

EMPLOYER AUDIT OF PENSION AND TRS-CARE SURCHARGES (30 INDEPENDENT SCHOOL DISTRICTS)

AUGUST 31, 2017

TRS Internal Audit Department

Audit Objective	<p>To determine the completeness and accuracy of the following reports submitted to the Teacher Retirement System (TRS) by employers¹ for September 2016:</p> <ul style="list-style-type: none">• Reporting Entity Pension Surcharge for Reported Retirees Report• Reporting Entity TRS-Care Surcharge for Reported Retirees Report• Employment of Retired Members Report (EAR)
Risks	<ul style="list-style-type: none">• Incorrectly reporting/not reporting retirees who have returned to work• Incorrect calculations and payment of surcharges owed
Conclusions and Results	<p>Pension and TRS-Care Surcharge Reporting</p> <p>For the test month September 2016, not all employer reports were complete and accurate. Combined errors for the 30 employers tested are as follows:</p> <ul style="list-style-type: none">• Pension surcharge – of the \$1,382.00 reported to TRS from all 30 employers, nine employers had errors and an additional \$8,626.70 is owed to TRS• TRS-Care surcharge – of the \$1,070.00 reported to TRS from all 30 employers, eight employers had errors and an additional \$8,560.00 is owed to TRS <p>Three of the 30 employers communicated that they do not track actual time worked for all retirees. Therefore, we could not conclude whether surcharges were due. For these employers, we calculated <i>questioned costs</i>² for pension and TRS-Care surcharges for six retirees for the test month. The additional questioned costs equal:</p> <ul style="list-style-type: none">• \$3,518.39 for pension surcharges• \$2,675.00 for TRS-Care surcharges <p>The combination of known surcharge error amounts plus questioned cost amounts equal:</p> <ul style="list-style-type: none">• \$12,145.09 for pension surcharges• \$11,235.00 for TRS-Care surcharges <p>Area 1 and 2 Reporting</p> <ul style="list-style-type: none">• 26 employers had Area 1 reporting errors• 25 employers had Area 2 reporting errors <p>We could not conclude on two contract workers as to whether or not they should be reported as employees in the EAR reports. Documentation was provided to TRS Legal Services for final determination.</p> <p>See details of adjustments to reports on page three and a list of the 30 employers on page four</p>
Recommended Actions	<p>We recommend that the Reporting Officials:</p> <ul style="list-style-type: none">• Work with TRS Benefit Reporting coaches to correct reports by the September 2017 report• Ensure personnel receive training as needed and are knowledgeable of <i>TRS Laws and Rules</i>• Maintain sufficient and accurate records of actual time worked for all retirees
Reporting Entity Responses	<p>All employers, as applicable, agreed with the recommendations.</p>

¹ Employer - defined in Texas Government Code, Title 8, Subtitle C, Chapter 821.001.

² Questioned costs - equal an estimate of the potential total cost that could be due resulting from errors in the population. Calculated by applying the sampled error rate to the population from which the sample was selected.

Background

- The *Annual Audit Plan* approved by the Teacher Retirement System of Texas (TRS) Board of Trustees includes audits of employers to confirm member accuracy of reports submitted to TRS for Employment After Retirement (EAR).
- Employers chosen for audit were selected based on criteria including no surcharges submitted to TRS during Fiscal Year 2016, complaints about the employer, negative news articles/reports from oversight agencies, TRS management requests, etc., and the population used to select employers for audit included all Texas public schools.
- 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.

Scope, Methodology, and Tests

Test month – September 2016

We selected 30 employers from the population of public schools that did not pay pension and TRS-Care surcharges for Fiscal Year 2016.

Testing criteria were the *TRS Laws and Rules*. We did not test the eligibility to receive an annuity of those retirees who returned to work. We did not test internal controls of the employer.

To test completeness and accuracy of reports submitted to TRS:

- Tested all EAR TRAQS Reports submitted to TRS to employer's detailed supporting documentation
- Obtained employer certification of retiree hours worked in a non-substitute position for the test month, and where applicable, performed additional testing of time sheet documentation of hours worked
- Reviewed contracts/invoices/work agreements of five vendors/independent contract workers paid in the test month
- Tested the type of work performed by staff if employed by a third-party entity

Questioned Costs – Because personnel and timekeeping records were not consistently available, we estimated surcharges potentially due based on documentation provided for three reporting entities tested. Test result error percentages were applied to the population from which the TRS retirees were selected to calculate total questioned costs.

The audit conclusions contained in this report are limited to and based solely on the results of the sample items tested for the test month. Users of this report should not use the information contained in this audit report for any purpose beyond the stated audit objectives and scope.

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We appreciate the cooperation, courtesy, and professionalism extended to us during this audit by each employer.

EMPLOYER AUDIT OF PENSION AND TRS-CARE SURCHARGES DETAILS OF ADJUSTMENTS TO REPORTS

EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT (Dollars not applicable)		TOTAL # RETIREEES REPORTED	UNDER STATED	OVER STATED	TOTAL # RETIREES THAT SHOULD HAVE BEEN REPORTED	# OF ERRORS	NUMBER % ERRORS
1	Errors in Area 1 Reports	384	73	17	440	90	23.44%
2	Errors in Area 2 Reports	428	80	35	473	115	26.87%
TOTAL		812	153	52	913	205	25.25%

PENSION SURCHARGE FOR RETIREES REPORT	GRAND TOTAL REPORTED	UNDER STATED	OVER STATED	REVISED TOTAL	TOTAL # RETIREEES TESTED	# OF ERRORS	NUMBER % ERRORS	DOLLAR % ERRORS
TOTAL	\$ 1,382.00	\$ 8,626.70	\$ -	\$ 10,008.70	660	21	3.18%	624.22%
TRS-CARE SURCHARGE FOR RETIREES REPORT	GRAND TOTAL REPORTED	UNDER STATED	OVER STATED	REVISED TOTAL	TOTAL # RETIREEES TESTED	# OF ERRORS	NUMBER % ERRORS	DOLLAR % ERRORS
TOTAL	\$ 1,070.00	\$ 8,560.00	\$ -	\$ 9,630.00	660	16	2.42%	800.00%
GRAND TOTAL DOLLAR ADJUSTMENTS FOR KNOWN ERRORS	GRAND TOTAL REPORTED	UNDER STATED	OVER STATED	REVISED TOTAL	TOTAL # RETIREEES TESTED	# OF ERRORS	NUMBER % ERRORS	DOLLAR % ERRORS
TOTAL	\$2,452.00	\$17,186.70	\$ -	\$19,638.70	1,320	37	2.80%	700.93%

	GRAND TOTAL REPORTED	UNDER STATED	OVER STATED	REVISED TOTAL	TOTAL # RETIREEES TESTED	# OF ERRORS	NUMBER % ERRORS	DOLLAR % ERRORS
QUESTIONED COSTS PENSION SURCHARGE	\$0.00	\$3,518.39	\$ -	\$3,518.39	6	6	100.00%	100.00%
QUESTIONED COSTS TRS-CARE SURCHARGE	\$0.00	\$2,675.00	\$ -	\$2,675.00	6	5	83.33%	100.00%

DOLLAR ADJUSTMENTS KNOWN ERRORS AND QUESTIONED COSTS	GRAND TOTAL REPORTED	UNDER STATED	OVER STATED	REVISED TOTAL	TOTAL # RETIREEES TESTED	# OF ERRORS	NUMBER % ERRORS	DOLLAR % ERRORS
PENSION SURCHARGE	\$ 1,382.00	\$ 12,145.09	\$ -	\$13,527.09	964	27	2.80%	878.81%
TRS-CARE SURCHARGE	\$ 1,070.00	\$ 11,235.00	\$ -	\$12,305.00	964	21	2.18%	1050.00%
GRAND TOTALS	\$ 2,452.00	\$ 23,380.09	\$ -	\$25,832.09	1,928	48	2.49%	953.51%

**Employer Audit of Pension and TRS-Care Surcharges
(30 Employers)**

Independent School District (ISD) Name and City

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|--|---|
| • Alamo Heights ISD, San Antonio | • Edgewood ISD, Edgewood |
| • Brenham ISD, Brenham | • Gregory-Portland ISD, Portland |
| • Burkburnett ISD, Burkburnett | • La Feria ISD, La Feria |
| • Burleson ISD, Burleson | • Lake Dallas ISD, Lake Dallas |
| • Canutillo ISD, Canutillo | • Lampasas ISD, Lampasas |
| • Canyon ISD, Canyon | • Los Fresnos Consolidated ISD, Los Fresnos |
| • Carroll ISD, Southlake | • Lufkin ISD, Lufkin |
| • Castleberry ISD, Fort Worth | • Marble Falls ISD, Marble Falls |
| • Clint ISD, El Paso | • Northwest ISD, Fort Worth |
| • Crosby ISD, Crosby | • Plano ISD, Plano |
| • DeSoto ISD, DeSoto | • Port Neches-Groves ISD, Port Neches |
| • Deer Park ISD, Deer Park | • Shallowwater ISD, Shallowwater |
| • Donna ISD, Donna | • South Texas ISD, Mercedes |
| • Dripping Springs ISD, Dripping Springs | • Willis ISD, Willis |
| • Dumas ISD, Dumas | • Windham School District, Huntsville |