



A Contracting Audit of the **Teacher Retirement System of Texas**

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Executive Summary

Purpose and Scope

The objectives of the Teacher Retirement System of Texas (System) contracting audit were to determine whether:

- Contracts were solicited, awarded and managed according to applicable state laws and Comptroller requirements.
- The System acquired goods and services in an effective and efficient manner.
- Contract payments were processed according to applicable contract terms, state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support the procurement and contracting activities and related payments was appropriately maintained.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2019, through Aug. 31, 2020.

Background

The Teacher Retirement System of Texas was created in 1937 after approval of an amendment to the Texas Constitution to create a statewide teacher retirement system. The System's mission is to improve the retirement security of its members by prudently investing and managing the trust assets and to deliver benefits that make a positive difference in their lives.

Teacher Retirement System of
Texas website

<https://www.trs.texas.gov/>

Contract Transactions

Auditors reviewed a sample of three contracts totaling \$10,256,000. For the three contracts, auditors developed a representative sample of nine contract payments totaling \$467,951.99 to ensure the System complied with the General Appropriations Act (GAA), [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes.

Audit Results

The System generally complied with the GAA, relevant statutes and Comptroller requirements. However, the System should consider making improvements to its contract formation and award processes. An overview of audit results is presented in the following table.

Table Summary

Contract	Amount	Type of Service	Procurement Cycle					Rating
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management	
Contract A	\$5,500,000	Call Center Modernization	No exceptions	No exceptions	<ul style="list-style-type: none"> Missing State Auditor's Office (SAO) nepotism disclosure forms. Missing Texas Ethics Commission Disclosure of Interested Parties Certificate (Form 1295). 	No exceptions	Failure to report to the Legislative Budget Board (LBB)	Compliant, Findings Issued
Contract B	\$1,856,000	Owner's Representation	No exceptions	No exceptions	Missing State Auditor's Office (SAO) nepotism disclosure forms	Missing warrant hold check	Failure to report to the LBB in a timely manner	
Contract C	\$2,900,000	Call Center Overflow – Benefits	No exceptions	No exceptions	Missing State Auditor's Office (SAO) nepotism disclosure forms	No exceptions	No exceptions	



Detailed Findings

Missing State Auditor's Office (SAO) Nepotism Disclosure Statement

The System failed to have each employee involved in the procurement complete and sign the SAO nepotism disclosure statement forms for all three contracts reviewed. The System stated that this was due to oversight. The SAO form is required on major contracts of \$1 million or more.

"Purchasing personnel" is defined as employees of a state agency who make decisions on behalf of the agency or recommend: contract terms or conditions on a major contract; who is to be awarded a major contract; preparation of a solicitation for a major contract; or evaluation of a bid or proposal. See [Texas Government Code, Section 2262.004](#).

Recommendation/Requirement

The System must ensure all procurement personnel involved in awarding contracts of at least \$1 million sign the SAO disclosure statement for purchasing personnel located on the [SAO website](#), and must retain the signed statements in the contract file.

System Response

TRS implemented a new procurement system on Sept. 1, 2021, which will ensure our compliance with this task. TRS will also review contract files that are \$1 million or more manually before awarding the contract to ensure the required nepotism disclosure statement is signed and verified.

Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295)

Auditors identified one contract that was missing the required Texas Ethics Commission (TEC) Certificate of Interested Parties (Form 1295). Certain contracts valued at \$1 million or more require completion of Form 1295. Before a contract is awarded, the vendor must give the agency a completed, signed form with the certificate of filing number and date. The contract developer then acknowledges the form on the [TEC website](#). See [Texas Government Code, Section 2252.908](#). According to the System, this was due to oversight.

It is considered best practice to include a reference to Form 1295 in the solicitation to allow the vendor to gather the pertinent information early in the process.



Recommendation/Requirement

The System must ensure any vendor involved in contract awards of \$1 million or more completes Form 1295 located on the [TEC website](#).

System Response

TRS implemented a new procurement system on Sept. 1, 2021, which will ensure our compliance with this task. TRS will also review contract files that are \$1 million or more manually before awarding the contract to ensure the required Texas Ethics Commission Certificate of Interested Parties (Form 1295) is signed and verified.

Failure To Report and Incorrect Reporting to the Legislative Budget Board (LBB)

Auditors identified two contracts where the System failed to report contracts to the LBB. One contract was not reported and one contract was not reported in a timely manner. [General Appropriations Act \(GAA\), Reporting Requirements, Article IX, Section 7.04](#) requires a state agency that receives an appropriation under the GAA to report to the LBB a contract with a value greater than \$50,000, "without regard to source of funds or method of finance associated with the expenditure, including a contract for which only non-appropriated funds will be expended." The submission must include required documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters and certain types of supporting records. According to the System, this was due to oversight.

Recommendation/Requirement

The System must report contract awards to the LBB in a timely manner and comply with [GAA, Article IX, Section 7.04](#) and the [LBB Contract Reporting Guide](#).

System Response

TRS implemented a new electronic procurement system on Sept. 1, 2021, which will ensure our compliance with this task. In addition, TRS will be reviewing contract files to ensure the required LBB reporting has been completed.

Missing Warrant Hold Check

Auditors identified one contract where the System failed to verify the vendor's warrant hold status. According to the System, this was due to oversight.

The warrant hold check must be performed no earlier than the seventh day before and no later than the date of contract execution for transactions involving a written contract. If the vendor is on warrant hold, a state agency may not enter into a written contract



unless the contract requires the agency's payments to be applied directly toward eliminating the vendor's debt or delinquency. The requirement specifically applies to any debt or delinquency, regardless of when it arises. Although payments made through Uniform Statewide Accounting System (USAS) are automatically checked for holds and the system identifies payments issued to persons with outstanding state debt, this does not relieve an agency from conducting the warrant hold status check, in accordance with [Texas Government Code, Section 2252.903\(a\)](#). See [eXpendit - Restricted Expenditures - Persons Indebted to the State](#).

The warrant hold statutes are:

- [Texas Education Code, Sections 57.48 and 57.482](#)
- [Texas Family Code, Section 231.007](#)
- [Texas Government Code Sections 403.055, 403.0551, 403.0552 and 2107.008](#)

Recommendation/Requirement

The System must update its policies and procedures to ensure it completes the warrant hold check before any purchase, contract award, extension or renewal, and must retain a dated copy of the results in the procurement file.

System Response

TRS implemented a new electronic procurement system on Sept. 1, 2021, which will ensure our compliance with this task.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objective

The objective of this audit was to ensure contracting processes and payments comply with state laws and regulations.

Audit Scope

Auditors reviewed three contracts awarded by the Teacher Retirement System of Texas (System) that processed through Uniform Statewide Accounting System (USAS) and the Centralized Accounting and Payroll/Personnel System (CAPPS) from Sept. 1, 2019, through Aug. 31, 2020, to determine compliance with applicable state laws.

Texas law requires the Texas Comptroller of Public Accounts (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 System received appendices with the full report, including a list of identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The System should implement the recommendation made in the Detailed Findings section of this report. It is the System's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in [Texas Government Code, Section 403.071\(h\)](#), to ensure the System's documents comply in the future. The System must ensure the findings discussed in this report are resolved.

Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.



Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous audit of the agency.