



John Keel, CPA  
State Auditor

An Audit Report on  
**Performance Measures at the  
Teacher Retirement System**

July 12, 2011

Members of the Legislative Audit Committee:

The Teacher Retirement System (System) reported reliable results for all 3 (100 percent) key performance measures tested for fiscal year 2010. A performance measure result is considered reliable if it is certified or certified with qualification. The System's performance measures provide information regarding its operational efficiencies and customer service.

Two key performance measures were certified. Those were:

- Average Customer Hold Time for Calls Received on Toll-free Line (In Minutes).
- TRS Retirement Fund Benefit Administration Annual Operating Expense Per Total Member and Annuitant in Dollars (Excluding Investment Expenses).

One key performance measure—Percent of TRS-Care Medical Claims Adjudicated within 14 Days of Receipt—was certified with qualification because the System's current method for calculating the measure should be improved to ensure continued accuracy.

**Background Information**

The Teacher Retirement System (System), under Article 16, Section 67, of the Texas Constitution is authorized to provide retirement and related benefits for employees of public schools, colleges, and universities supported by the State of Texas. The System also administers health care plans for retirees (TRS-Care), active public school employees (TRS-ActiveCare), and their dependents.

The System is responsible for investing funds under its stewardship and for delivering benefits to members as authorized by the Legislature.

Entities report results for their key performance measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

Table 1 in the attachment to this letter summarizes the certification results for the three key performance measures tested.

The System should improve procedures for its medical claims processing performance measure.

To calculate the Percent of TRS-Care Medical Claims Adjudicated within 14 Days of Receipt performance measure, the System used a data source that did not correspond with the start and end dates of the time periods for which it was reporting results. The System uses weekly data to calculate the quarterly results for that performance measure. The weekly data is based on calendar week periods, and those weekly periods do not correspond with the required quarterly reporting periods for the performance measure. Although the weekly data that the System used to calculate and report the results for this performance measure did not completely align with the required quarterly reporting periods for fiscal year 2010, the System reported accurate results within the acceptable 5 percent margin. If the System continues to use data for weekly instead of quarterly reporting periods to calculate and report results for this performance measure, the System could report incorrect results into ABEST.

SAO Report No. 11-036

## Recommendation

The System should use data for the complete reporting period to calculate the Percent of TRS-Care Medical Claims Adjudicated within 14 Days of Receipt performance measure to continue to report reliable results.

The System agrees with the recommendation, and its responses are included in Section 3 of the attachment to this letter.

We appreciate the System's cooperation during this audit. If you have any questions, please contact Sandra Vice, Assistant State Auditor, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

## Attachment

cc: The Honorable Rick Perry, Governor of Texas  
Members of the Teacher Retirement System Board of Trustees  
Mr. R. David Kelly, Chairman  
Mr. Linus D. Wright, Vice Chairman  
Mr. Todd Barth  
Ms. Charlotte Clifton  
Mr. Robert P. Gauntt  
Mr. Eric C. McDonald  
Mr. Christopher S. Moss  
Mr. Philip Mullins  
Ms. Nanette Sissney  
Mr. Ronnie G. Jung, CPA, Executive Director  
Mr. Brian Guthrie, Executive Director Designate



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# Attachment

Section 1

## Summary of Results

Table 1 summarizes the certification results for the three key performance measures tested at the Teacher Retirement System.

Table 1

The Teacher Retirement System (Agency No. 323)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results <sup>a</sup>
A.1.3, Efficiency	Average Customer Hold Time for Calls Received on Toll-free Line (In Minutes)	2010	1.97	Certified
A.1.5, Outcome	TRS Retirement Fund Benefit Administration Annual Operating Expense Per Total Member and Annuitant in Dollars (Excluding Investment Expenses)	2010	\$23.06	Certified
A.2.1, Efficiency	Percent of TRS–Care Medical Claims Adjudicated within 14 Days of Receipt	2010	97.90%	Certified with Qualification

<sup>a</sup> A measure is **Certified** if reported performance is accurate within plus or minus 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

A measure is **Certified with Qualification** when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error rate in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A **Factors Prevented Certification** designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.

## **Objectives, Scope, and Methodology**

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### **Objectives**

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

- Is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Has adequate controls in place over the collection, calculation, and reporting of its performance measures.

### **Scope**

The scope of this audit included three key performance measures that the System reported for fiscal year 2010. Auditors reviewed controls over the collection, calculation, and submission of data used in reporting performance measures and traced performance measure documents to the original source when possible.

### **Methodology**

Auditors tested three key performance measures that the System reported in ABEST for fiscal year 2010. The System completed questionnaires related to its performance measurement process to help identify preliminary control information.

Information collected and reviewed included the following:

- Documentation supporting the System's calculation of each performance measure.
- Hard-copy documents that support measures tested.
- Performance measure data stored in the System's automated systems.
- Prior audit reports and American Institute of Certified Public Accountants' Statement on Auditing Standards No. 70 reviews of an automated system managed by a third party.
- Program code for database performance measure calculations.

Procedures and tests conducted included the following:

- Auditing measure calculations for accuracy and to ensure that they were consistent with the methodology on which the System and the Legislative Budget Board agreed.
- Analyzing data flow to evaluate whether proper controls were in place.
- Testing a sample of source documents, when available, to verify the accuracy of reported performance.
- Conducting high-level reviews of information systems that support the System's performance measure data.
- Analyzing reviews and audits performed on a third-party system that supports the System's performance measure data.
- Certifying performance measure results in one of four categories: (1) certified, (2) certified with qualification, (3) inaccurate, and (4) factors prevented certification.

Criteria used included:

- *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).
- ABEST measure definitions.
- Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards).

## **Project Information**

Audit fieldwork was conducted from April 2011 through May 2011. We conducted this performance 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.

The following members of the State Auditor's staff performed the audit:

- Stacey Williams, CGAP (Project Manager)
- Robert G. Kiker, CGAP (Assistant Project Manager)
- Olivia Gutierrez, Team Lead
- Jaime Navarro, CIDA

- Dana Musgrave, MBA (Quality Control Reviewer)
- Sandra Vice, CIA, CGAP, CISA (Assistant State Auditor)

## Management's Response

**Teacher Retirement System  
of Texas**



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EXECUTIVE DIRECTOR  
Ronnie G. Jung

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July 1, 2011

John Keel, CPA  
State Auditor  
Robert E. Johnson Bldg. 4<sup>th</sup> Floor  
1501 North Congress  
Austin, TX 78701

Dear Mr. Keel:

Thank you for the opportunity to respond to the finding and recommendation from the recent audit of Performance Measures at the Teacher Retirement System of Texas (TRS).

TRS agrees with the recommendation to use data for the complete reporting period to calculate the Percent of TRS-Care Medical Claims Adjudicated within 14 Days of Receipt. TRS will revise its procedures effective with the fourth quarter of fiscal year 2011 (June 1, 2011). The Director of TRS Health & Insurance Benefits will be the responsible party for implementing the change.

Specifically, TRS will use the corresponding weekly period report to test the reasonableness of the quarterly data. If the quarterly performance result is within +/-2% of the results derived from the corresponding weekly reports, then the quarterly results will be reported in ABEST. If there is a deviation greater than +/-2%, TRS will work with the health plan administrator to identify and correct the discrepancy before reporting final results in ABEST.

We appreciate the professionalism of your staff and the thoroughness of their review, and look forward to improving our process through the implementation of their recommendation.

Sincerely,

A handwritten signature in black ink that reads "Ronnie Jung". The signature is written in a cursive, flowing style.

Ronnie Jung  
Executive Director

RJ:mg

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