Fund TRS-Care Report – No exceptions</li> <li>Statutory Minimum Report – Improperly calculated and overpaid contributions on two employees and improperly calculated and underpaid contributions on one employee</li> <li>Non-OASDI Report – Improperly calculated and overpaid contributions on one employee and improperly excluded and did not pay contributions on one employee (one of the five employees not reported to TRS as mentioned above)</li> <li>Area 1 and 2 Reports – Improperly excluded one retiree from the EAR Area 1 Report and improperly excluded two retirees from the Area 2 Report</li> <li>TRS Pension Surcharge Report – Improperly underpaid surcharge on one retiree</li> <li>TRS-Care Surcharge Report – No exceptions</li> </ul> <p>Other Results</p> <ul style="list-style-type: none"> <li>No vendor/independent contract workers were eligible for TRS membership and were therefore properly excluded from the TRS Regular Payroll Report</li> <li>Census data information reported to TRS was complete and accurate</li> <li>All report totals per TRAQS reports submitted to TRS agreed with the RE supporting documentation with the exception of the EAR Area 2 Report</li> </ul> </li> </ul>
<b>Recommended Actions</b>	<p>We recommend that the Reporting Official:</p> <ul style="list-style-type: none"> <li>Work with TRAQS coaches to correct reports by July 2016</li> <li>Ensure personnel are knowledgeable of TRS Rules and Laws</li> <li>Maintain sufficient and accurate records of time worked for all substitutes and retirees</li> </ul>
<b>Management Responses</b>	<p>Daingerfield-Lone Star ISD officials concur with the recommendations made by Internal Audit and will:</p> <ul style="list-style-type: none"> <li>Work with the TRS TRAQS coach to adjust the reports by July 2016</li> <li>Provide training and the necessary resources to staff to ensure the accuracy of reports submitted to TRS</li> <li>Will develop and implement a process to ensure the accuracy of time worked for substitutes and retirees</li> </ul>

May 13, 2016

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## AUDIT REPORT OF DAINGERFIELD-LONE STAR INDEPENDENT SCHOOL DISTRICT

### EXECUTIVE SUMMARY

We have completed the audit of eligibility and contributions, as included in the *Fiscal Year 2016 Audit Plan*. Our audit objectives were to determine the following<sup>1</sup>:

- Completeness and accuracy of the reports submitted to TRS by the Reporting Entity<sup>2</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)

During the audit, we observed the following:

- School officials were prompt in responding to questions and providing supporting documentation
- Personnel files were well organized

Based on our audit results, some reports were incomplete and inaccurate, no independent contract workers were eligible for TRS membership and were therefore properly excluded from the Regular Payroll Report, and census data was accurate. The totals reported to TRS in TRAQS for Area 2 Report did not agree with the totals per the RE supporting documentation. One employee not reported to TRS was deemed eligible for TRS participation.

**Refer to Appendix B for detailed results of testing.**

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<sup>1</sup> Assuming the completeness and accuracy of the official records maintained by the Reporting Entity.

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

# BACKGROUND

## PROJECT BACKGROUND

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

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

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

The Daingerfield-Lone Star ISD was chosen for audit using a consistent risk assessment methodology that included the variables listed above.

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

The Daingerfield-Lone Star ISD (DLSISD) is located in Morris County in North East Texas. In 1880 this school was operating under the name of "The Jefferson District High School." The Daingerfield Independent School District was incorporated in 1902 and the Texas Conference of the Methodist Episcopal Church South, transferred their Daingerfield school properties to the Independent School District in 1906.

Over 1,000 students on four campuses are served by 196 teachers and staff, with 35% of the teachers have more than 20 years of experience. The House Bill (HB) 5 Community and Student Engagement Rating for 2014-2015 rated three of the four schools as "exemplary." The 2015

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

State of Texas Assessments of Academic Readiness (STAAR) statistics reveal that students achieved a 73% combined score.

High school students are given the opportunity to remain on campus and participate in dual credit classes in conjunction with Northeast Texas Community College. Over the past several years the high school math team has competed in numerous competitions and taken first and second place at the state level, including:

- 2013 and 2015 – 2<sup>nd</sup> place State Calculator
- 2012 and 2014 – 1<sup>st</sup> place State Calculator
- 2011 and 2012 – 1<sup>st</sup> place State Number Sense

The DLSISD website includes detailed strategies and timelines for the district’s achievement of performance goals for “No Child Left Behind.” The vision of the District shall be to graduate independent, successful, lifelong learners through educational excellence, community involvement, and good citizenship.

# RESULTS AND RECOMMENDATIONS

## OVERALL RESULTS

### Positive Findings

During the audit, we observed the following:

- School officials were prompt in responding to questions and providing supporting documentation
- Personnel files were well organized

### Other Findings

We tested:

- Thirty of the population of 181 members reported to TRS in the Regular Payroll Report for the test month
- Twenty three retirees who performed services in the test month
- Five employees paid in the test month who were not reported to TRS in the Regular Payroll Report
- Five vendors/independent contract workers paid during the test month

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

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

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

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

The totals reported to TRS in TRAQS for Area 2 Report did not agree with the totals per the RE supporting documentation.

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

## RECOMMENDATION

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

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

Sufficient and accurate supporting records should be maintained for Employment After Retirement reports.

## 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 July 2016.

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

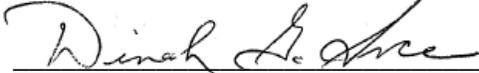
We will develop and implement a process to ensure supporting documentation is maintained for all TRAQs reports.

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We appreciate Daingerfield-Lone Star ISD management and staff for their cooperation, courtesy, and professionalism extended to us during this audit.

  
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cc: Daingerfield-Lone Star 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<sup>4</sup>:

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

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

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

#### SCOPE

Payroll data was selected from the month of January 2016. We selected:

- Thirty sample items from TRS Regular Payroll Report for the test month
- Twenty-three retirees on the payroll
- Five sample items from the Reporting Entity payroll register for employees that were not reported to TRS
- Five sample items of the 205 vendor/independent contract workers paid for the test month for services performed

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

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

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<sup>4</sup> Assuming the completeness and accuracy of the official records maintained by the RE

## METHODOLOGY

We specifically performed the procedures below.

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

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

**2. To determine that member contributions are reported and are accurate:**

- Recalculate member contributions and compare to the TRS Regular Payroll Report

**3. To determine that employer contributions/surcharges are reported and are accurate:**

- Obtain the reports of employer contributions and surcharges remitted to TRS on the Regular Payroll Report.
- Review detail supporting records for the employer calculations and recalculate employer contributions for the following:
  - New member contributions
  - Federal Fund/Private Grant contributions
  - Employment After Retirement surcharges
  - Statutory Minimum contributions
  - Non-OASDI contributions

**4. To determine accuracy of census data of eligible members:**

- Pull supporting documentation for each item in sample to confirm date of birth, hire date/years of service, eligible compensation, gender, and dates of termination/retirement

## CONCLUSION

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

## APPENDIX B

### Daingerfield-Lone Star ISD DETAIL OF ADJUSTMENTS TO REPORTS

#### **POPULATION, SAMPLE, TESTING:**

- Test Month = January 2016

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

- Tested 30 of 181 total members reported in the TRS Regular Payroll Report for the test month to determine eligibility and completeness and accuracy of member and Reporting Entity (RE) contributions.
- Tested five of the 205 vendor/independent contractor payments during the test month to determine TRS eligibility.
- Tested five of the employees not reported to TRS to determine TRS eligibility.

#### **SECTION 2 - EMPLOYMENT AFTER RETIREMENT (See details below)**

- Tested all 23 of the retirees that worked in the test month in a position other than a substitute to determine if worked more than the 84 hour limit for the test month.

#### **SECTION 3 - OTHER TESTS AND RESULTS**

- Tested census data information on all 30 sample items.  
Test Results - Census data information for the 30 sample items was correct.
- Tested all TRAQS Reports submitted to TRS and verified reported totals to the totals per the RE detailed supporting documentation.  
Test Results - All report totals per TRAQS reports submitted to TRS agreed with the RE supporting documentation except for Area 2 of EAR report.

**SECTION 1 - ELIGIBILITY TESTING**

**REGULAR PAYROLL REPORT - ELIGIBILITY TESTING**

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

	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
<b>Member Contributions to Pension Fund</b>					
No exceptions for the 30 sampled; however, one of the five employees not reported to TRS was determined to be eligible and therefore was improperly excluded and did not pay contributions.		\$ 63.91			
TOTAL	\$ 38,339.86	\$ 63.91	\$ -	\$ 38,403.77	0%

**Member Contributions to TRS-Care**

No exceptions for the 30 sampled; however, one of the five employees not reported to TRS was determined to be eligible and therefore was improperly excluded and did not pay contributions.		\$ 5.77			
TOTAL	\$ 3,461.36	\$ 5.77	\$ -	\$ 3,467.13	0%

**RE Contributions to TRS-Care**

No exceptions for the 30 sampled; however, one of the five employees not reported to TRS was determined to be eligible and therefore was improperly excluded and did not pay contributions.		\$ 4.88			
TOTAL	\$ 2,928.78	\$ 4.88	\$ -	\$ 2,933.66	0%

No vendor/contract workers tested were eligible for TRS membership and were therefore correctly excluded from the TRS Regular Payroll Report

<b>NEW MEMBER REPORT</b>	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
No exceptions					
TOTAL	\$ 197.75	\$ -	\$ -	\$ 197.75	0%

<b>FEDERAL FUNDS REIMBURSEMENT TO PENSION FUND</b>	REPORT TOTAL	UNDER STATED	OVER STATED	REVISED REPORT TOTAL	% ERROR
No exceptions					
TOTAL	\$ 2,654.65	\$ -	\$ -	\$ 2,654.65	0%

<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					
TOTAL	\$ 390.39	\$ -	\$ -	\$ 390.39	0%

<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>
Improperly calculated and overpaid contributions on two employees.			\$ 8.86		
Improperly calculated and underpaid contributions on one employee.		\$ 14.11			
TOTAL	\$ 2,403.01	\$ 14.11	\$ 8.86	\$ 2,408.26	0.22%

<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>
Improperly calculated and overpaid contributions on one employee.			\$ 3.11		
Improperly excluded and did not pay contributions on one employee (one of the five employees not reported to TRS determined to be eligible, as mentioned above).		\$ 13.31			
TOTAL	\$ 7,455.74	\$ 13.31	\$ 3.11	\$ 7,465.94	0.14%

**SECTION 2 - EMPLOYMENT AFTER RETIREMENT**

<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>
Improperly excluded one retiree from Area 1 Report.					
Improperly excluded two retirees from Area 2 Report.					

<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>
Improperly underpaid surcharge on one retiree.		\$ 26.14			
TOTAL	\$ 1,215.85	\$ 26.14	\$ -	\$ 1,241.99	2%

<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					
TOTAL	\$ 1,083.00	\$ -	\$ -	\$ 1,083.00	0.00%

<b>GRAND TOTALS</b>	\$ 60,130.39	\$ 128.12	\$ 11.97	\$ 60,246.54	0.2%
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