



Teacher Retirement System of Texas – Internal Audit

Employer Testing

Agreed-Upon Procedures

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April 25, 2019



SCOPE OF TESTING

11

Test areas



Related to:

- Census Data
- Compensation
- Contributions
- Surcharges
- Eligibility

May 2018

Test month

4

Reporting Entity Partners



- Rio Grande City Consolidated ISD
- Midland ISD
- Region One Education Service Center
- Region 18 Education Service Center

EXCEPTIONS IDENTIFIED



Census Data
(n=80)



Creditable
compensation
(n=80)



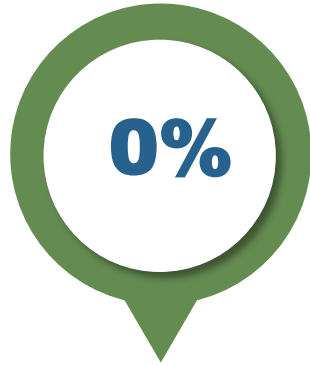
Contributions
(n=346)



\$689
over
(net)

EXCEPTIONS IDENTIFIED - continued

Eligibility for TRS Membership



Employees
reported as
eligible
(n=80)



Employees
reported as
ineligible
(n=40)



Employment After Retirement



Independent
Contractors
(n=37)



Surcharges
(n=56)



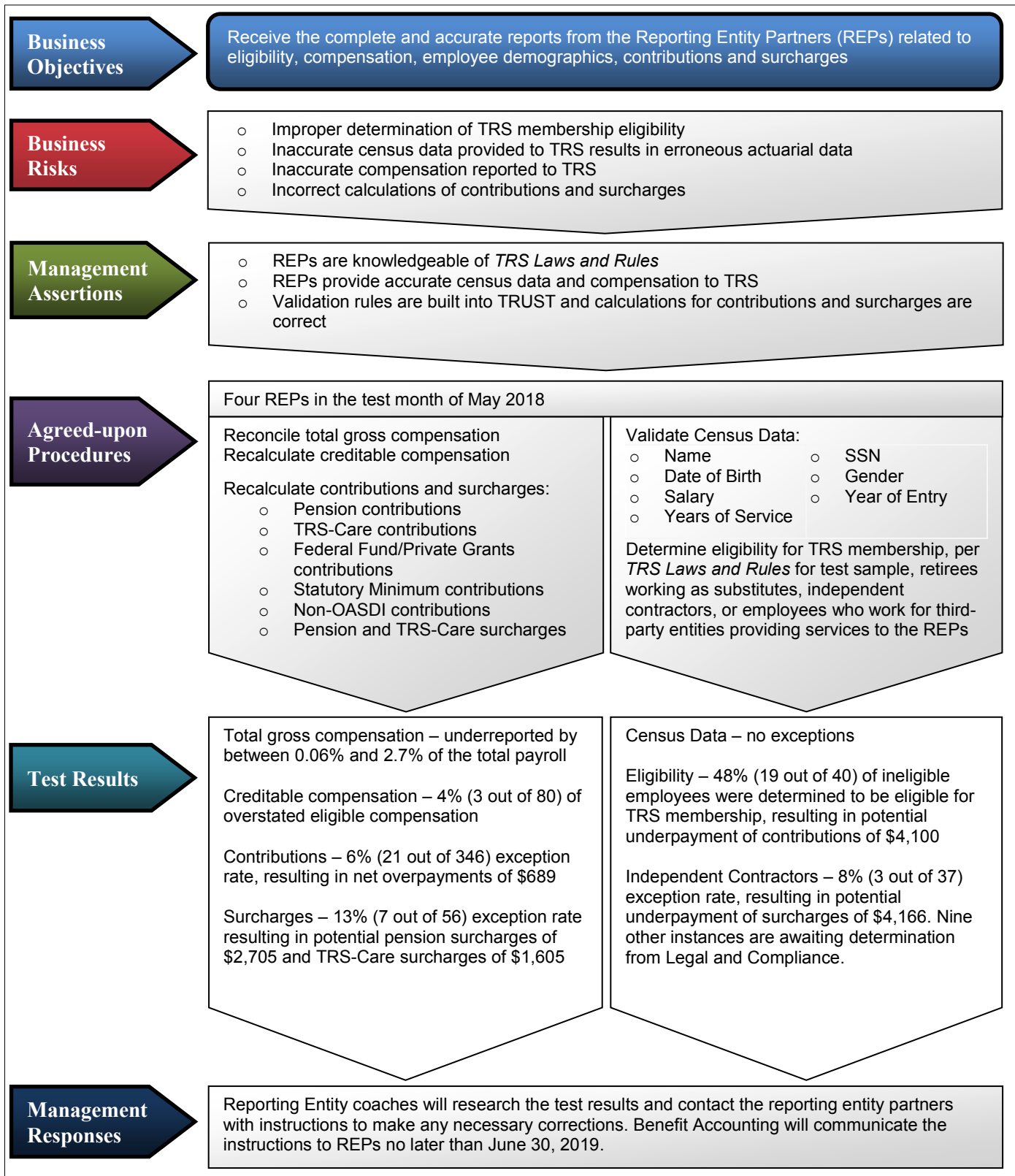
MANAGEMENT RESPONSE

Reporting Entity coaches will research the test results and contact the reporting entity partners with instructions to make any necessary corrections. Benefit Accounting will communicate the instructions to REPs no later than June 30, 2019.

EMPLOYER TESTING AGREED-UPON PROCEDURES

March 13, 2019

TRS Internal Audit Department



March 13, 2019

Barbie Pearson, Chief Benefit Officer

Subject: Independent Auditor's Report on Employer Testing Agreed-Upon Procedures

We have completed the second phase of the **Employer Testing** Agreed-Upon Procedures, as included in the *Fiscal Year 2019 Audit Plan*.

We performed the procedures agreed to by you. These procedures include testing of data submitted to TRS for the test month of May 2018 by four Reporting Entity Partners¹ (REPs): Rio Grande City Consolidated Independent School District, Midland Independent School District, Region One Education Service Center, and Region 18 Education Service Center. Tests performed related to the following areas:

1. Census Data
2. Compensation
3. Federal Funds/Private Grant contribution
4. Federal TRS-Care contribution
5. Statutory Minimum contribution
6. Non-OASDI² contribution
7. Pension and TRS-Care contributions
8. Substitutes
9. Pension and TRS-Care surcharges
10. Third-Party Entities and Independent Contractors
11. Eligibility for TRS membership

The detailed procedures and results are described 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 those parties specified in this 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.

¹ "Reporting Entity Partner" is the "Employer" for the purposes of this test

² The Old Age, Survivors, and Disability Insurance program (Social Security)

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. 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, except as protected by statute.

* * * * *

We express our appreciation to management and key personnel of Benefit Services and Legal and Compliance, as well as to the reporting officials and staff at Rio Grande City Consolidated Independent School District, Midland Independent School District, Region One Education Service Center, and Region 18 Education Service Center for their cooperation and professionalism shown to us during the testing.

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Chief Audit Executive

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Director of Benefit Audit Services

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Senior Benefit Audit Consultant

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Benefit Audit Consultant

APPENDIX A

AGREED-UPON PROCEDURES AND RESULTS

Note: Management response is presented at the end of the table.

TEST #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT
1	<i>Census data</i> - obtain evidence that census data for TRS eligible employees working at REPs is correct	Agree census data (name, social security number, date of birth, gender, date of hire, years of service, job classification) provided by the REPs	No exceptions
2	<i>Compensation</i> - obtain evidence that REPs are reporting the correct compensation amounts to TRS	Obtain REPs payroll registers and compare to what was reported as compensation (total) and creditable compensation (sampled) to TRS	Four percent (3 out of 80) of employees tested had overstated creditable compensation as a result of including ineligible allowances Total gross compensation was underreported to TRS by between 0.06% and 2.7% of the entire population for the four REPs tested
3	<i>Federal Funds/Private Grant contribution</i> – obtain evidence that REPs are reporting the correct amounts of compensation paid from federal funds and private grants to TRS-eligible employees	Identify employees paid with federal funds or private grant money. Recalculate the compensation and contributions.	No exceptions
4	<i>Federal TRS-Care contribution</i> – Obtain evidence that the amount of REP TRS-Care contributions (due from Federal funds or private grants) are properly calculated and paid	Calculate the amount of TRS-Care contribution due from Federal funds or private grants for TRS-eligible employees	No exceptions
5	<i>Statutory Minimum contribution</i> – obtain evidence that REPs are reporting the correct amount for the state contribution for employees subject to the statutory minimum	Identify employees subject to the statutory minimum and calculate the contribution based on the state formula	Twenty-three percent (6 out of 26) exception rate resulted in <i>net</i> overpayment of \$101

TEST #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT
6	<i>Non-OASDI contribution</i> – obtain evidence that REPs are reporting the correct amount for employees that do not contribute to Social Security	Identify employees subject to Non-OASDI and calculate the contribution	Eight percent (6 out of 80) exception rate resulted in <i>net</i> overpayment of \$82
7	<i>Pension and TRS-Care contributions</i> – obtain evidence that the amount of (1) member and employer contributions, (2) member TRS-Care contributions, and (3) REP TRS-Care contributions are properly calculated and paid	Calculate the amount of member pension, member TRS-Care, and REP TRS-Care contribution for each TRS eligible employee	Four percent (9 out of 240) of member pension, member TRS-Care, and REP TRS-Care contributions, totaling \$506, as a result of including ineligible allowances in creditable compensation.
8	<i>Substitutes</i> - obtain evidence that TRS retirees working as substitutes are reported correctly to TRS	Verify that TRS retirees, retired after September 1, 2005, reported as substitutes, worked in the place of an absent employee. If the position was vacant, verify that total days worked in the same vacant position do not exceed 20 days in the year.	Ten percent (2 out of 21) exception rate and three instances of inability to conclude
9	<i>Pension and TRS-Care surcharges</i> – obtain evidence that TRS retirees performing services for the REPs were correctly reported and if applicable pension and TRS-Care surcharges were remitted	Identify TRS retirees, retired after September 1, 2005, and working more than one-half time in the calendar month. Calculate the pension and TRS-Care surcharges due for the identified retirees.	Thirteen percent (7 out of 56) exception rate and six instances of inability to conclude. The exceptions resulted in potential pension surcharges of \$2,705 and TRS-Care surcharges of \$1,605.
10	<i>Third-Party Entities and Independent Contractors</i> – obtain evidence that TRS retirees employed by a third-party entity providing services to the REP or as independent contractors are reported correctly to TRS	Search REP check register for third-party entities. For independent contractors, match Social Security Numbers from REP 1099-MISC file to TRS retirement records.	Third-Party Entities – no exceptions Independent Contractors – eight percent (3 out of 37) exception rate, resulted in potential underpayments of pension surcharges of \$4,166. Nine additional contractors are pending determination from Legal and Compliance.

TEST #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT
11	<i>Eligibility for TRS membership</i> - obtain evidence that eligible employees are correctly reported to TRS, and employees not eligible for TRS membership are not reported	Obtain TRS eligibility evidence for a sample of (i) employees reported as eligible by the REPs and (ii) employees reported as ineligible by the REPs	(i) Employees reported as eligible: no exceptions (ii) Non-member employees reported as ineligible by the REPs: forty-eight percent (19 out of 40) exception rate resulted in potential underpayments of contributions of approximately \$4,100

Management response: Reporting Entity coaches will research the test results and contact the reporting entity partners with instructions to make any necessary corrections. Benefit Accounting will communicate the instructions to REPs no later than June 30, 2019.