



THE UNIVERSITY OF TEXAS AT DALLAS

OFFICE OF AUDIT AND CONSULTING SERVICES
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May 3, 2019

Dr. Richard Benson, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Teacher Retirement System (TRS) Employer Self-Audit, as part of our fiscal year 2019 Audit Plan. The objective of our audit was to confirm completeness and accuracy of the information reported to TRS. The report is attached for your review.

Based on the audit work performed, we conclude that overall management complies with TRS results and reporting requirements, however, opportunities exist to improve completeness and accuracy of information reported to TRS. Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates.

We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens, CPA, CIA, CRMA
Chief Audit Executive



Office of Audit and Consulting Services

Teacher Retirement System Employer Self-Audit

Internal Audit Report No. R1909

May 3, 2019



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Executive Summary

Audit Objective: To confirm the completeness and accuracy of the information reported to the Teacher Retirement System of Texas (TRS)

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

Audit Recommendations by Risk Level

Recommendation	Risk Level	Estimated Implementation Date
1. Ensure Completeness of Employment After Retirement Reporting	Medium	Implemented
2. Ensure Accuracy of Fund Reporting for TRS Payroll Reporting	Medium	October 31, 2019
3. Identify TRS Retirees that are Independent Contractors and Leased Employees	Medium	July 31, 2019
4. Update the UT Dallas Retirement Policy	Low	September 1, 2019

Responsible Vice Presidents:

- Dr. Hobson Wildenthal, Executive Vice President
- Mr. Pankratz, VP of the Office of Budget and Finance

Responsible Parties:

- Ms. Colleen Dutton, Chief Human Resources Officer
- Dr. Brian Bernoussi, Assistant VP for Operations
- Mr. Greg Argueta, Assistant VP for Accounting and Financial Reporting
- Ms. Marita Yancey, Director of Employee Relations



Background

The Teacher Retirement System (TRS) is the largest public retirement system in Texas. TRS services all forms of public education, including state universities. To be eligible for TRS, employees must work more than half-time, be employed for more than four and one half months, and have a comparable salary for similar positions. Each eligible employee is required to participate, unless the employee is qualified for the Optional Retirement Plan (ORP) and elected the plan in a timely manner. Each TRS member contributes 7.7% of their salary to TRS, and the state or university contribution is 6.8% of the employee's salary.

Departments throughout the university have responsibilities to ensure compliance with TRS rules. The Human Resources department, reporting to the Executive Vice President, is responsible for identifying eligible TRS and ORP employees, completing and storing all necessary documentation, and managing retirement policies and procedures. The Payroll and Data Management department, reporting to the Vice President for Budget and Finance, is responsible for the calculation and reporting of member contributions to TRS. The reports that are required cover working employees who have previously retired from TRS, employee demographics, and employee salary and salary funding sources. Procurement Management, reporting to the Vice President for Budget and Finance, is responsible for the independent contractor and third-party staffing process.

UTD FY 18 Highlights*

TRS Members (As of 8/2018)	2,420
Total Eligible Compensation	\$153,630,321
Member Contribution	\$11,829,542
State Contribution	\$10,446,862
Average Monthly Reported Member Contribution	\$985,795
Average Monthly State Contribution	\$870,571

*All averages are based on FY18 TRS Regular Payroll Reports



Audit Objective, Results and Management's Responses

Audit Objective

TRS Employer Self-Audit to confirm the completeness and accuracy of the information reported to the Teacher Retirement System of Texas (TRS).

Results and Conclusion

Detailed observations are included in the following pages. Based on the audit work performed, we conclude that management generally complies with TRS rules and reporting requirements; however, opportunities exist to improve the completeness and accuracy of information reported to TRS. Implementation of the recommendations contained in this report will help ensure completeness and accuracy of the information reported to TRS.

We appreciate the courtesy and cooperation received from the management and staff in Payroll and Data Management, Human Resources, and Procurement Management departments during the audit.

Management's Responses

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates.

Strengths/Controls Identified

Employee Eligibility

Controls are in place to ensure compliance with TRS eligibility requirements.

Controls are in place to ensure ORP election is timely.

Reporting Requirements

For FY18, processes are in place to ensure timely reporting.

Controls are in place to ensure accuracy of employee demographics.

Processes exist to ensure accuracy of TRS eligible compensation.



Observations

1. <i>Ensure Completeness of Employment After Retirement Reporting</i>			Risk Level: Medium
Observation	Risk/Effect	Recommendation	Management's Action Plan
<p>TRS requires reporting of all retirees that work for the University. The Employment After Retirement Report includes the total hours worked and compensation paid to TRS retirees. Using this information, UTD calculates and pays a pension surcharge to TRS, if required. Surcharges of are required to be paid for TRS retirees working more than part-time.</p> <p>We tested the report for May 2018 for completeness and accuracy. We identified eight working TRS retirees that were not reported. In addition, two retirees that were not reported required pension surcharges totaling \$2,507.34.</p>	<p>If we are not reporting all working retirees, we do not comply with TRS requirements and may owe additional surcharges. According to the TRS rules, the employer must remit all pension surcharges along with interest and on any unpaid or unreported amounts.</p>	<p>Identify working TRS retirees to ensure completeness of the Employment After Retirement report. This should include identifying UT Dallas TRS retirees and retirees from other TRS-covered institutions.</p>	<p>Payroll worked with Information Technology and Human Resources to change the methodology of identifying and reporting working retirees. We are currently reporting all working retirees including those retirees from other TRS-covered institutions.</p> <p>Owner: Mr. Greg Argueta, Assistant Vice President for Accounting & Financial Reporting</p> <p>Due Date: Implemented</p>



Observations

2. Ensure Accuracy of Fund Reporting for TRS Payroll Reporting			Risk Level: Medium
Observation	Risk/Effect	Recommendation	Management's Action Plan
<p>TRS requires monthly reporting of compensation and contribution details for all employees. The report includes information on each employee's salary funding source.</p> <p>We tested a sample of employees reported on the Regular Payroll Report for May 2018. We noted that salary funding sources are not reported accurately to TRS. When an employee's regular salary is paid out of a different funding source than longevity pay, additional pay, or supplemental pay, the correct funding source is not reported to TRS. Instead of reporting two or more funding sources, currently only one salary funding source is reported in these circumstances. Out of 15 employees tested, 13 employee did not have the correct funding source reported to TRS in the May 2018 Regular Payroll Report.</p>	<p>Inaccurate reporting of funding sources is in noncompliance with TRS requirements. It is important to report the correct funding source because the funds used to pay the state contribution varies based on the funding source.</p>	<p>Institute a process to ensure accurate reporting of funding sources in the payroll reports to TRS.</p>	<p>Payroll will work with other departments within the Office of Budget and Finance to create more accurate reporting of split funding sources when additional pay is included in TRS subject compensation and is not funded the same as regular wages. This will require new functionality and involve additional programming from Information Technology.</p> <p>Owner: Mr. Greg Argueta, Assistant Vice President for Accounting and Financial Reporting</p> <p>Due Date: 10/31/2019</p>



Observations

3. Identify TRS Retirees That Are Independent Contractors and Leased Employees			Risk Level: Medium
Observation	Risk/Effect	Recommendation	Management's Action Plan
<p>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 employees leased by third party staffing entities are TRS retirees. Because UT Dallas does not track an independent contractor or leased employees' TRS retiree status, it is difficult to determine how many retirees are providing services to the University.</p> <p>For independent contractors that should be classified as employees, the university needs to report the retirees on the Employment After Retirement report and pay the pension surcharges.</p> <p>Internal Audit did note one independent contractor that is a TRS retiree. Based on the independent contractor's compensation, his job responsibilities, and time at the University, Internal Audit believes the retiree should be considered an employee. Internal Audit requested a review by the University Attorney and the Office of the General Counsel at University of Texas System of the independent contractor to determine his employment status. This review is currently in process as of the time of the audit report.</p>	<p>TRS retirees may be working as independent contractors or leased employees without the University's knowledge. If determined that the independent contractor or third party staffer should be an employee, the University may be subjected to potential surcharges, interest costs, fines and possible loss of retirement annuities for the retiree.</p>	<p>Develop a process to include questions in the independent contractor form to determine whether the contractor is a retiree from a TRS covered institution. In addition, track and monitor TRS retirees that work as leased employees.</p> <p>Once independent contractors or leased employees are identified, management should determine whether services provided by TRS retirees are similar to employee duties and responsibilities. Documentation showing justification and procedures performed to determine employment status of retirees should be maintained.</p>	<p>Procurement Management will work with Tax Compliance, Payroll, and Human Resources to revise the Independent Contractor process to identify and track contractors or leased employees who are retirees from TRS and to document their employment status.</p> <p>The TRS retiree who was classified as an independent contractor is now a UTD employee.</p> <p>Owner: Dr. Brian Bernoussi, Assistant Vice President for Operations</p> <p>Due Date: 7/31/2019</p>



Observations

Other Issues	Risk Level: Low
<p>Revise the UT Dallas Retirement Policy (UTDBP3053): The current policy was issued on June 1, 1998. The policy is not up to date and does not contain accurate or relevant information regarding TRS.</p> <p>Management Responses and Action Plan: The recommendation to review the retirement policy is in progress. A draft policy was written and submitted to Internal Audit. Policies of other institutions will be reviewed for consistency. Once a draft is finalized, it will be presented to the UT Dallas Policy Committee for approval.</p> <p>Owner: Ms. Marita Yancey, Director of Employee Relations</p> <p>Due Date: September 1, 2019</p>	



Appendix A: Scope and Methodology

The scope of this audit was fiscal year 2018 to date, and our fieldwork concluded on February 18, 2019. To satisfy our objectives, we performed the following:

- Conducted interviews to gain an understanding of the TRS reporting process and eligibility requirements.
- Performed the audit in accordance with the TRS Employer Self-Audit program. The audit program included testing the following areas:
 - Eligibility for TRS and ORP
 - Census data accuracy
 - New member contributions
 - Accuracy of funding source reporting
 - Employment after retirement reporting and process

We conducted our examination in conformance with the guidelines set forth in The Institute of Internal Auditor's [*International Standards for the Professional Practice of Internal Auditing*](#). The *Standards* are statements of core requirements for the professional practice of internal auditing.

Additionally, we conducted the audit in accordance with [*generally accepted government auditing standards*](#). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Appendix B: Risk Classifications and Definitions

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Risk Management Committee (ACRMC). Priority findings reported to the ACRMC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal .



Appendix C: Report Distribution

Members of the UT Dallas Institutional Audit Committee

External Members

- Ms. Lisa Choate, Chair
- Mr. Gurshaman Baweja
- Mr. John Cullins
- Mr. Bill Keffler
- Ms. Julie Knecht

UT Dallas Members

- Dr. Richard Benson, President
- Dr. Hobson Wildenthal, Executive Vice President
- Dr. Kyle Edgington, Vice President for Development and Alumni Relations
- Mr. Frank Feagans, Vice President and Chief Information Officer
- Dr. Gene Fitch, Vice President for Student Affairs
- Dr. Calvin Jamison, Vice President for Facilities and Economic Development
- Dr. Inga Musselman, Provost and Vice President for Academic Affairs
- Ms. Sanaz Okhovat, Chief Compliance Officer *ad interim*
- Dr. Joseph Pancrazio, Vice President for Research
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Mr. Timothy Shaw, University Attorney, ex-officio

Responsible Parties

- Ms. Colleen Dutton, Chief Human Resources Officer
- Dr. Brian Bernoussi, Assistant VP for Operations
- Mr. Greg Argueta, Assistant VP for Accounting and Financial Reporting
- Ms. Marita Yancey, Director of Employee Relations

External Agencies

The University of Texas System
System Audit Office

State of Texas Agencies

- Legislative Budget Board
- Governor's Office
- State Auditor's Office
- Sunset Advisory Commission

Teacher Retirement System

Staff Assigned to the Audit

Project Leader: Hiba Ijaz, CPA, CIA, Senior Auditor

Staff: Caitlin Cummins, Staff Auditor

Student Interns: Timothy Truong; Cheryl Hu