

Teacher Retirement System

Audit Report # 20-109

July 23, 2021



The University of Texas at El Paso
Office of Auditing and Consulting

"Committed to Service, Independence, and Quality"



The University of Texas at El Paso
Office of Auditing and Consulting Services

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July 23, 2021

Dr. Heather Wilson
President, The University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Wilson:

The Office of Auditing and Consulting Services has completed a limited-scope audit of the completeness and accuracy of reports submitted to the Teacher Retirement System of Texas (TRS). During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. The recommendations are intended to assist the department in strengthening controls and help ensure that the University's mission, goals, and objectives are achieved.

We appreciate the cooperation and assistance provided by Payroll and Human Resources staff during our audit.

Sincerely,

A handwritten signature in blue ink that reads 'Lori Wertz'.

Lori Wertz
Chief Audit Executive

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EXECUTIVE SUMMARY

Background

The Teacher Retirement System of Texas (TRS) manages a public pension plan for eligible Texas public education employees. Reporting entities (the University) are responsible for submitting certain member information to TRS monthly, which is used by TRS to determine benefits earned by the member.

Audit Objectives

The objectives of this audit were to determine the completeness and accuracy of reports and census data submitted to TRS by the University. The TRS Self-Audit Program was used by the Office of Auditing and Consulting Services to conduct this audit.

Scope

The audit scope was FY 2019 (December 2019 and May 2020 were selected for sampling purposes).

Strengths

Controls are in place to ensure the following:

1. Proper distribution of fund reporting. Control is effective, as a possible funding issue the auditors identified was detected and corrected by Payroll before the audit.
2. The University pays the required state contribution for new TRS members.

Summary of Audit Results

Issue	Risk Ranking
1. TRS Regular Payroll Report was not always complete and accurate	Medium
2. TRS Employment After Retirement Report was not always complete and accurate	High
3. Lack of monitoring of independent contractors and leased employees	Medium
4. TRS Employee Demographic information does not always agree to source documentation	Medium
5. ORP is not always in compliance with UT System Guidance	Medium

Conclusion

Based on the audit work performed, we conclude that overall management complies with TRS results and reporting requirements, however, opportunities exist to improve the completeness and accuracy of the information reported to TRS.

BACKGROUND

The Teacher Retirement System of Texas (TRS) manages a public pension plan for eligible Texas public education employees. TRS membership begins on the first day of eligible employment. “The plan is administered as a qualified governmental retirement plan under the provisions of Section 401(a) of the U.S. Internal Revenue Code of 1986, as amended” (TRS Benefits Handbook). An employee of a Texas public institution of higher education who meets the TRS eligibility requirements is required to be a TRS member unless the employee is eligible to make a one-time, irrevocable election to participate in the Optional Retirement Program (ORP).

The University is required to submit three reports to TRS monthly:

- Regular Payroll Report: Consists of compensation (regardless of eligibility or position) and contribution details. Includes TRS eligible and non-eligible employees, non-TRS retirees, and seasonal employees. This report does not include student employees.
- Employee Demographic Report: Includes census data for active employees including name, Social Security number, date of birth, gender, and hire date. Changes such as new hires and terminations are reported monthly and an annual report which includes all employees is submitted at the beginning of each fiscal year.
- Employment after Retirement Report: Includes all TRS retirees who worked for the University during the reporting period and reports: compensation received, hours worked, and surcharges, if applicable.

The University of Texas System – Office of Shared Information Services (UT Share) is responsible for the logic/programming that pulls data from the University’s PeopleSoft records and populates these three reports for the University.

The University’s TRS Reporting Official, the Director of Payroll and Tax Accounting, is responsible for maintaining accurate census data, making timely deposits, and recording accurate financial transactions to TRS monthly. Human Resources (HR) is responsible for identifying eligible employees through the new hire/re-hire process (including retirees), collecting census information, and managing retirement policies and procedures.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the authoritative guidelines of the *International Professional Practice Framework* issued by the Institute of Internal Auditors.

AUDIT RESULTS

A. TRS Regular Payroll (RP) Report

1. TRS Regular Payroll Report was not always complete and accurate	Medium Risk
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The following completeness and accuracy issues were noted:

1. Fourteen individuals were in the University's internal payroll register but were not included in the TRS RP Report.
2. Seven students were erroneously included in the TRS RP Report.
3. The gross compensation amounts for fifteen individuals differed between the University's internal payroll register report and the TRS RP Report.

#	Number of Observations	Corrected	Pending Correction
1	14	8	6*
2	7	7	0
3	15	5	10

***The six pending corrections include the following:**
Four non-TRS employees
One Optional Retirement Program (ORP) employee
One TRS re-hired employee

The UT Share query that is used to populate the TRS RP report has errors; they were not detected by Payroll during the review of the report. This could lead to non-compliance with TRS requirements. In addition, inaccurate and incomplete data could lead to employees not getting credit for TRS contributions deducted from their paychecks but not reported to TRS.

Recommendation:

Management should work with UT Share to ensure that the TRS Regular Payroll data is complete and accurate, and report all pending corrections.

Management Response:

The Payroll staff is working with the UT Share Business Analyst to develop better audit queries to reduce errors and the need for adjustments. The reporting of payroll data can sometimes require adjustments for retro hires, retro re-hires, funding changes etc. The Payroll staff works diligently to report data accurately and timely. The need for adjustments is part of the reporting process as errors cannot be identified until after the file is submitted. The payroll staff has begun the evaluation and correction process for all pending adjustments. The Payroll office will continue to look for ways to improve accuracy as it is a constantly changing process.

Responsible Party:

*Joanne Richardson, Assistant Vice President Business Affairs
Andrea Reveles, Director of Payroll and Tax Accounting*

Implementation Date:

December 31, 2021

B. TRS Employment After Retirement (EAR) Report

2. TRS Employment After Retirement Report was not always complete and accurate	High Risk
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The following completeness and accuracy issues were noted:

1. Seven working TRS retirees were not reported in the TRS EAR Report. Six have been corrected by Payroll, and one is pending correction as of the end of audit fieldwork. The UT Share query that is used to populate the TRS EAR report has errors.
2. Hours reported for five of eight TRS retirees were not accurate. However, none were above the EAR time limit requiring the University to pay TRS surcharges of 15.2% (for FY 2019) on compensation earned by the TRS retiree.

The UT Share formula that automatically calculates the TRS retiree hours worked is not accurate; this formula has been inaccurate for several years and it affects all UT System institutions for which UT Share provides these services. Per UT Share, the formula has not been reviewed for accuracy, as service tickets had not been submitted by any UT Share institutions.

Having an incorrect report could lead to non-compliance with TRS requirements and may cause additional surcharges and/or penalties. According to the TRS rules, the employer must remit all pension surcharges along with interest and on any unpaid or unreported amounts. Also, it could cause the retiree to forfeit their annuity.

Recommendation:

Payroll should work with UT Share to ensure that the query used to prepare the EAR report includes all TRS retirees and the formula that calculates hours worked by TRS retirees is reviewed and updated.

Management Response:

There was no adverse effect to the University or the TRS Retiree as all surcharges have been reported and paid correctly. The University incurred no penalty or fees as no TRS retiree crossed the half time threshold. As identified above, the errors reported have been addressed and the UT Share page has been updated to reflect the correct reporting code. A ticket has been submitted with UT Share, Service Request 102652 to assist with the correct configuration of hours.

Responsible Party:

*Joanne Richardson, Assistant Vice President Business Affairs
Andrea Reveles, Director of Payroll and Tax Accounting*

Implementation Date:

December 31, 2021

3. Lack of monitoring of independent contractors and leased employees	Medium Risk
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Per TRS requirements, the employer is responsible for reporting TRS retirees (and paying applicable surcharges) who are independent contractors or employed by a third-party entity, and are performing the duties or providing services that an employee of the institution would otherwise perform.

The University does not have a process in place to determine whether independent contractors are TRS retirees. In addition, the University does not track or inquire as to whether individuals employed by third-party staffing entities are TRS retirees.

TRS retirees may be working as independent contractors or employed by third-party staffing entities without the University's knowledge. As such, these TRS retirees may not be reported to TRS in the EAR report and the University may be subject to potential surcharges, interest costs, fines, and possible loss of retirement annuities for the retirees.

Recommendation:

Develop a process to include questions in the Authorization of Personal Services (APS) form to determine whether independent contractors are retirees from a TRS-covered institution. In addition, track and monitor TRS retirees that are employed by third-party staffing entities.

Once identified, management should determine whether services provided by TRS retirees are similar to employee duties and responsibilities. If so, they should be added to the Employment After Retirement Report and reported to TRS. Documentation showing justification and procedures performed to determine the employment status of TRS retirees should be maintained.

Management Response:

The Payroll Office reviews the APS form and a question requesting the disclosure of the individual's TRS retirement status will be added to the form. Upon notification that a TRS retiree is providing consulting services, the Payroll Office will work with the department to identify working hours and evaluate the need for surcharges. This will be a manual process as there is no configuration in PeopleSoft to track hours worked for vendors. In addition, UTEP will develop a process to track and monitor TRS retirees that are employed by third-party staffing agencies.

Responsible Party:

*Sandra Vasquez, Associate Vice President for Human Resources
Joanne Richardson, Assistant Vice President Business Affairs
Andrea Reveles, Director of Payroll and Tax Accounting*

Implementation Date:

December 31, 2021

C. TRS Employee Demographics (ED) Report

4. TRS Employee Demographic information does not always agree to source documentation	Medium Risk
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The following observations were noted:

- Twelve of 68 employees did not have source documentation to verify their TRS hire date (i.e. W4, I9, Contracts) Their hire date was instead validated against PeopleSoft records. Per HR, ten of the twelve employees' hire dates could be also traced to an internal database file, however, we were unable to confirm this information.

Three employees were not included in the annual TRS ED report. *Per information provided by Payroll, it appears that terminations were processed for these employees. However, we were not able to independently verify that these specific employees were the ones processed for termination.*

A process is not in place to ensure that census data submitted to TRS agrees to employee documents (i.e. W4, I9, Contracts). In addition, as mentioned above, there was a period in which HR was not required to retain employee documents.

This could lead to non-compliance with TRS requirements and cause inaccurate or omitted demographic information. For example, inaccurate hire dates might impact employee TRS retirement benefits.

Recommendation

We recommend Payroll and HR develop and implement a process to ensure the demographic information submitted to TRS is on hand and agrees to employee source documentation.

Management Response:

The employment start date and the signature date on employment documents can vary and are not required to be completed annually. The W-4 form can be updated electronically via PeopleSoft, this information is stored within PeopleSoft and can be modified as needed by the employee. Additionally, the dates reported to TRS in the Employee Demographics report could consist of last start date, original hire date, and TRS eligibility date. Eligibility is not solely dependent on an employee's hire date. Some

of the noted discrepancies are reflecting original hire dates and are not eligibility dates. The TRS ED report is reviewed and vetted monthly prior to finalization of submission of payment of employee and employer contributions. The Office of Human Resources currently retains a copy of identification documents for new hires.

Responsible Party:

*Sandra Vasquez, Associate Vice President for Human Resources
Joanne Richardson, Assistant Vice President Business Affairs
Andrea Reveles, Director of Payroll and Tax Accounting*

Implementation Date:

July 1, 2021

D. Optional Retirement Program (ORP)

5. ORP not always in compliance with UT System guidance	Medium Risk
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The following observations were noted:

- We were unable to confirm that two (2) of 20 employees made their ORP elections in a timely manner (within the 91-day limit). *Per HR, this was related to a transition from Define to PeopleSoft.*
- Three of the 20 employees appeared to have the incorrect TRS participation start dates based on the ORP election form and the TRS portal.
- An ORP election form for one of the 20 employees could not be located.

Some of the ORP records reviewed are decades old and a process is not in place to review ORP records and ensure the participation start dates are correct. This could lead to non-compliance with ORP requirements. For example, inaccurate ORP participation start dates might impact the employee ORP retirement benefits.

Recommendation:

We recommend management perform an inventory of employees who elected ORP to determine whether the election forms are available and the TRS participation dates are appropriate. For those that could not be located, obtain the missing forms from TRS and archive them in the related employee records.

Management Response:

The TRS reporting requirements include non-TRS eligible and ORP participants; however, the issues identified above did not result in incorrect reporting.

Additionally, the dates reported to TRS in the ED report do not always correspond with the TRS eligible appointment dates due to TRS and ORP eligibility requirements. Eligibility is not solely dependent on an employee's hire date. TRS eligibility has multiple requirements, such as 4.5 month continuous appointment at 20 hours or more. ORP eligibility requires a 4.5 month full time appointment at 40 hours. Some of the noted discrepancies are reflecting initial hire dates and are not TRS eligibility dates.

ORP is a "defined contribution plan" because the retirement benefit is based on the actual amount contributed to the individual participant's account. Benefits are a result of the contribution rate, total salary earned during a participant's career in Texas public higher education, and rate of return on investment. Inaccurate hire dates will not affect the ORP retirement benefits.

UTEP contacted TRS to obtain a copy of the 2009 TRS 28 form, however TRS was unable to provide the form. The TRS Portal (TRS system of record) has corresponding election dates with UTEP and UTEP does have the ORP Acknowledgement and Authorization forms indicating the employee's ORP eligibility and ORP vendor selection. The employee referenced has participated in ORP since the original position eligibility date.

Both departments will continue to work together to ensure required documentation is kept on file for ORP participants.

Responsible Party:

*Sandra Vasquez, Associate Vice President for Human Resources
Joanne Richardson, Assistant Vice President Business Affairs
Andrea Reveles, Director of Payroll and Tax Accounting*

Implementation Date:

December 31, 2021

RANKING CRITERIA

Priority	An issue identified by an internal audit that, if not addressed timely, could directly impact the achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
High	A finding identified by the internal audit is considered to have a medium to a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.
Medium	A finding identified by the internal audit is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.
Low	A finding identified by the internal audit is considered to have a minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.

APPENDIX - CRITERIA

- TRS Report Formatting Guide for Higher Education Reporting Agency
- Texas Government Code, Section 822.201, Member Compensation
- Title 34 Texas Administrative Code, Part 3, Teacher Retirement System of Texas
- TRS Rule 25.21, Compensation Subject to Deposits and Credit

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