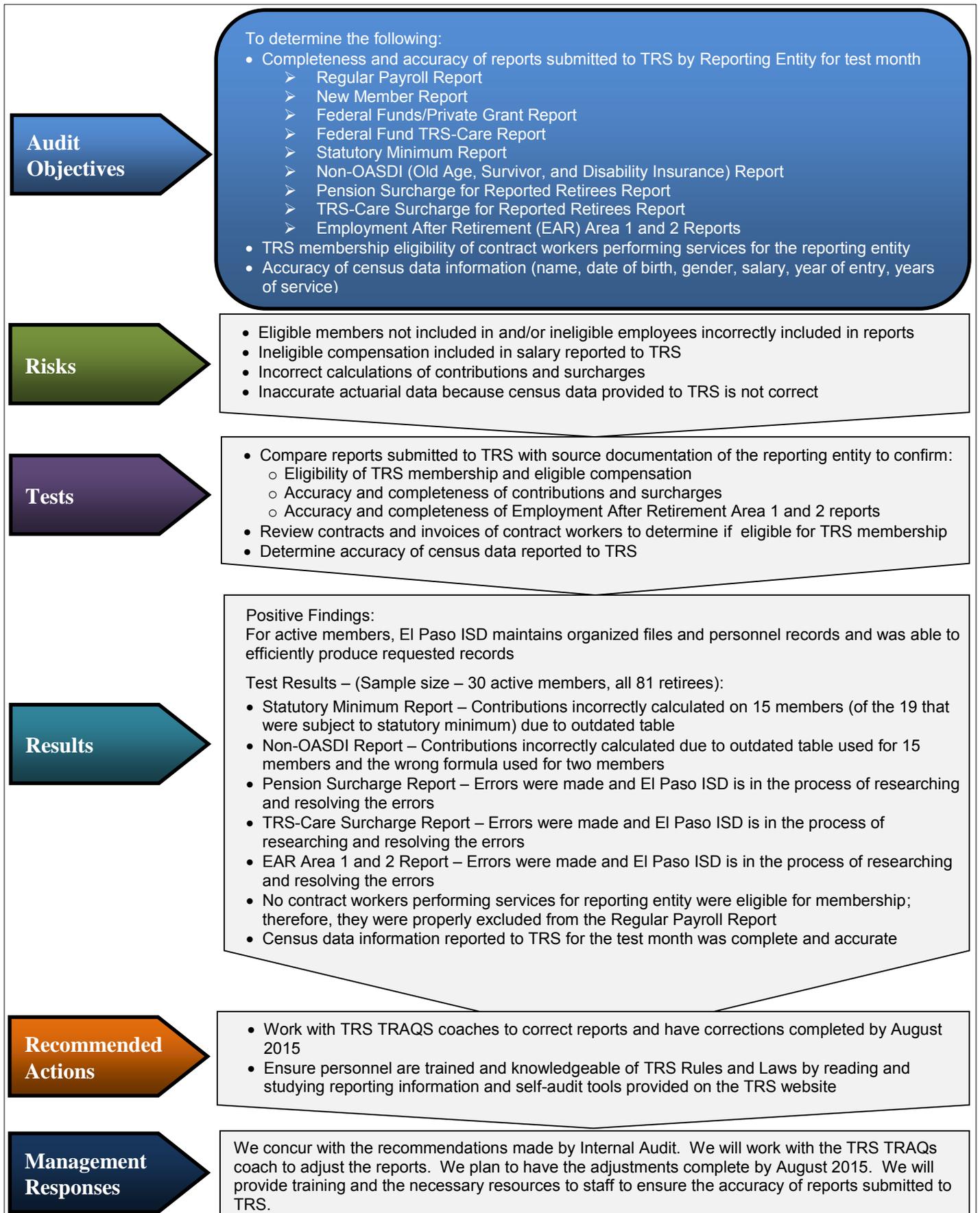


AUDIT OF EL PASO INDEPENDENT SCHOOL DISTRICT

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 entity¹ 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Report – Contributions incorrectly calculated on 15 members (of the 19 that were subject to statutory minimum) due to outdated table
- Non-OASDI Report – Contributions incorrectly calculated due to outdated table used for 15 members and the wrong formula used for two members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.

¹ 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 Holds²
- 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 BACKGROUND³

El Paso ISD resides in El Paso County, Texas and is the 11th 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.

² 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.

³ 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.

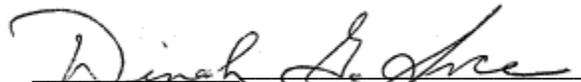
See **Appendix C** for detailed information.

* * * * *

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

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

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