



John Keel, CPA  
State Auditor

A Report on the Audit of

# The Fire Fighters' Pension Commissioner's Fiscal Year 2006 Financial Statements

January 12, 2007

Members of the Legislative Audit Committee:

In our audit report dated December 18, 2006, we concluded that the Fire Fighters' Pension Commissioner's (Commissioner) basic financial statements for fiscal year 2006 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. Our procedures did not identify any material weaknesses in internal control over financial reporting or any noncompliance with laws or regulations that materially affected the financial statements. However, 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.

The major internal controls that we reviewed for the purpose of forming our opinion on the financial statements were generally operating effectively. As required by professional auditing standards, we will also communicate the results of the audit to the Audit Committee of the Texas Emergency Services Retirement System's (System) Board of Trustees.

## Actuarial Funding Status

Conducting our audit of the Commissioner's financial statements enabled us to obtain information on the actuarial funding status of the System's pension plan. **The System's actuary determined that the System was actuarially sound as of August 31, 2006.** This is significant, because the actuary had previously determined that the System was actuarially unsound as of August 31, 2002, and August 31, 2004.

The change in the System's actuarial funding status is partially the result of changes made by the System's Board of Trustees to (1) increase the minimum monthly contribution rate, (2) eliminate partial vesting for between 5 and 10 years of service, and (3) reduce the compounding benefit for service exceeding 15 years. The last two changes were implemented on January 1, 2007, but benefits were calculated and frozen as of December 31, 2006. Members who retire after December 31, 2006, will be held harmless by the changes; therefore, they will receive the greater of the benefits computed on December 31, 2006, or the benefits computed when they retire. These changes were made possible by the 79th Legislature through

### Background Information

- The Commissioner administers the Texas Emergency Services Retirement System (System), which provides retirement, death, and disability benefits to volunteer fire and emergency medical services personnel. At the end of fiscal year 2006, the System had 8,061 members, including 1,766 retirees and beneficiaries.
- The System's retirement benefits paid in fiscal year 2006 ranged from \$8 to \$831 per month. The average payment was approximately \$91 per month.
- Texas Government Code, Section 861.001(1), defines an actuarially sound pension system as a system for which the amount of contributions is sufficient to cover the normal cost and amortization of the unfunded prior-service cost in a period not to exceed 30 years.
- Texas Government Code, Section 865.015, requires the State to contribute a sum necessary to make the pension plan actuarially sound each year. However, statute requires that this contribution may not exceed one-third of the total of all contributions by participating department governing bodies in one year.

SAO Report No. 07-010

statutory changes that gave the Board of Trustees more authority to make changes to components of the pension plan.

**The actuary's determination that the System is actuarially sound also assumes that certain funding from the State will continue.** For fiscal year 2006, the Legislature appropriated \$675,307 in General Revenue as a contribution to the System in accordance with Texas Government Code, Section 865.015 (see text box on page 1), as well as \$394,898 in General Revenue to fund administrative expenses that had previously been paid for out of the pension plan. This funding continues for fiscal year 2007, with \$709,072 in General Revenue for the System and \$400,241 in General Revenue for administrative expenses. The actuary calculated that the contributions to the System would need to continue for 21 years and that the funding of expenses would need to continue indefinitely. **Without this funding, the System's financing arrangement would not be adequate.**

Table 1 summarizes significant financial information regarding the System.

Table 1

Selected Information from Actuarial Valuations of the Texas Emergency Services Retirement System		
	As of August 31, 2004	As of August 31, 2006
<b>Information Related to Unfunded Actuarial Accrued Liability</b>		
Actuarial Accrued Liability	\$51,567,426	\$58,082,828
Actuarial Value of Assets (excludes unrecognized investment gains and losses)	\$38,140,501	\$42,268,305
Unfunded Actuarial Accrued Liability (UAAL)	\$13,426,925	\$15,814,523
Present Value of Maximum State Contributions (over 21 years)	Not applicable	\$ 8,853,211
Adjusted UAAL	Not applicable	\$ 8,143,105
<b>Information Related to Projected Contributions</b>		
Required Contributions in Next Fund Year to Fund Normal Cost	\$2,057,794	\$1,856,675
Expected Contributions in Next Fund Year	\$2,042,542	\$2,553,216
Annual Amount Available to Amortize the UAAL	\$ (15,252)	\$ 696,541
Required Contributions in Next Fund Year to Amortize UAAL over 30 years	\$1,148,506	\$ 696,541
Total Contribution Deficiency	\$1,163,758	\$ 0
Years to Amortize the UAAL	Infinity	30

Source: Texas Emergency Services Retirement System actuarial valuations as of August 31, 2004, and August 31, 2006.

#### Changes Made to Increase Efficiency and Improve Processes

During our audit, we also obtained information on the following areas in which the Commissioner has increased efficiency and improved processes:

- The Commissioner has further separated the accounting function from the pension management function. The Commissioner's staff compute the contribution amounts for participating departments and the pension benefit payments, but the contract accountant now processes and manages the billing to participating departments and benefit payment processes.

- To increase efficiency, the Commissioner has encouraged participating departments to submit their contribution payments electronically. In fiscal year 2006, 84 percent of the participating departments submitted their payments electronically through automated clearinghouse (ACH) and wire transfers, which represents almost 94 percent of the amounts received.
- The Commissioner has implemented a Web-based pension information system that gives participating departments access to and responsibility for their members' information. This has improved the accuracy of the data maintained by the Commissioner, and it had a positive effect on the System's actuarial valuation.
- In November 2006, members were sent statements showing their service to date and projected retirement annuities. According to the Commissioner, this was the first time that such statements were made available and, therefore, it was the first time that many of the members were made aware of their pension benefits. Providing these statements was made possible in part by the fact that improved data was available. The Commissioner plans to provide these statements on an annual basis.

**Summary of  
Objective, Scope, and Methodology**

The objective of the audit was to issue an opinion on the Fire Fighters' Pension Commissioner's (Commissioner) fiscal year 2006 financial statements.

The audit scope covered the Commissioner's basic financial statements for fiscal year 2006.

The audit methodology included conducting interviews, confirming investment balances and contributions received, testing benefit payments, and performing other analytical procedures.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The following staff of the State Auditor's Office performed the audit:

- Anthony W. Rose, MPA, CPA, CGFM (Project Manager)
- David Dowden (Assistant Project Manager)
- Agnes Rasmussen, CPA, CISA (Quality Control Reviewer)
- Nicole Guerrero, MBA, CGAP (Audit Manager)

We appreciate the Commissioner's cooperation during this audit. If you have any questions, please contact Nicole Guerrero, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

cc: Members of the Texas Emergency Services Retirement System Board of Trustees  
Ms. Lisa Ivie Miller, Commissioner, Fire Fighters' Pension Commissioner



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