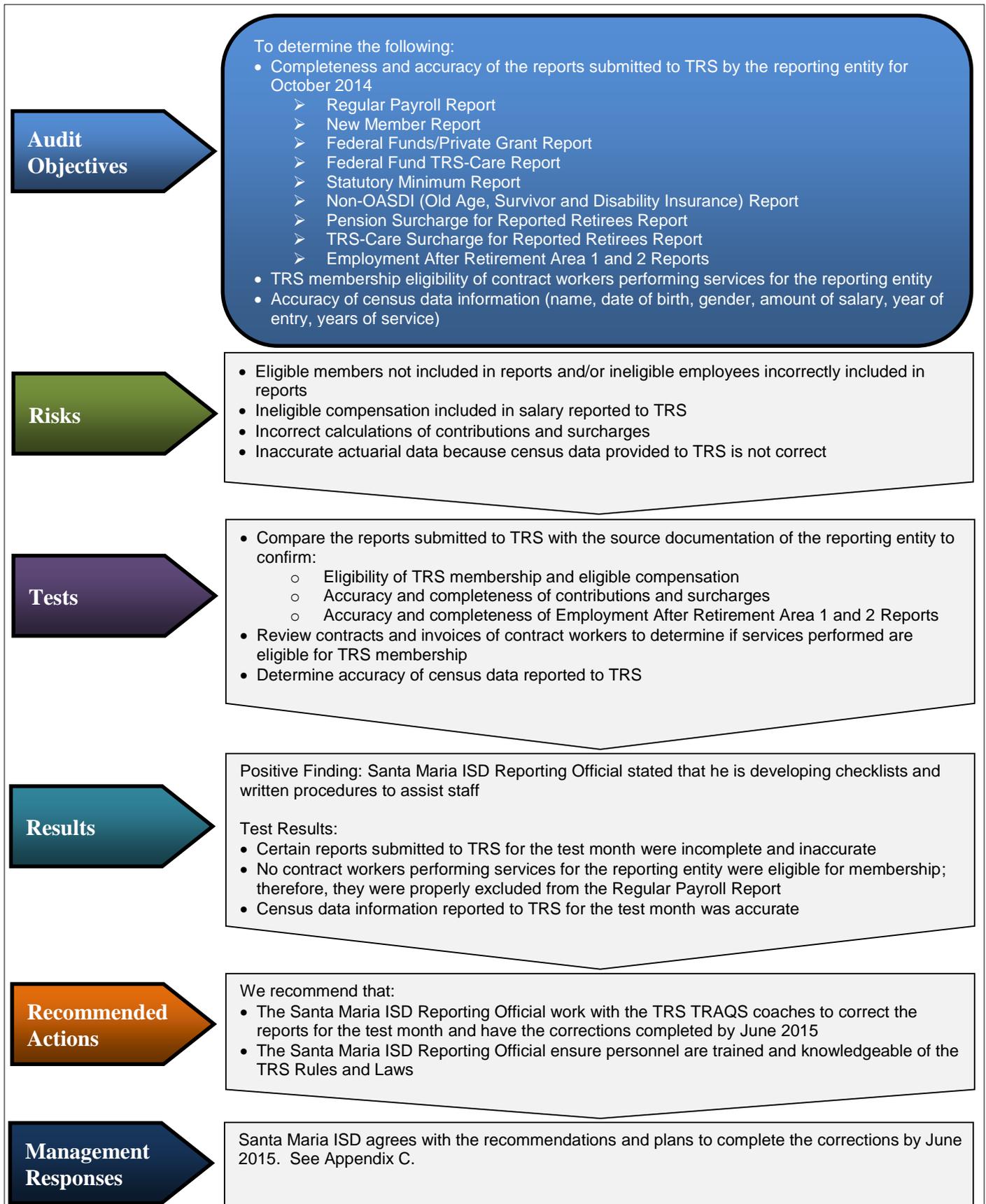


AUDIT OF SANTA MARIA INDEPENDENT SCHOOL DISTRICT

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 entities¹ 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 BACKGROUND²

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.

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

² 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	No	No
- Member Contributions to Pension Fund		
- Member Contributions to TRS-Care		
- Reporting Entity Contributions to TRS-Care		
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.

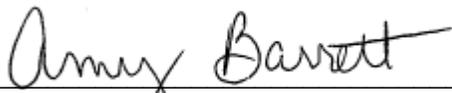
Going forward, the Santa Maria ISD Reporting Official should ensure that retirees have the appropriate break in service in order that they not be at risk of forfeiting annuities.

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 of 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)		
REGULAR PAYROLL REPORT					
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>REPORTING ENTITY PAYMENT FOR NEW MEMBER REPORT</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>FEDERAL FUNDS/PRIVATE GRANT REPORT</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>FEDERAL FUND TRS-CARE REPORT</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>STATUTORY MINIMUM REPORT</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"> • 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. • 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. • 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. • For one of the 30 sample items that should have been reported, the monthly salary is less than statutory 	\$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>REPORTING ENTITY PAYMENT FOR NON-OLD AGE, SURVIVOR AND DISABILITY INSURANCE (OASDI) MEMBERS REPORT</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>REPORTING ENTITY PENSION SURCHARGE FOR REPORTED RETIREES REPORT</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.					
REPORTING ENTITY TRS-CARE SURCHARGE FOR REPORTED RETIREES REPORT There were no exceptions.	\$1,160.00			\$1,160.00	0.00%
EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT 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.					
GRAND TOTAL DUE TO/(FROM TRS)	\$58,121.63	\$3,556.07	\$1,222.22	\$60,455.48	4.02%
ERROR RATE SUMMARY					
<ul style="list-style-type: none"> • Fourteen out of the 30 sample items reported to TRS contained errors (47% error rate). • One out of the three sample items not reported to TRS contained errors (33% error rate). • Four out of nine sample items from the funding source listing were reported incorrectly (44% error rate). • One out of the four retirees contained errors (25% error rate). 					

OTHER EXCEPTIONS NOTED

The October 2014 Regular Payroll Report was submitted late. These monthly reports are due by the 6th 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

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Telephone: 956-565-6308

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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.