

Teacher Retirement System of Texas



Employer Audit Program for Higher Education Institutions

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Agenda

- Why Conduct This Audit?
- Requirements, Common Errors, Testing Procedures
 - Eligibility
 - Optional Retirement Program (ORP)
 - Census Data
 - Compensation
 - Contributions
 - Employment After Retirement
- Additional Resources
- Questions

Employer Audit Manual

Teacher Retirement System of Texas

Employer Audit Program for Independent School Districts, Open-Enrollment Charter Schools, Institutions of Higher Education, and Education Service Centers

January 2018



Why Conduct This Audit?

Maintain Sound Pension Fund – Fiscal Year 2017 *(Rounded Dollars in Billions)*

- Member Contributions **\$3.2**
- Non-Employer Contributing Entity Contributions **\$1.7**
- Participating Employers Contributions **\$1.6**

Prepare for Audits

- Financial auditors will validate controls over financial and census information
- Texas State Auditor's Office conducts census data testing each year and your institution may be selected
- TRS may audit information and contributions submitted
- Employers that perform and report a self-assessment to TRS Internal Audit may reduce the probability of being selected for testing by TRS

Identify and Correct Errors

- Employees in both TRS and ORP
- Incorrect surcharge amounts for return to work TRS retirees



Requirements, Errors, and Procedures



Key Audit Activities

Objectives and Methodology

- Completeness and accuracy of reports and contributions submitted
- Accuracy of census data elements
- May be an Audit, Agreed Upon Procedures, or other compliance testing

Scope

- Consider resources when determining the number of months and employees to test
- Eligibility
- Optional Retirement Program (ORP) Election
- Census Data
- Creditable Compensation
- Contributions (Federal Funds, New Member, Educational/Non-Educational)
- Employment After Retirement

Eligibility Testing

Requirements

TRS membership eligibility requirements include:

- At-will employment or employment for a period of 4½ months or more
- One-half time or more
- Comparable salary to similar positions

Common Errors

- Excluding eligible / including ineligible employees

Test Procedures

- Identify discrepancies between the institution's Policies and Procedures and *TRS Laws and Rules*
- Determine if independent contractors are TRS eligible
- Obtain evidence for the tested employees, including: employment contracts, work agreements, time reports, and job descriptions



Optional Retirement Program (ORP) Testing

Requirements

ORP election must be made before the 91st day after becoming eligible. TRS law provides a defined time period that a person may elect ORP when the employer does not notify the person on the first day of eligibility for ORP. Employee must submit completed *TRS 28 - Election To Participate In Optional Retirement Program and/or Refund* form to the employer's Human Resources Office by the end of the ORP Election Period.

Common Errors

- Not limiting ORP participation to only eligible employees
- Not timely forwarding signed ORP election form to TRS



Test Procedures

- Use the *View Employee Information* link in the TRS RE Portal to verify that ORP participants are not active TRS members
- Obtain evidence of the employee's election of ORP, noting the date. Note if the employee transferred ORP from another institution

Census Data Testing

Requirements

Employee census data must be accurately reported to TRS. This information is used by the TRS actuary to calculate the total pension liability and the portion of the liability that is allocated to each reporting entity for financial reporting purposes.

Census data includes (but is not limited to):

- Date of birth
- Eligible compensation
- Years of service
- Gender

Common Errors

- Including ineligible compensation
- Not reporting eligible compensation

Test Procedures

- Compare reported census data to employee records and identify discrepancies



Compensation Testing

Requirements

Eligible compensation must meet the following four requirements:

- Payment is for services rendered
- Payment is earned or accrued proportionally as work is performed
- Payment is paid at fixed intervals
- Payment is not specifically excluded under *TRS Laws and Rules*

Common Errors

- Including ineligible compensation such as allowances for cars, housing, and phones

Test Procedures

- Obtain detail support for compensation
- Determine if the salary reported to TRS includes only eligible compensation



New Member Testing

Requirements

Pay the State contribution for new TRS members on any TRS-eligible pay received during the report periods that contain the first 90 days of employment.

Common Errors

- Contributions are not paid on employees who are new TRS members
- Contributions are paid on employees that are new to the employer but are not new TRS members

Testing Procedures

- Determine if new employees in TRS-eligible positions are new TRS members by using the “*View Employee Information*” screen in the Reporting Entity Portal



Federal Funds / Private Grants Testing

Requirements

Report salary paid from federal funds and private grants and reimburse the State for the State contribution due on the portion of the salary paid from these funds.

Common Errors

- Paying federal fund contributions on new members
- Paying employer contribution on entire salary (not the portion of the salary paid with federal funds)

Testing Procedures

- Obtain detail support for the source of funds for compensation (including compensation paid with federal funds)
- Recalculate federal funds and private grant contributions
- Identify any discrepancies between calculated contributions and reported contributions



Educational / General – Local Funds

Requirements

Report on a monthly basis the total amount of salary paid from educational and general-local funds (EGF) by senior universities, junior and community colleges, medical schools, and dental schools. EGF includes net tuition, special course fees, lab fees, student teaching fees, hospital and clinic fees, organized activity fees, proceeds from the sale of educational and general equipment, and indirect cost recovery fees.

Common Errors

- Including salary paid with non-educational funds
- Improperly including new members

Testing Procedures

- Obtain detail support for the source of funds for compensation
- Recalculate EGF contribution
- Identify any discrepancies between calculated contributions and reported contributions



Non-Educational / General - Local Funds

Requirements

Report on a monthly basis the total amount of salary paid from non-educational and general-local funds (NGF) by senior universities, junior and community colleges, medical schools, and dental schools. NGF includes funds not appropriated in the Texas General Appropriations Act or dedicated by the Constitution of the State of Texas.

Common Errors

- Including salary paid with educational funds
- Improperly including new members

Testing Procedures

- Obtain detail support for the source of funds for compensation
- Recalculate NGF contribution
- Identify any discrepancies between calculated contributions and reported contributions



Employment After Retirement (ER)

Requirements

Report all TRS retired members returning to work and ensure that all applicable surcharges are paid.

Common Errors

- Not tracking actual hours worked and misclassifying retired employees as independent contractors
- Not reporting TRS retirees leased from third-party entities

Testing Procedures

- Determine if ER report is complete by testing whether independent contractors and employees provided by third-party entities are TRS retirees
- Obtain timesheets and determine if time worked was correctly reported and that surcharges were accurately paid
- Note discrepancies between test results and reported amounts



Resources . . . *We Want to Make it Easy!*



Employer Self-Audit Tools

***Audit Manual for ISDs, Colleges and Universities* provides:**


- An explanation of responsibilities and requirements
- List of records and information needed
- Step-by-Step Self-Audit Instructions

This resource covers such topics as:

- Eligibility and Creditable Compensation
- Contributions (Federal Funds, New Member, Education/Non-Educational Funds, ORP)
- Third-Party Entities & Independent Contractors
- Employment After Retirement



Employer Audit Web Page

**TRS** TEACHER RETIREMENT SYSTEM OF TEXAS

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SEARCH...

Home About TRS Active Members Retirees and Beneficiaries Reporting Entities Investments Pension Benefits Health Care Benefits

REPORTING ENTITIES - HOME
GENERAL INFORMATION
Contribution Rates
Employment Eligible for TRS Membership
Creditable Compensation
IRS Salary Cap Provision
Limits on Transfers and Refunds
Reporting Requirements for SSA-1945
Important ORP Information
TEXNET
TRAQS RESOURCES
Adding a New Contact & Deleting a Contact
Electronic File Formats
Reports to be Submitted
Payroll Manual - Higher Education
Payroll Manual - Public Schools
Payroll Manual - Charter Schools and ESC Regions

RE PORTAL RESOURCES
TEAM Program Communications
Certification and Training Resources
Report Certification Portal (Log in)
GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)
GASB Statement 24
GASB Statement 45
GASB Statement 67 and 68
EMPLOYER AUDITS
403(B)
403(b) Certification and Product Reg
403(b) for Active Members

FAQS
FORMS
PUBLICATIONS

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Home About TRS Active Members Retirees and Beneficiaries Reporting Entities Investments Pension Benefits Health Care Benefits

Employer Audits

As a result of two Governmental Accounting Standards Board (GASB) standards, TRS Internal Audit staff this year began employer audits of selected reporting entities.






The American Institute of Certified Public Accountants (AICPA) has issued guidance related to the implementation of the new standards, **GASB 67** and **GASB 68**. This guidance emphasizes the consideration of plan controls over active member census data being provided by TRS reporting entities, specifically focused on the accuracy and completeness of the data. Auditing census data is the responsibility of both TRS auditors and reporting entity (employer) auditors.

As stated in the **October 2014 TRS Update (pdf)**, TRS Internal Audit staff is now testing employer census data and controls pertaining to census data reporting process for active members. TRS is reviewing the following elements of the data: gender; dates of birth; dates of hire or years of service; eligible compensation; and termination or retirement dates. TRS auditors are also testing eligibility and compensation for accuracy, completeness, and compliance with TRS Laws & Rules. If you are selected for an employer audit, you will be contacted by TRS Internal Audit staff.

As outlined in the **June 2014 TRS Update (pdf)**, the Texas State Auditor's Office (SAO) has also been conducting site visits to ensure employee payroll and demographic data submitted to TRS is accurate. TRS appreciates your cooperation during this process to ensure requested records are expeditiously collected and provided to SAO auditors.

Audit Resources and Guidance

To learn more about the upcoming employer audits, related resources, and the services Internal Audit provides, and how we can assist you, please click on the links below.

-  Presentations and Guidance
-  Self-Audit Tools
-  Employer Review Program for ISDs and Charter Schools (pdf)
-  Final TRS Audit Reports
-  Email
Employer Audit Program
Send your comments regarding the Employer Audit Program to Employer Audits.


SAO Activities


The Texas State Auditor's Office (SAO) is the independent auditor for Texas state government. Types of audits the SAO performs include financial statement opinion audits, financial audits, compliance audits, economy and efficiency audits, effectiveness audits, and other special audits. Investigations are performed whenever there is evidence of fraud or abuse of state resources.

As outlined in **TRS Update - June 2014 Vol. 33, No. 3 (pdf)**, the SAO is also conducting site visits to ensure employee payroll and demographic data submitted to TRS is accurate.

Internal Audit Services

TRS Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We perform our audits based on an annual risk-based audit plan, as well as at the request of the TRS Board of Trustees and TRS management.

 **Frequently Asked Questions**
Employer Audits
[View Employer Audits FAQs.](#)



Employer Audit Web Page

Presentations & Guidelines

- TACUA
- TASBO
- AICPA Whitepapers
- FAQs



Tools

- Audit Programs
- Audit Manual for ISDs, Colleges and Universities *(Coming Soon!)*

Reports

- Audit Reports
- Common Findings

State Auditor Activity

- Communication

Questions

You can contact us at: employeraudits@trs.texas.gov

