

Teacher Retirement System of Texas



Reporting Entity Audits

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Agenda

1. Audit Requirements: AICPA Audit & Accounting Guide for State and Local Governments

- Requirement to audit census data
- State Auditor's Office (SAO) Audit Activities
- TRS Audit Activities

2. The Audit Process

- Risk Assessment
- Process
- Document Request

Agenda

3. Results of Prior Audits Conducted by TRS Staff and Questions to Consider

- Creditable Compensation
- Statutory Minimum
- Non-OASDI
- New Members
- Employment After Retirement and Surcharges

4. Tools

- Reporting Entity Self-Audits
- Audit Resources

5. Questions

Why are we Auditing Reporting Entities?

Audit Requirements:

AICPA Audit & Accounting Guide for State and Local Governments



AICPA Audit Guide



- Requires audit scrutiny by different auditors of “census data” reported to pension plans
 - Pension Plan’s financial auditor (SAO)
 - Reporting Entity’s financial auditor
- Establishes the expectation that pension plan and reporting entities will have internal controls over census data for the financial auditors to test
- Organizational controls can be internal audits of Reporting Entity information submitted to the pension plan

AICPA Audit Guide (cont.)

- Census data includes (but is not limited to)
 - Dates of birth, hire, termination, retirement
 - Eligible compensation
 - Years of service
 - Gender
 - Employment status
- The actuary uses census data to calculate the pension liability
- TRS prepares the pension liability allocation schedule
- The State Auditor's Office (SAO) audits the schedule annually

SAO Audit Activities



SAO Testing of Census Data at Reporting Entities

- Reporting entity selection is on a rotating basis, once every 10 years
- Six large entities are audited annually
- Exceptions identified by SAO are reported to TRS for follow-up and correction with reporting entities
- Audit opinion and allocation schedules are maintained on the TRS website

TRS Audit Activities

Scope

- Completeness and accuracy of reports submitted
- TRS membership eligibility of contract workers performing services for the reporting entity
- Accuracy of census data elements

Focus Areas

- Creditable Compensation
- Statutory Minimum
- Non-OASDI
- New Members
- Employment After Retirement



The Audit Process



Risk Assessment

Internal Audit performs an annual risk assessment to determine which Reporting Entities will be selected for audit.

Criteria Include (but are not limited to)

- Complaints/negative news article
- Late reports, numerous adjustments
- Warrant Holds
- Unpaid contributions and/or surcharges
- Findings by the Legislative Budget Board and/or State Auditor's Office audits
- TRS Management input



Key Communications

1. Make contact with the reporting entity
2. Discuss
 - Timing of audit
 - Document request list
 - Secure File Transfer Protocol (SFTP) site
 - Plan for on-site visit to wrap up audit
3. Provide opportunity to discuss findings, resolve outstanding items
4. Issue draft report
5. Present final report to TRS Audit Committee



Document Requests

➤ **Copies of records**

- Detailed support for all reports
- Payroll register for entire payroll, including SSNs
- Census data information on the 30 sample items
- Source of salary funding



➤ **Completion and certification of an EAR survey of the work performed by all retirees in the test month**

➤ **Additional documentation depending on the scope determined for testing**

- Employees not reported to TRS
- Vendors/independent contract workers
- Third-Party Entities that provide staffing

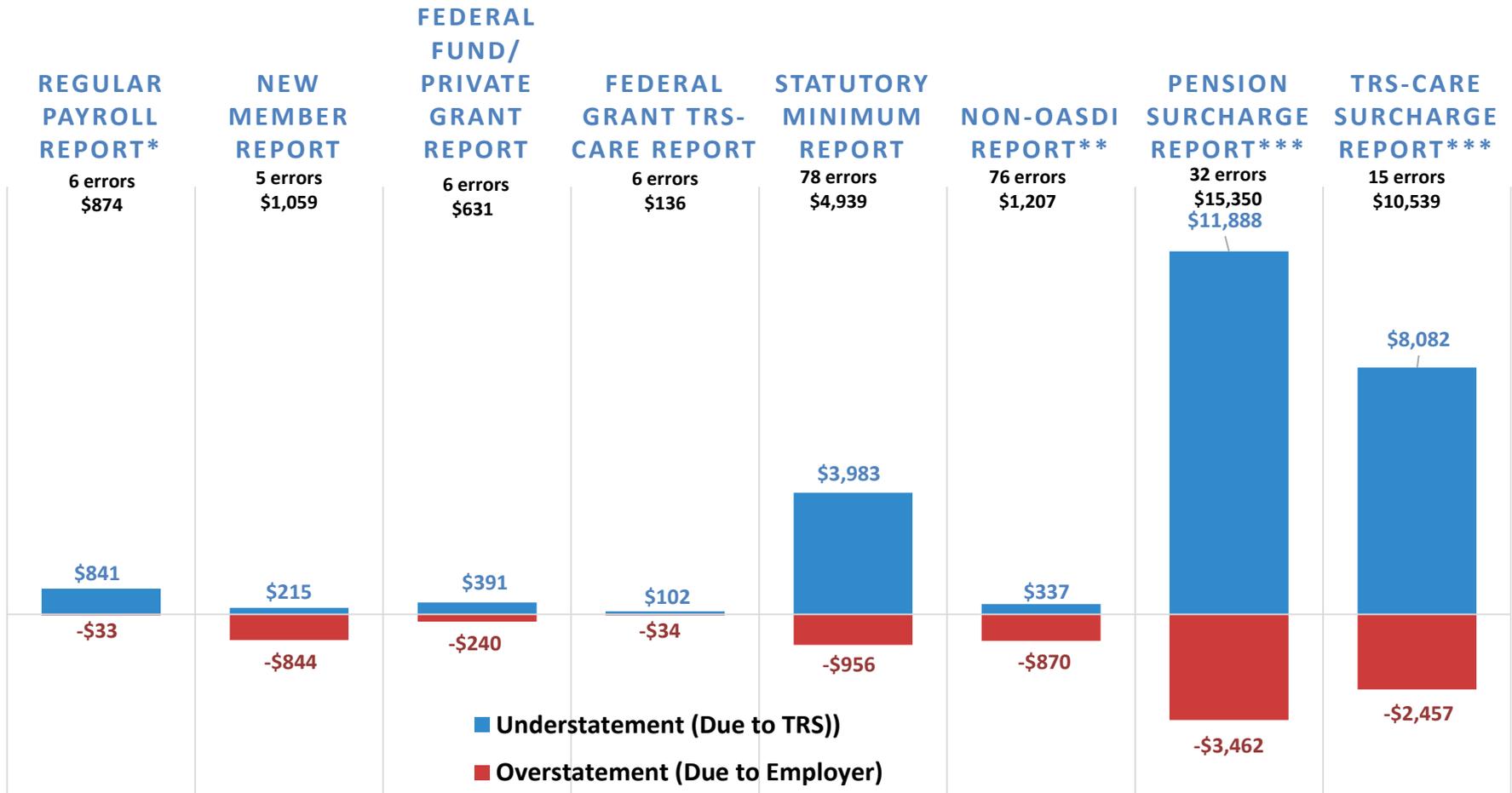
Prior Audit Results

Results of Prior Audits Conducted by TRS Internal Audit & Questions to Consider (to help avoid errors)



Results of Prior Audits

(For the Month Tested)



* Regular Payroll Report includes member contribution to pension fund, TRS-Care, and employer contribution to TRS-Care.

** OASDI stands for old age, survivor and disability insurance, which is more commonly referred to as Social Security.

*** Excludes one employer that is still researching and resolving errors.

Disclaimer: Results presented are for employers selected for audit based on risk. These results may not be representative of the total population.



Creditable Compensation Errors



Common Error

- Reported allowances in salary such as car, housing, and cell phone

Creditable Compensation Questions

- Do reported salary and wages meet ALL (4) requirements?
 - ✓ Payments for services rendered
 - ✓ Earned or accrued proportionally as the work is performed
 - ✓ Paid at fixed intervals
 - ✓ Not specifically excluded under applicable laws and rules

Statutory Minimum Errors



Minimum Salary Schedules

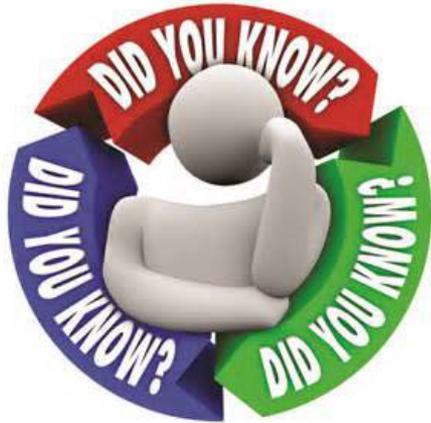
Common Errors

- Incorrect State Minimum Salary Schedule (use current schedule posted on TEA website)
- Incorrect adjusted TRS salary

Statutory Minimum Questions

- Are you aware that not all eligible compensation is includable in the calculation of Statutory Minimum contributions?
- Are you using the correct TEA State Minimum Salary Schedule?
- Do you know what the Cost of Education Index (CEI) is for your district?
- Are you excluding:
 - ✗ New Members?
 - ✗ Employees whose salary is paid 100% with federal funds?

Non-OASDI Errors



Common Error

- Not paying on the correct amount (salary vs adjusted state minimum salary)

Non-OASDI Questions

- Are you aware that if the position is subject to the state minimum salary schedule, the district must remit 1.5% of the salary up to the adjusted state minimum salary for the position?
- Did you know that if the district uses the wrong state minimum salary, most likely the district may have paid the incorrect Non-OASDI contribution amount?

New Member Errors



Common Errors

- Required contributions are not reported on employees who are new members to TRS
- Contributions reported on employees new to school but are not new TRS members

New Member Questions

- Are you looking up all new employees hired into a TRS-eligible position on “*View Employee Information*” in TRAQS?
- Is the district excluding a new member from the following reports?:
 - Federal Fund/Private Grant
 - Statutory Minimum Report

Employment After Retirement Errors

Common Errors

- Retirees not reported on Employment of Retired Members Report
- Pension Surcharges are not paid on salaries of retirees who retired AFTER September 1, 2005
- Pension and TRS-Care Surcharges paid on retirees who retired BEFORE September 1, 2005
- Actual time worked not tracked for retirees who retired after September 1, 2005



Employment After Retirement Errors

Employment After Retirement Questions

- Does a Third-Party Entity provide personnel to your district to perform duties or services that employees of your district would normally perform or provide?
- Are all TRS retirees working for the district being reported to TRS?
- Does your district track total hours worked for ALL retirees?



Tools and Resources



Reporting Entity Self-Audits

Self-Audits cover the following areas:

- ✓ Employment After Retirement
- ✓ Pension Surcharge
- ✓ TRS-Care Surcharge



Each Self-Audit includes:

- ✓ Explanation of responsibilities and requirements
- ✓ List of records and information needed
- ✓ Step by Step Self-Audit Instructions
- ✓ Worksheet

Employer Audit Web Page

Presentations & Guidelines

- TASBO
- AICPA Whitepapers
- FAQs



Tools

- Audit Programs
- Self-Audits

Reports

- Audit Reports
- Common Findings

State Auditor Activity

- Communication

What We've Covered

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Q & A

Questions?

Contact: employeraudits@trs.texas.gov

