

Fiscal Management Division  
Expenditure Audit Section  
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# Post-Payment Audit of Teacher Retirement System of Texas



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## EXECUTIVE SUMMARY

### Audit scope

A sample of the payroll, purchase and travel transactions and a limited review of refunded revenue, return of retirement benefits, employee benefits and retirement benefits that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning March 1, 2012, through Feb. 28, 2013, was audited to determine compliance with applicable state laws. The appendices to this report include schedules of the errors identified.

The audited agency or institution of higher education receives appendices with the full report that may include a list of the identified errors and an errors projection to estimate the amount of improperly paid transactions. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

*Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.*

The audit provides a reasonable basis for the findings set forth in this report. The Teacher Retirement System (TRS) should implement the recommendations listed in the Detailed Findings of this report. It is TRS' responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code Annotated, Section 403.071(h) (Vernon 2013), to ensure that TRS' documents comply in the future. TRS must ensure that the findings discussed in this report are resolved.

### Payroll transactions and deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

The audit identified:

- Underpayment of longevity pay.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

### Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Freight not on purchase order.

### Travel transactions

Travel transactions were audited for compliance with the GAA, [Textravel](#) and other pertinent statutes.

- No issues were identified.

### Refund of revenue transactions

The audit included a limited review of TRS' transactions relating to refund payments. The review consisted of verifying that the provided documentation reconciled with the payment amount in the sample.

- No issues were identified.

### Return of retirement benefits, employee benefits and retirement benefits transactions

The audit included a limited review of the TRS transactions relating to return of retirement benefits, employee benefits and retirement benefits. The review consisted of verifying that the payments did not exceed authorized amounts and that the payments were in compliance with [eXpendit](#) and other pertinent statutes. The review of these payments did not include an investigation of TRS' procedures for making or monitoring the payments; therefore, we are not offering an opinion on those procedures.

- No issues were identified.

### Prompt payment and payment scheduling issues

We audited TRS' compliance with the prompt payment law and scheduling rules.

The audit identified:

- Interest loss to treasury for 46 travel and five purchase transactions.
- Interest overpaid for five purchase transactions.
- Interest not paid for four purchase and two travel transactions.

### Fixed assets

The audit included a limited review of nine fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting (SPA) System and to verify existence of the asset. TRS reported one missing asset during the audit period.

The audit identified:

- All assets reviewed were located; however, some assets were not properly recorded in SPA.

## Direct deposit authorization forms

A review was conducted of TRS' procedure to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

The audit identified:

- Two employees were set up using outdated direct deposit forms.

The forms do not adhere to the National Automated Clearing House Association rules requiring the identification of a direct deposit payment if it is an International Automated Clearing House transaction.

## Prior post-payment audit and current audit recurring errors

A prior post-payment audit of the TRS payroll, purchase and travel transactions was concluded on Dec. 11, 2009.

During the current audit, we noted one recurring issue:

- Prompt payment and payment scheduling.

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## DETAILED FINDINGS — PAYROLL

### Longevity Underpayment

#### Finding

During the audit, we identified one employee that noted prior state employment on the job application that was not included in his calculation of state service. As a result of the audit, the additional prior state service was verified, resulting in additional state service credit and longevity underpayment. The total amount of longevity underpayment was \$5,160.00. The TRS payroll department procedures include obtaining prior state service verifications whenever an employee notes previous state employment on the job application or any other applicable form. TRS stated that not obtaining the additional prior state employment was due to an oversight.

When an agency hires an employee, the agency must research if the employee has previous state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit and compute the correct amount of longevity pay entitlement. See [Non-Salary Payments – Longevity Pay](#) in Texas Payroll/Personnel Resource on FMX.

We provided TRS with the schedule and calculation of the incorrect longevity payment. The schedule is not included with this report due to confidentiality issues.

#### Recommendation/Requirement

TRS must ensure that prior state service is properly verified and documented for its employees. TRS should verify all personnel files to ensure that properly completed prior state verification forms are obtained for its employees.

#### Agency Response

*TRS agrees with the audit recommendations. Compliance with Texas Government Code and the Texas Payroll/Personnel Resource (Payroll Resource) is very important to TRS.*

*Currently TRS uses information provided by the employee on their application during the hiring process to prepare human resources form PER 1A-1B. Information on PER 1A-1B is used by payroll to submit verification to each state agency and/or institution of higher education identified by the new employee. Responses from agencies are then compared to the prior state service information on PER 1A-1B to ensure accurate longevity pay coding in USPS and accurate payment processing. Additionally, the payroll team discusses the importance of disclosing all prior state service, including higher education service, to the new employee during New Employee Orientation.*

*In addition to the steps listed above, TRS is reviewing human resource and payroll processes to determine if additional controls for verifying state service would be appropriate.*

*TRS processed compensation to the employee for the \$5,160.00 longevity underpayment.*

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## DETAILED FINDINGS — PURCHASE

### Freight Not on Purchase Order

#### Finding

We identified two transactions where TRS paid freight charges that were not included on the original purchase order (PO). TRS should not pay freight charges not specifically identified on the original PO. TRS stated that it was due to oversight.

A purchase agreement and/or PO is a contract entered into by the state and a vendor. TRS may pay only the contracted amount as shown on the purchase agreement. If freight charges are not included in the purchase agreement, then the charges are not owed by TRS and should not be paid.

#### Recommendation/Requirement

TRS should document all freight terms on each PO. In situations where the final amount of freight cannot be determined, estimates may be used. In those instances, TRS should document the limit that may not be exceeded for any freight amount. If it is determined that the upper limit for a freight amount will be exceeded, the vendor should obtain approval for the higher amount. Any approvals for higher amounts should be documented prior to receiving the invoice.

#### Agency Response

*TRS agrees with the audit recommendations. Compliance with the Texas Procurement procedures is very important to TRS; the agency will review internal procedures to reinforce the need to include freight terms on each purchase order and to verify freight terms prior to payment authorization.*

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## DETAILED FINDINGS — PROMPT PAYMENT AND SCHEDULING

### Prompt Payment and Payment Scheduling Issues

#### Prompt Payment

According to the prompt payment law, Texas Government Code Annotated, Section 2251.021 (a) (Vernon 2008), a governmental entity's payment is overdue on the 31st day after the later of:

- The date the governmental entity receives the goods under the contract;
- The date the performance of the service under the contract is completed; or
- The date the governmental entity receives an invoice for the goods or service.

The Comptroller's office computes and automatically pays any interest due under the prompt payment law when the Comptroller's office is responsible for paying the principal amount on behalf of the agency per Texas Government Code Annotated, Section 2251.026 (Vernon 2008). During the audit period, TRS paid vendors \$3,066.41 for prompt payment interest.

In our sample, we identified four purchase and two travel transactions that were paid late but interest was not paid to the vendors, and five purchase transactions where interest was overpaid. According to TRS, interest was not paid due to oversights made when processing the payments.

#### Scheduling

Texas Government Code Annotated, Section 2155.382(d) (Vernon 2008) authorizes the Comptroller to allow or require state agencies to schedule payments that the Comptroller's office will make to a vendor. The Comptroller's office must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller's office requires advance scheduling of payments when it is advantageous to the state.

We identified 46 travel and five purchase transactions that TRS paid early, resulting in interest loss to the state treasury. TRS stated that it was not aware that direct-billed travel transactions should be scheduled.

#### Recommendation/Requirement

TRS must review its procedures to ensure that it submits payment information for processing as well as releasing the payment in a timely manner to avoid incurring interest liabilities. In addition, TRS must verify that proper due dates are entered to ensure that if interest is due, it is paid correctly to the vendors.

To minimize the loss of earned interest to the state treasury, TRS must schedule all payments greater than \$5,000.00 for the latest possible distribution and in accordance with its purchasing agreements as described in the Comptroller's [Prompt Payment](#) and

[Payment Scheduling](#) information in eXpendit. TRS can pay according to the terms on the invoice only if those terms are included in the purchase agreement.

### Agency Response

*Compliance with Texas Government Code Annotated, Sections 2251.021(a), 2251.026 and 2155.382(d) (Vernon 2008), are very important to TRS. The TRS accounting procedure manual includes detailed expenditure processing policies and procedures to pay all vendors 30 days from the date the goods and services are received, or the date the invoice is received, whichever is later. If the invoice is less than \$5,000, TRS is authorized to pay earlier than 30 days per Comptroller's office guidelines. In addition, pursuant to Texas Government Code, Section 660.019 and TRS accounting procedures, employee travel reimbursements are not required to be scheduled and are allowed to be paid within 45 days. Late payment interest amounts, number of days late and documented late payment reasons are monitored by TRS. The TRS accounting procedure manual is available electronically to all staff and detailed expenditure processing is provided to TRS accounting staff including prompt paying processing, post payment audit results and the Comptroller's most common post-payment audit errors.*