



A Report on

The Audit of the Teacher Retirement System's Fiscal Year 2020 Financial Statements

November 30, 2020

Members of the Legislative Audit Committee:

In our audit report dated November 20, 2020, we concluded that the Teacher Retirement System's (the System) basic financial statements for fiscal year 2020 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 website at https://www.trs.texas.gov/TRS%20Documents/cafr_2020.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.

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Members of the Legislative Audit Committee

November 30, 2020

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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

cc: The Honorable Greg Abbott, Governor
Members of the Teacher Retirement System Board of Trustees
Mr. Jarvis V. Hollingsworth, Chairman
Ms. Nanette Sissney, Vice Chair
Mr. Michael Ball
Mr. David Corpus
Mr. John Elliott
Mr. Christopher Moss
Mr. James Nance
Mr. Robert H. Walls
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
Ms. Nanette Sissney, Vice Chair
Mr. Michael Ball
Mr. David Corpus
Mr. John Elliott
Mr. Christopher Moss
Mr. James Nance
Mr. Robert H. Walls

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 of the Teacher Retirement System (System) as of and for the year ended August 31, 2020, 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, 2020.

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) as a basis for designing 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
2020-01

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 financial statements. 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, 2020

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. 2020-01

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

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.

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 through 2019,¹ 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, 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

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); *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2018 Financial Statements* (State Auditor's Office Report No. 19-015, December 2018); and *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2019 Financial Statements* (State Auditor's Office Report No. 20-011, December 2019).

adequately ensure the completeness and accuracy of active employee census data.

While the System developed a process related to its review of the data submitted by the reporting entities, that process is not fully functioning as intended. Specifically, TRUST still allows reporting entities to delete records instead of requiring the records to be corrected. The System should strengthen its process to ensure that the entities 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

Management agrees that additional enhancements are needed to strengthen controls. Since the implementation of TRUST, we have done the following:

- *Added and updated system validations*
- *Updated error messages*
- *Requested additional exception reports to identify changes to reported data*
- *Created oversight tools using SharePoint and Excel to track exception reports being worked.*

To further strengthen controls over census data, management will make enhancements to the oversight tools, to ensure follow-up and resolution of discrepancies identified through exception reports. Possible enhancements to be explored/implemented:

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

- *Request enhancement to SharePoint to allow emails to be sent to the site (like Fusion)*
- *If SharePoint cannot accommodate emails, management will create an Excel spreadsheet in addition to the tool in SharePoint for management to review and better track the progress and resolution of deleted records.*
- *Change from an exception report to a CRM workflow*
 - ♦ *Deleted records certification could initiate a workflow*
 - ♦ *Automated emails to REs regarding deleted records*

We would expect the additional oversight tools to be completed in March 2021 and the development solutions being explored to be implemented by August 2021. Please note that implementing development solutions will require additional staffing as these new exception report processes are time-consuming and in addition to existing daily workload with employers regarding monthly reports.