



A Report on

The Audit of the Teacher Retirement System's Fiscal Year 2019 Financial Statements

December 9, 2019

Members of the Legislative Audit Committee:

In our audit report dated November 20, 2019, we concluded that the Teacher Retirement System's (the System) basic financial statements for fiscal year 2019 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The System published our audit report as part of its basic financial statements, which it has posted on its Web site at https://www.trs.texas.gov/TRS%20Documents/cafr_2019.pdf.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from management, is presented in the attachment to this letter). In that report, auditors determined that the System should strengthen controls over active employee census data submitted through the Teacher Retirement Unified System for Technology (TRUST) to help ensure that the data is complete and accurate.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting or on compliance with laws and regulations.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the System's management.

As required by auditing standards, we will also communicate to the System's Board of Trustees certain matters related to the conduct of a financial statement audit.

We appreciate the System's cooperation during this audit. If you have any questions, please contact Hillary Eckford, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

Attachment

SAO Report No. 20-011

cc: The Honorable Greg Abbott, Governor
Members of the Teacher Retirement System Board of Trustees
Mr. Jarvis V. Hollingsworth, Chairman
Mr. Michael Ball
Mr. David Corpus
Mr. John Elliott
Dr. Greg Gibson
Mr. Christopher Moss
Mr. James D. Nance
Ms. Nanette Sissney
Mr. Robert Hamilton Walls Jr.
Mr. Brian Guthrie, Executive Director, Teacher Retirement System



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Attachment

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters as Required by Auditing Standards



Lisa R. Collier,
CPA, CFE, CIDA,
First Assistant State Auditor

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Teacher Retirement System Board of Trustees

Mr. Jarvis V. Hollingsworth, Chairman
Mr. Michael Ball
Mr. David Corpus
Mr. John Elliott
Dr. Greg Gibson
Mr. Christopher Moss
Mr. James D. Nance
Ms. Nanette Sissney
Mr. Robert Hamilton Walls Jr.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major enterprise fund and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund, of the Teacher Retirement System (System), a component unit of the State of Texas as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated November 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a

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material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Summary of Findings and Responses
Finding Number
2019-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the System's management.

System's Response to Findings

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

November 20, 2019

Schedule of Findings and Responses

The System Should Strengthen Controls to Help Ensure the Completeness and Accuracy of the Active Employee Census Data That Employers Submit Through TRUST

Reference No. 2019-1

Type of finding: Significant Deficiency

The Teacher Retirement System (System) should strengthen controls over active employee census data submitted through the Teacher Retirement Unified System for Technology (TRUST) to help ensure that data is complete

and accurate (see text box for additional information about the census data). More than 1,300 school districts, colleges, and universities submit data regarding the active members who participate in the System's pension plan. The completeness and accuracy of the active employees' census data is important because the System uses that data to calculate (1) member pension benefits and (2) the pension and Other Post-employment Benefits (OPEB) liability amounts that the System presents in its financial statements.

During the audits of the System's financial statements for fiscal years 2014, 2015, 2016, 2017 and 2018,¹ auditors reported findings related to the System's controls over the completeness and accuracy of active employee census data. Since the initial finding in 2014, the System has begun performing audits on a limited basis of the employer census data information submitted. In addition, for fiscal year 2018, the System implemented TRUST, a new employer census data reporting system. TRUST was designed to (1) collect the entire payroll data from participating employers and (2) allow the System to perform a comprehensive review of the employer data submitted to the System. However, the System's controls over TRUST do not adequately ensure the completeness and accuracy of active employee census data.

Active Employee Census Data

Active employee census data is key demographic data that affects the actuarial estimate of the pension liability amount that the System presents in its financial statements.

Key data elements include:

- Name.
- Gender.
- Date of birth.
- Pensionable earnings.
- Service credits.

Source: Chapter 13 in *State and Local Governments - Audit and Accounting Guide*, American Institute of Certified Public Accountants.

¹ See *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2014 Financial Statements* (State Auditor's Office Report No. 15-010, November 2014); *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2015 Financial Statements* (State Auditor's Office Report No. 16-009, December 2015); *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2016 Financial Statements* (State Auditor's Office Report No. 17-015, November 2016); *A Report on the Audit of Teacher Retirement System's Fiscal Year 2017 Financial Statements* (State Auditor's Office Report No. 18-005, November 2017), and *A Report on the Audit of Teacher Retirement System's Fiscal Year 2018 Financial Statements* (State Auditor's Office Report No. 19-015, December 2018).

In fiscal year 2019, the System made some improvements related to TRUST access controls to ensure that only necessary personnel have the ability to edit the data. The System began development of a new process related to review of the data submitted by the reporting employers, and that process has not been fully developed and deployed. Specifically, TRUST still allows reporting employers to delete records after submission to the System. This presents a risk to completeness of the census data, as reporting employers could delete valid submissions to meet filing requirements instead of correcting the records. The System should strengthen its process to ensure that the employers review and correct data elements that TRUST identifies as potential errors.

The lack of sufficient controls over the active employee census data in TRUST represent a significant deficiency in internal control over financial reporting, as noted in guidance issued by the American Institute of Certified Public Accountants.²

Recommendation

The System should strengthen controls over active employee census data in the TRUST system.

Management's Response

TRUST is a complete pension line of business solution. The system has many components related to benefit calculations and employer payroll reporting system for TRS, which includes a full payroll component regardless of membership eligibility. TRS implemented TRUST Phase 1 in FY 2018. The employer reporting component is in the second year of implementation and improvements continue to be made. Management agrees with the control deficiencies outlined above. In addition to expected difficulties implementing large systems responsible for integrating highly complex data relationships, TRS must contend with the responsibility shift introduced under GASB 67/68. TRS will take action to correct the noted deficiencies as follows:

TRS will implement additional review processes to identify likely reporting employer errors and take further steps to contend with the additional requirements imposed by GASB 67/68. This process will be implemented in phases as we manage maintenance and

² See Chapter 13 in *State and Local Governments – Audit and Accounting Guide*, American Institute of Certified Public Accountants.

enhancements priorities while balancing completion of the entire TRUST implementation.