

## 22-106 Teacher Retirement System of Texas

### EXECUTIVE SUMMARY

We have completed our assurance engagement of the Teacher Retirement System of Texas (TRS). This engagement was performed at the request of the UTHealth Houston (UTHealth) Audit Committee and was conducted using the pre-established Employer Self-Audit Program developed by TRS.

#### Background

An employee of UTHealth who meets the eligibility requirements for TRS membership 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 Plan (ORP). HOOP 32 *Retirement Program Eligibility* was established to govern this process and ensure compliance with Title 34 of the *Texas Administrative Code* (TAC), Part 3.

#### Objectives

Our objective was to determine whether processes for the TRS program are adequate and functioning as intended. Specifically, for a sample of employees, to determine if:

- Eligibility to participate in TRS/ORP is appropriate.
- ORP election forms exist.
- Demographic information is accurately reported to TRS.
- New member contributions are paid.
- Salaries and contributions related to Federal Funds/Private Grants are accurately reported.
- Salaries and contributions related to Educational/General Local Funds and Non-Educational/General Funds are accurately reported.

#### Scope

The scope period was April 1, 2021 through March 31, 2022. A sample of three months (April 2021, September 2021, and February 2022) was selected within the scope period for review.

#### Conclusion

We noted the following opportunities for improvement:

#	Observation Summary	Risk	Risk Rating
1	A process to ensure the accuracy and completeness of information prior to submission to TRS has not been developed.	Surcharges and/or penalties from noncompliance with TRS requirements.	Medium
2	Gross compensation included in the TRS Regular Payroll report is not reconciled to monthly payroll registers to verify data accuracy and completeness.	Surcharges and/or penalties from noncompliance with TRS requirements.	Medium

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3	Optional Retirement Program Election forms are not consistently maintained. Additionally, procedures are not in place to ensure completed forms are received timely, submitted to TRS, and receipt verified.	Noncompliance with TRS reporting and record retention requirements.	<b>Medium</b>
4	A process to identify and monitor TRS retirees employed through third-party entities has not been developed.	Surcharges and/or penalties from non-compliance with TRS reporting requirements.	<b>Medium</b>
5	Demographics data is not verified for accuracy prior to entry into PeopleSoft HCM. Source documentation is not consistently maintained to support demographic data.	Noncompliance with TRS reporting and record retention requirements	<b>Medium</b>
6	Procedures associated with TRS reporting have not been formally documented.	Inaccurate and/or untimely reporting.	<b>Medium</b>

**OBSERVATIONS & MANAGEMENT RESPONSES**

**#1 - Contribution Calculations and Retiree Hours Reporting**

**Cause**

A process to ensure the accuracy and completeness of information submitted to TRS has not been developed.

**Risk**

Surcharges and/or penalties from noncompliance with TRS reporting requirements.

**Condition**

We selected a sample of 25 employees and verified the accuracy of Federal Funds/Private Grant, Educational/General-Local Funds (EGF), and Non-Educational/General Funds (Non-EGF) contribution calculations. Additionally, we verified TRS eligibility and inclusion in reporting. We noted the following:

- 4 cases in which eligible compensation was not accurately calculated.
- 2 cases in which the hours worked and/or compensation paid was inaccurately excluded from TRS reporting for one month.

Additionally, we selected three months, then selected a sample of eight retirees and verified the total hours worked in PeopleSoft HCM agreed to the total hours reported to TRS. For three retirees, we noted the hours did not agree. In each instance, we noted the actual hours worked did not exceed the Employment After Retirement (EAR) limits.

**Criteria**

The *TRS Payroll Manual for Higher Education* states the employer is responsible for complying with all reporting requirements as stated in the *TRS Laws & Rules*, *TRS Payroll Manual*, and any supplemental instructions provided by TRS.

It is the responsibility of the head of the reporting entity to certify the accuracy and completeness of all reported information. The primary reporting official may authorize others to report information to TRS and certify to its accuracy and completeness. The employer should retain detailed records to support information reported to TRS.

TRS reporting requirements specify the EAR report should be based on the actual number of hours or days worked for the month and not the employer’s pay periods. Hours should be totaled for each day worked and rounded down to the nearest whole number, once the total hours for the month have been calculated.

**Recommendations**

- For the exceptions noted, make the necessary corrections and resubmit to TRS as applicable.
- Develop and implement a process to periodically review the accuracy and completeness of information prior to submission to TRS.

**Rating**

Medium

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### **Management Response**

For the exceptions noted, we will make the necessary corrections and resubmit to TRS as applicable. Additionally, we will develop and implement a process to periodically review the accuracy and completeness of information prior to submission to TRS.

### **Responsible Party**

- Patricia Hinojosa, Director, Payroll & Benefits
- Sherry Moser, Assistant Director of Payroll Reporting

### **Implementation Date**

December 16, 2022

**#2 – Regular Payroll Reporting**

**Cause**

Gross compensation included in the TRS Regular Payroll report is not reconciled to monthly payroll registers to verify data accuracy and completeness.

**Risk**

Surcharges and/or penalties from noncompliance with TRS reporting requirements.

**Condition**

We selected three months, compared the total gross compensation from the payroll registers to the TRS Regular Payroll reports, excluded individuals who were not applicable, and noted the following variances:

Month	Payroll Registers	TRS Regular Payroll reports	Variance \$	Variance %
April 2021	\$91,635,078	\$91,407,069	\$228,009	0.25%
September 2021	\$96,136,588	\$95,403,736	\$732,852	0.76%
February 2022	\$108,107,221	\$107,674,814	\$432,407	0.40%

**Criteria**

According to the *TRS Payroll Manual for Higher Education*, it is the responsibility of the head of the reporting entity to certify the accuracy and completeness of all reported information. The primary reporting official may authorize others to report information to TRS and certify to its accuracy and completeness. The employer should retain detailed records to support information reported to TRS.

**Recommendation**

Develop and implement a process to reconcile data from PeopleSoft HCM to TRS reports to ensure data accuracy and completeness. Additionally, document the reconciliations for future reference.

**Rating**

Medium

**Management Response**

We will develop and implement a process to reconcile data from PeopleSoft HCM to TRS reports to ensure data accuracy and completeness. Additionally, we will document the reconciliations for future reference.

**Responsible Party**

- Patricia Hinojosa, Director, Payroll & Benefits
- Sherry Moser, Assistant Director of Payroll Reporting

**Implementation Date**

February 16, 2023

### #3 – ORP Election Forms and Reporting

#### Cause

Optional Retirement Program (ORP) Election forms (TRS28) are not consistently maintained. Additionally, procedures are not in place to ensure completed forms are received timely, submitted to TRS, and receipt verified.

#### Risk

Noncompliance with TRS reporting and record retention requirements.

#### Condition

We selected a sample of 25 employees and verified ORP eligibility and timely election on the TRS28. Of the 25, ten were ORP participants and five elected ORP prior to employment with UTHealth. For the five remaining ORP participants, we noted the following related to the TRS28:

- 3 could not be located for review.
- 2 with delayed submission to TRS after completion by the employee and/or the authorized reporting official.

#### Criteria

*TRS Payroll Manual for Higher Education*

“Both the employee and an authorized reporting employer business official must properly complete and sign all applicable sections on the TRS 28. The properly completed TRS 28 must be sent to TRS without delay. Election for ORP requires the TRS 28 form to be completed by the employee and authorized reporting employer business official. The completed TRS 28 form must then be mailed to TRS. Pages 1 and 2 must be completed by the employee, page 3 is to be completed by a RE contact with signature authority level.”

Additionally, it is the responsibility of the head of the reporting entity to certify the accuracy and completeness of all reported information. The primary reporting official may authorize others to report information to TRS and certify to its accuracy and completeness. The employer should retain detailed records to support information reported to TRS.

*State of Texas Records Retention Schedule*

- Individual Personnel Records – Employees to be retained for AC+5 where AC is “After Termination.”
- Employee Benefits – Other than insurance, including agency copies of information relating to the selection of available benefit options other than insurance for AC+2 where AC is “until superseded or termination of employment.”

*Employee Personnel Records Supplemental Note*

Employee personnel records are to be retained five years after separation. Information to be maintained in employee personnel record for a period of 50 years after retirement include ORP Acknowledgement.

#### Recommendation

Develop and implement a process to ensure TRS28 forms are consistently maintained and submitted to TRS on a timely basis.

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**Rating**

Medium

**Management Response**

A new PeopleSoft feature for Payroll/Benefits Onboarding has been implemented to capture TRS 28 forms digitally. Additionally, we will develop and implement a process to ensure Forms TRS28 are submitted to TRS on a timely basis.

**Responsible Party**

- Patricia Hinojosa, Director, Payroll & Benefits
- Sherry Moser, Assistant Director of Payroll Reporting

**Implementation Date**

November 1, 2022

**#4 – TRS Retirees**

**Cause**

A process to identify and monitor TRS retirees employed through third-party entities has not been developed.

**Risk**

Surcharges and/or penalties from non-compliance with TRS reporting requirements.

**Condition**

TRS retirees employed through third-party entities are not identified and included in the *Employment After Retirement* report submitted to TRS.

**Criteria**

The *TRS Payroll Manual for Higher Education* includes the following requirements:

- A third-party entity is defined as “an entity retained by a Texas public educational institution to provide personnel to the institution to perform duties or provide services that employees of the institution would normally perform or provide.”
- If the institution does not outsource 100% of the position, then the employment by a third-party entity is considered employment by a Texas public educational institution subject to the employment after retirement laws and rules.
- As of September 1, 2005, all reporting entities are required to make monthly surcharge payments to the TRS pension fund for certain retirees returning to work. The Pension Surcharge is a percentage of the TRS creditable salary paid to that retiree in the calendar month the retiree exceeded half time employment. This surcharge will be reported on the *Employment After Retirement* report.

**Recommendation**

Develop and implement a process to identify, document, and monitor TRS retirees employed through third-party entities.

**Rating**

Medium

**Management Response**

We will work with responsible departments to develop and implement a process to identify, document, and monitor TRS retirees employed through third-party entities.

**Responsible Party**

- Patricia Hinojosa, Director, Payroll & Benefits
- Sherry Moser, Assistant Director of Payroll Reporting

**Implementation Date**

November 16, 2022



**#5 – Census Data**

**Cause**

A process to verify demographic data for accuracy prior to entry into PeopleSoft HCM has not been developed. Source documentation is not consistently maintained to support demographic data.

**Risk**

Noncompliance with TRS reporting and record retention requirements.

**Condition**

We selected a sample of 25 employees and verified the accuracy of demographic data (i.e., social security number, name, date of birth, gender) reported to TRS. We noted the following:

- 8 cases in which demographic data was not accurately reported.
- 2 cases in which source documentation supporting demographic data was not available for review.

**Criteria**

*TRS Payroll Manual for Higher Education*

Requires the responsibility of the head of the reporting entity to certify the accuracy and completeness of all reported information. The primary reporting official may authorize others to report information to TRS and certify to its accuracy and completeness. The employer should retain detailed records to support information reported to TRS.

Active Employee reporting consists of the Employee Demographic and Regular Payroll reports. The purpose of the Employee Demographic Report is to create and maintain information for TRS participants. TRS requires that the name of a participant must be reported as it appears on the participant’s social security card.

*State of Texas Records Retention Schedule*

- Individual Personnel Records – Employees to be retained for AC+5 where AC is “After Termination.”
- Employment Eligibility, Documentation or Verification of Federal Reporting Form – USCIS I-9 for AC+1 where AC is “after termination of employment.”

*Employee Personnel Records Supplemental Note*

States employee personnel records are to be retained five years after separation. Information to be maintained in employee personnel record for a period of 50 years after retirement include Appointment and Salary History. Minimum information needed to verify employment includes name, social security number, date of birth, exact dates of employment, and last known address.

**Recommendations**

Develop and implement processes to ensure:

- Source documentation is maintained to support demographic data.
- Demographic information in PeopleSoft HCM matches source documents and data reported to TRS.

**Rating**

Medium

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### **Management Response**

Develop a process with HR/IT to store and maintain source documentation to support demographic data. Additionally, we will develop and implement a process to ensure demographic information in PeopleSoft HCM matches source documents and data reported to TRS.

### **Responsible Party**

- Patricia Hinojosa, Director, Payroll & Benefits
- Sherry Moser, Assistant Director of Payroll Reporting
- Naga Kadiyala, AVP Human Resources Technology

### **Implementation Date**

December 21, 2022

**#6 – Department Procedures for TRS Reporting**

**Cause**

Procedures associated with TRS reporting have not been formally documented.

**Risk**

Inaccurate and/or untimely TRS reporting.

**Condition**

The procedures performed by the Payroll Accountant to obtain data from the payroll system and complete the TRS reporting are not formally documented. As a result, it could be difficult for backup personnel to complete these procedures in the absence of the Payroll Accountant.

**Criteria**

According to the *TRS Payroll Manual for Higher Education*, the employer is responsible for complying with all reporting requirements as stated in the *TRS Laws & Rules*, *TRS Payroll Manual*, and any supplemental instructions provided by TRS.

It is the responsibility of the head of the reporting entity to certify the accuracy and completeness of all reported information. The primary reporting official may authorize others to report information to TRS and certify to its accuracy and completeness. The employer should retain detailed records to support information reported to TRS.

**Recommendation**

Formally document the procedures for obtaining data from the payroll system and completing the TRS reporting.

**Rating**

Medium

**Management Response**

A formal standard operating procedure will be developed to document the process of obtaining data from the payroll system and completing the TRS Reports.

**Responsible Party**

- Patricia Hinojosa, Director, Payroll & Benefits
- Sherry Moser, Assistant Director of Payroll Reporting

**Implementation Date**

January 24, 2023

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We would like to thank the Payroll and Human Resources staff and management who assisted us during the engagement.



Daniel G. Sherman, MBA, CPA, CIA  
Vice President & Chief Audit Officer

**OBSERVATION RATINGS**

<b>Priority</b>	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of UTHealth or the UT System as a whole.
<b>High</b>	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to UTHealth as a whole.
<b>Medium</b>	An issue considered to have a low to medium probability of adverse effects to an office or business process or to UTHealth as a whole.
<b>Low</b>	An issue considered to have minimal probability of adverse effects to an office or business process or to UTHealth as a whole.

**NUMBER OF PRIORITY OBSERVATIONS REPORTED TO UT SYSTEM**

None.

**MAPPING TO A&AS FY 2022 RISK ASSESSMENT**

Reference	Risk
FIN 14	Employees may not be properly recorded in the TRS portal.
FIN 15	Penalties may be assessed if TRS reports are not filed timely.

**DATA ANALYTICS UTILIZED**

None.

**ENGAGEMENT TEAM**

VP/CAO - Daniel G. Sherman, MBA, CPA, CIA  
Manager - Brook Syers, CPA, CIA, CISA, CFE  
Staff - Chandra Jones, CPA, CHIAP®

**END OF FIELDWORK DATE**

August 10, 2022

**ISSUE DATE**

August 31, 2022

**22-106 Teacher Retirement System of Texas**

**REPORT DISTRIBUTION**

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