

AUDIT OF DALLAS INDEPENDENT SCHOOL DISTRICT (DALLAS ISD)

AUGUST 31, 2017

TRS Internal Audit Department

Audit Objectives

To determine the following:

- Completeness, accuracy, and timeliness of Statutory Minimum, Non-OASDI¹, and Employment After Retirement (EAR) reports submitted to the Teacher Retirement System (TRS) by the employer² for the test months
- Accuracy of census data information (date of birth, gender, amount of salary, year of entry, years of service)

Risks

- Incorrect contributions and surcharges submitted to TRS
- Inaccurate pension liability due to inaccurate census data

Conclusions and Results

Initial Audit Scope Results:

- Statutory Minimum, Non-OASDI, and EAR reports were incomplete and inaccurate (see detail of adjustments to reports, page 5).
- Sampled census data information reported to TRS was accurate.
- Our initial assessment of the EAR surcharges and contributions for Statutory Minimum, and Non-OASDI for September 2016 found a total dollar error rate of 4.01%. For EAR, this error rate is based on self-reported information provided by Dallas ISD. During this assessment, we also learned that Dallas ISD policies do not require employees classified as professionals to track actual hours worked. Based on this information, we determined that current processes may not consistently support complete and accurate reporting; we expanded our scope to include October 2016 through March 2017 so that we could obtain adequate evidence to conclude on our audit objectives.

Expanded Scope Results:

- During our expanded scope testing, we confirmed that payroll, timekeeping, and personnel records did not consistently exist to support that:
 - TRS retiree actual hours worked are recorded.
 - TRS retirees working in substitute positions are performing work in a position that is not vacant, and that their reported position classification is correct.
 - All eligible earnings are included in pension surcharge calculations.
 - Independent contractors are reviewed to determine whether they are TRS retirees and whether they are employees for TRS reporting purposes.
 - Personnel provided by third-party entities are reviewed to determine whether they are TRS retirees and whether they are employees for TRS reporting purposes.
- Where documentation was available, our testing of sampled retiree monthly records found \$12,258³ in additional EAR surcharges due to TRS. As a result of missing documentation noted above, we estimated total surcharges may be understated by \$496,047⁴, or 43.81% of the \$1,132,377 total surcharges reported by Dallas ISD for the six-month period.

Positive Findings:

Dallas ISD officials were prompt in responding to audit requests and questions.

¹ OASDI - defined as old age, survivors, and disability insurance tax, which funds the Social Security Program.

² Employer - defined in Texas Government Code, Title 8, Subtitle C, Chapter 821.001.

³ All dollar amounts and numbers in this report are rounded to the nearest whole number.

⁴ 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. See calculation on page 6.

| | |
|---|---|
| <p>Recommended Actions</p> | <p>We recommend that Dallas ISD management:</p> <ul style="list-style-type: none"> • Work with TRS Benefit Reporting coaches to correct reports by a time period agreed to with TRS Benefits Reporting Team. • Ensure personnel receive training as needed and are knowledgeable of applicable <i>TRS Laws and Rules</i>. • Track hours worked for all TRS retirees working for Dallas ISD and ensure that the retirees are correctly reported, and that surcharges are correctly calculated and paid. • Ensure that time worked by TRS retirees in a substitute position is monitored, including documenting names of employees for which the substitutes worked. For substitutes working more than 20 days in the same vacant position during a school year, ensure that employees are correctly reported, and that related surcharges are correctly paid. • Ensure that pension surcharges are calculated based on total applicable eligible earnings. • Implement a process to identify independent contractors who are TRS retirees. For TRS retirees, track hours worked and ensure that the retirees are correctly reported, and that related surcharges are correctly paid. • Implement a process to identify personnel provided by third-party entities who are TRS retirees. For TRS retirees, track hours worked and ensure that the retirees are correctly reported, and that related surcharges are correctly paid. |
| <p>Reporting Entity Response</p> | <ul style="list-style-type: none"> • Dallas ISD will work with the Reporting coaches to make necessary corrections once we agree on the timing of them. • Dallas ISD has already notified retired rehires employees that effective September 1, 2017, they are required to use the biometric clock in and out to capture the actual hours worked. • Dallas ISD will make sure that the vacancies are clearly identified when retired substitutes are filling in, and will capture any retired substitute working more than 20 days in the same vacant position. • Dallas ISD will ensure that Independent Contractors, if they are TRS retirees, are identified in the contract and their hours are tracked for determining any surcharge liability. • Dallas ISD will implement process with Third-party entities to identify any TRS retiree. We will request the information from the vendor on the employee SSN, the hours worked and the amounts paid to determine surcharges liability. |
| <p>Background</p> | <ul style="list-style-type: none"> • The <i>Annual Audit Plan</i> approved by the TRS Board of Trustees includes audits of employers to confirm member eligibility and accuracy of contributions and fees. • Criteria are taken from applicable TRS laws and rules. TRS laws and rules state requirements for Statutory Minimum and Non-OASDI contributions for TRS participants; and state reporting and surcharge requirements for return-to-work TRS retirees. • The Governmental Accounting Standards Board (GASB) requires that employers' census data be audited. Additionally, the AICPA issued the <i>Audit and Accounting Guide for State and Local Governments</i> and we have included census data testing (date of birth, gender, salary, year of entry, and years of service) in the scope of this audit. • The State Auditor's Office is performing audits of employers' census data as part of the audit of the <i>TRS Comprehensive Annual Financial Report</i>. • Employers chosen for audit were selected based on criteria including frequency of adjustments and corrections to reports, complaints about the employer, warrant holds, TRS management requests, etc. The population of employers included all Texas public schools. • We conducted this audit in accordance with generally accepted government auditing standards contained in the <i>Government Auditing Standards</i> issued by the Comptroller General of the United States and the <i>International Standards for the Professional Practice of Internal Auditing</i> issued by the Institute of Internal Auditors, Inc. |

Initial Scope – September 2016

We tested census data and the Statutory Minimum, Non-OASDI, and Employment After Retirement reports submitted to TRS.

- To test completeness, accuracy, and timeliness of reports submitted to TRS:
 - Tested 30 of the population of members reported to TRS, as this gives us a 90% confidence of reflecting the entire population and results can be projected to the test month.
 - Tested all TRAQS Reports submitted to TRS for timely submission and confirmed totals reported by tracing to the 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.
- To test accuracy of census data information:
 - Assessed supporting documentation for each sample item to confirm date of birth, hire date and years of service, eligible compensation, gender, and dates of termination or retirement.

We did not test:

- Whether salary amounts reported to TRS in the Regular Payroll report were complete, accurate, and authorized.
- New Member or Federal Fund/Private Grant reports.
- Whether TRS retirees that returned to work were subject to forfeiture of their monthly annuity payment(s).
- Internal controls of the employer.

Expanded Scope – October 2016 through March 2017

To test accuracy of EAR reports and surcharges submitted to TRS:

- **TRS Retiree Substitutes and Employees** - Requested substitute and employee timekeeping records and surcharge calculations for retirees working at the reporting entity.
 - Substitute Employees: Traced to personnel and timekeeping records to determine whether retirees substituted in the same vacant position for more than 20 days since September 1, 2016, which would cause the retirees to be classified as full or one-half time.
 - Employees (Non-Substitute): We tested a sample of individual monthly earnings for full-time or one-half time or less TRS retirees. We traced selected retiree monthly earnings to timekeeping records to determine whether retirees worked more than one-half time during the test months.
- **Pension and TRS-Care Surcharges** – For certain TRS retirees identified as working more than one-half time during test months, calculated Pension and TRS-Care surcharges due.
- **TRS Retiree Independent Contractors and Third-Party Entities** - Obtained list of independent contractors and list of personnel provided by third-party entities that performed work for or provided services to Dallas ISD. Traced lists to TRS records to identify TRS retirees. Obtained support for work performed by TRS retirees, and assessed employment status for TRS reporting purposes. For those TRS retirees that were working for or providing services to Dallas ISD as independent contractors, or those TRS retirees that were working as personnel provided by third-party entities that should have been identified as employees for TRS reporting purposes; we calculated surcharges due and surcharges that may be due.

Scope,
Methodology,
and Tests,
(Continued)

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

All test results are based on documentation provided by Dallas ISD by the week ending August 18, 2017. During that week, Dallas ISD provided an updated September 2016 Employment After Retirement (EAR) Area 1 retiree list that included an additional 33 TRS retirees not previously reported to TRS. The audit team did not review these additional 33 TRS retirees for possible surcharges due but did include these retirees in the initial scope results as improperly excluded from the Area 1 report.

The audit conclusions contained in this report are limited to and based solely on the results of the sample items tested for the test months. 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 Dallas ISD management and staff for their cooperation, courtesy, and professionalism extended to us during this audit.

**DALLAS ISD INITIAL AUDIT SCOPE
DETAIL OF ADJUSTMENTS TO REPORTS FOR SEPTEMBER 2016**

I. TEST OF EMPLOYER AND EMPLOYEE CONTRIBUTIONS - SAMPLE SIZE = 30 EMPLOYEES

| STATUTORY MINIMUM REPORT | | | | | | | | |
|--------------------------|-------------------------|------------------------|-----------------------------|--------------|-------------|--|----------------|----------------|
| # OF ERRORS | DESCRIPTION | CONTRIBUTIONS REPORTED | CONTRIBUTIONS FOR 30 TESTED | UNDER STATED | OVER STATED | CONTRIBUTIONS DUE FOR EMPLOYEES TESTED | NUMBER % ERROR | DOLLAR % ERROR |
| 2 | Overpaid contributions | | | | \$127 | | | |
| 2 | | \$1,400,000 | \$1,736 | \$0 | \$127 | \$1,609 | 6.67% | 7.33% |
| NON-OASDI REPORT | | | | | | | | |
| # OF ERRORS | DESCRIPTION | CONTRIBUTIONS REPORTED | CONTRIBUTIONS FOR 30 TESTED | UNDER STATED | OVER STATED | CONTRIBUTIONS DUE FOR EMPLOYEES TESTED | NUMBER % ERROR | DOLLAR % ERROR |
| 4 | Underpaid contributions | | | \$109 | | | | |
| 4 | | \$262,590 | \$1,392 | \$109 | \$0 | \$1,501 | 13.33% | 7.86% |

II. TEST OF EMPLOYMENT AFTER RETIREMENT - ALL RETIREES WORKED AND/OR PAID IN MONTH - SAMPLE SIZE = 915

| EMPLOYMENT AFTER RETIREMENT AREA 1 AND 2 REPORT | | | | | | |
|---|---------------|----------------|--------------|-------------|--------------------------|----------------|
| # OF ERRORS | DESCRIPTION | TOTAL REPORTED | UNDER STATED | OVER STATED | TOTAL SHOULD BE REPORTED | NUMBER % ERROR |
| 240 | AREA 1 REPORT | 85 | 238 | 2 | 321 | 282.35% |
| 142 | AREA 2 REPORT | 600 | 7 | 135 | 472 | 23.67% |

III. TEST OF SURCHARGES - ALL RETIREES WORKED AND/OR PAID IN MONTH THAT RETIRED AFTER 9/1/2005 - SAMPLE SIZE = 516

| PENSION SURCHARGE FOR RETIREES REPORT | | | | | | | | |
|--|---------------------|---------------------------|-------------------|--------------|-------------|------------------------------------|----------------|----------------|
| # OF ERRORS | DESCRIPTION | TOTAL SURCHARGES REPORTED | SURCHARGES TESTED | UNDER STATED | OVER STATED | SURCHARGES DUE FOR RETIREES TESTED | NUMBER % ERROR | DOLLAR % ERROR |
| 12 | PENSION SURCHARGES | \$118,175 | \$118,175 | \$3,072 | \$1,576 | \$119,670 | 2.33% | 3.93% |
| TRS-CARE SURCHARGE FOR RETIREES REPORT | | | | | | | | |
| # OF ERRORS | DESCRIPTION | TOTAL SURCHARGES REPORTED | SURCHARGES TESTED | UNDER STATED | OVER STATED | SURCHARGES DUE FOR RETIREES TESTED | NUMBER % ERROR | DOLLAR % ERROR |
| 5 | TRS-CARE SURCHARGES | \$67,410 | \$67,410 | \$2,675 | \$0 | \$70,085 | 0.97% | 3.97% |

| TOTALS | | | | TOTAL DOLLARS TESTED | UNDER STATED | OVER STATED | CORRECT TOTAL DOLLARS TESTED | DOLLAR % ERROR |
|--------|--------------------|--|--|----------------------|--------------|---------------------|------------------------------|----------------|
| | DOLLAR ADJUSTMENTS | | | \$188,713 | \$5,856 | \$1,703 | \$192,865 | 4.01% |
| | | | | TOTAL NUMBER TESTED | | TOTAL NUMBER ERRORS | | NUMBER % ERROR |
| | REPORT ADJUSTMENTS | | | 2,922 | | 405 | | 13.86% |

**DALLAS ISD EXPANDED AUDIT SCOPE SUMMARY RESULTS
OCTOBER 2016 TO MARCH 2017**

| SUMMARY OF FIVE TESTS PRESENTED BELOW | | | | | | | | | |
|---------------------------------------|---------|-------------------------------|--|---------------------------|--|---|-----------|-----|-----------|
| | | Test Results | | | | Questioned Costs ⁷ (Sum of Results Below) | | | |
| | | Potential Errors ⁵ | | Known Errors ⁶ | | | | | |
| | Sampled | Count | | Count | | Amount | | | |
| Pension Surcharges | 239 | 29 | | 6 | | \$2,093 | | 189 | \$248,877 |
| TRS-Care Surcharges | 53 | 20 | | 6 | | \$10,165 | | 137 | \$247,170 |
| Total | | | | | | \$12,258 | \$496,047 | | |

I. TEST FULL/HALF TIME EMPLOYEES EARNING ≥\$2,000 PER MONTH; POPULATION: 133 RETIREES INCLUDING 100 TRS-CARE PARTICIPANTS

| TRS RETIREE FULL AND ONE-HALF TIME EMPLOYEES | | | | | | | | | |
|--|---------|------------------|----------------|--------------|----------------|---------|--|-------|-----------|
| | | Test Results | | | | | Questioned Costs (Total Error %) x Population | | |
| | | Potential Errors | | Known Errors | | | | | |
| | Sampled | Count | Percent (a) | Count | Percent (b) | Amount | Total Percent (a+b) | Count | Amount |
| Pension Surcharges | 20 | 12 | 60.0% | 4 | 20.0% | \$1,807 | 80.0% | 106 | \$185,228 |
| TRS-Care Surcharges | 16 | 11 | 68.8% | 3 | 18.8% | \$1,605 | 87.5% | 88 | \$181,900 |
| Total | | | | | | \$3,412 | \$367,128 | | |

II. TEST SUBSTITUTE EMPLOYEES EARNING ≥\$2,000 PER MONTH; POPULATION: 114 RETIREES INCLUDING 92 TRS-CARE PARTICIPANTS

| TRS RETIREE SUBSTITUTE EMPLOYEES ⁸ | | | | | | | | | |
|---|---------|------------------|----------------|--------------|----------------|--------|--|-------|----------|
| | | Test Results | | | | | Questioned Costs (Total Error %) x Population | | |
| | | Potential Errors | | Known Errors | | | | | |
| | Sampled | Count | Percent (a) | Count | Percent (b) | Amount | Total Percent (a+b) | Count | Amount |
| Pension Surcharges | 23 | 12 | 52.2% | 0 | 0.0% | \$0 | 52.2% | 60 | \$58,454 |
| TRS-Care Surcharges | 19 | 9 | 47.4% | 0 | 0.0% | \$0 | 47.4% | 44 | \$48,150 |
| Total | | | | | | \$0 | \$106,604 | | |

III. TESTING OF TRS RETIREE PENSION SURCHARGE CALCULATIONS FOR OCTOBER 2016; POPULATION: 171 RETIREES

| TRS RETIREE PENSION SURCHARGE CALCULATIONS | | | | | | | | | |
|--|---------|------------------|----------------|--------------|----------------|--------|--|-------|---------|
| | | Test Results | | | | | Questioned Costs (Total Error %) x Population | | |
| | | Potential Errors | | Known Errors | | | | | |
| | Sampled | Count | Percent (a) | Count | Percent (b) | Amount | Total Percent (a+b) | Count | Amount |
| Pension Surcharges | 171 | 0 | 0.0% | 2 | 1.2% | \$286 | 1.2% | 12 | \$1,715 |
| Total | | | | | | \$286 | \$1,715 | | |

IV. TEST INDEPENDENT CONTRACTORS; POPULATION: 19 TRS RETIREES INCLUDING 15 TRS-CARE PARTICIPANTS

| TRS RETIREE INDEPENDENT CONTRACTORS ⁹ | | | | | | | | | |
|--|---------|------------------|----------------|--------------|----------------|--------|--|-------|--------|
| | | Test Results | | | | | Questioned Costs (Total Error %) x Population | | |
| | | Potential Errors | | Known Errors | | | | | |
| | Sampled | Count | Percent (a) | Count | Percent (b) | Amount | Total Percent (a+b) | Count | Amount |
| Pension Surcharges | 19 | 0 | 0.0% | 0 | 0.0% | \$0 | 0.0% | 0 | \$0 |
| TRS-Care Surcharges | 15 | 0 | 0.0% | 0 | 0.0% | \$0 | 0.0% | 0 | \$0 |
| Total | | | | | | \$0 | | | \$0 |

V. TEST PERSONNEL PROVIDED BY THIRD-PARTY ENTITIES; POPULATION ESTIMATE: 12 TRS RETIREES INCLUDING 6 TRS-CARE PARTICIPANTS

| TRS RETIREE THIRD-PARTY ENTITY PERSONNEL ¹⁰ | | | | | | | | | |
|--|---------|------------------|----------------|--------------|----------------|---------|--|-------|----------|
| | | Test Results | | | | | Questioned Costs (Total Error %) x Population | | |
| | | Potential Errors | | Known Errors | | | | | |
| | Sampled | Count | Percent (a) | Count | Percent (b) | Amount | Total Percent (a+b) | Count | Amount |
| Pension Surcharges | 6 | 5 | 83.3% | 0 | 0.0% | \$0 | 83.3% | 10 | \$3,480 |
| TRS-Care Surcharges | 3 | 0 | 0.0% | 3 | 100.0% | \$8,560 | 100.0% | 6 | \$17,120 |
| Total | | | | | | \$8,560 | \$20,600 | | |

⁵Potential Error - Error resulting from documentation being incomplete.

⁶Known Error - Error results from complete documentation for sampled retirees.

⁷Questioned Costs - Equal an estimate of total errors and is calculated by multiplying the sum of the potential and known error percentages from sampled retirees by the estimated population of retirees.

⁸For tested TRS retirees that worked as a substitute for more than 20 days in a position for which no individual was identified, calculated questioned costs are based on all tested months that the TRS retiree earned more than \$2,000.

⁹Two independent contractors tested were TRS retirees and were determined to be employees for TRS reporting purposes. They were not reported to TRS.

¹⁰Six personnel provided by third-party entities were TRS retirees and were determined to be performing work that is otherwise performed by employees of the school district. They were not reported to TRS.