



John Keel, CPA  
State Auditor

A Report on the Audit of  
**The Office of the Fire Fighters' Pension  
Commissioner's Fiscal Year 2007  
Financial Statements**

January 14, 2008

Members of the Legislative Audit Committee:

In our audit report dated December 18, 2007, we concluded that the Office of the Fire Fighters' Pension Commissioner's (Office) basic financial statements for fiscal year 2007 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 were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on other laws and regulations. Our procedures did not identify any instances of noncompliance that materially affected the financial statements.

However, we identified deficiencies related primarily to controls over cash and investment reconciliations that, when combined, represent a significant weakness in internal control over financial statement reporting. On September 1, 2007, the Legislature appropriated to the Office \$8.8 million for the present value of its unfunded actuarial accrued liability, thus increasing the amount of investment funds over which the Office has stewardship. These investments provide the basis for all future benefit payments. Should the deficiencies identified below not be corrected, they may become a material weakness in internal control as these investments grow.

**Background Information**

- The Office of the Fire Fighters' Pension Commissioner (Office) 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 2007, the System had 8,223 members, including 1,866 retirees and beneficiaries.
- Retirement benefits paid in fiscal year 2007 totaled \$2,470,797, which represented 92 percent of the System's total expenses.
- At the end of fiscal year 2007, the System held \$466,021 cash in the State Treasury and \$50,141,432 in total investments. Investment holdings constituted 98 percent of the System's total assets, as of August 31, 2007.
- For fiscal year 2007, investment income comprised 62 percent of the System's income, and pension contributions comprised 31 percent of the System's income.

**The Office Should Ensure That All Cash and Investment Accounts Are Reconciled on a Timely Basis and Receive Management-level Reviews**

The Office contracts with an independent certified public accounting (CPA) firm to provide agency accounting functions. The Office also contracts with a third-party bank to maintain custody over and provide detailed transaction data for the Texas Emergency Services Retirement System's investments. All reporting, processing, and executing of disbursements and receipts are performed by one individual at the CPA firm. This same individual also performs all reconciliations.

However, investment reconciliations between the Office's accounting systems and the custodial records from the third-party bank are not done on a timely basis nor are they reviewed by management. As a result,

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investment transactions are not recorded in the Office's accounting systems when they occur, which decreases the reliability of the Office's financial data. For 8 of the 12 months in fiscal year 2007, investment income transactions were recorded at least 4 months after they occurred. Cash reconciliations are reviewed by management; however, the reconciliations are not performed in a timely manner. For example, the reconciliation of activity for September 2006 was not performed or reviewed until January 2007.

Investment and cash held in trust should be recorded on the accounts and reconciled on a monthly basis to ensure appropriate fiduciary stewardship and financial management control over pension funds. When transactions are not recorded in the accounting systems when they occur, and when they are not reconciled and reviewed by management on a timely basis, there is increased risk that material misstatements will not be prevented or detected. In addition, this situation provides an opportunity for theft by fraud. However, we found no instances of fraud or other illegal activity.

#### Recommendations

The Office should ensure that:

- Transactions are recorded in the accounting systems on a timely basis and are posted to the month in which they occur.
- All reconciliations are performed and documented within a reasonable amount of time after the end of each month.
- Management-level reviews of all reconciliations are performed and documented.

The Office agrees with the recommendations in this report, and its responses are included in the attachment. If you have any questions, please contact Lisa Collier, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

Attachment

#### Summary of Objective, Scope, and Methodology

The objective of the audit was to issue an opinion on the Office of the Fire Fighters' Pension Commissioner's (Office) fiscal year 2007 financial statements.

The audit scope covered the Office's basic financial statements for fiscal year 2007.

The audit methodology included conducting interviews; confirming investment balances, contributions received, and benefit payments made; 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:

- Mary Ann Wise, CPA, CFE (Project Manager)
- Cesar Saldivar (Assistant Project Manager)
- Leslie P. Ashton, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)

cc: Members of the Texas Emergency Services Retirement System Board of Trustees  
Mr. Frank Torres, Chairman  
Mr. Allen J. Scopel, Vice Chairman  
Mr. Paul V. Loeffler, Secretary  
Mr. Blevins (Oscar) Choate, Jr.  
Mr. Kyle A. Donaldson  
Ms. Gracie G. Flores  
Mr. Patrick Hull  
Mr. Rex W. Klesel  
Mr. Maxie L. Patterson  
Ms. Lisa Ivie Miller, Commissioner, Office of the Fire Fighters' Pension Commissioner



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# Attachment

## Office of the Fire Fighters' Pension Commissioner's Response



### OFFICE OF THE FIRE FIGHTERS' PENSION COMMISSIONER

January 8, 2008

Ms. Mary Wise, CPA, CFE  
Senior Auditor  
Texas State Auditor's Office  
P.O. Box 12067  
Austin Tx 78701

RE: Management Response  
Report on the Audit of the Office of the Fire Fighter's Pension Commissioner's  
Fiscal Year 2007 Financial Statements

Dear Ms. Wise:

In accordance with the Texas Government Code, Section 321.0131, please accept this letter as our response to *A Report on the Audit of the Office of the Fire Fighter's Pension Commissioner's Fiscal Year 2007 Financial Statements*. We rely upon your finding that the audit did not detect fraud or other illegal activity and that the financial statements for fiscal year 2007 were materially correct and presented in accordance with the accounting principles generally accepted in the United States of America.

#### Management Response:

We recognize that the report was critical of agency procedures and delays in reconciling cash and investment accounts. We agree that cash reconciliations are not performed timely during the first several months of each fiscal year due to the time demands of completing the unaudited and audited financial statements for the previous fiscal year.

It has historically been our opinion that the delay in updating agency investment accounts does not represent a material weakness in internal control. The agency relies upon a contract custodial bank to provide global custody and accounting of the System's investments on a trade-by-trade basis. The System investment consultant also conducts a performance review of the investment accounts. We are confident in their technical expertise and their procedure for investment accounting. As a result, it has been standard operating practice for many years to complete the update of agency investment accounts by the end of the fiscal year.

We will make the following changes to respond to your finding that all cash and investment accounts be reconciled on a timely basis and receive management-level reviews. The following procedures will be implemented immediately:

- The contract accountant will perform monthly cash reconciliations within 20 days after the close of the preceding month.
- The contract accountant will update our agency investment accounts to reflect the custodial bank accounting records not later than 20 days after the close of the preceding month.
- The managing partner of the CPA firm will conduct a documented review of the cash and investment reconciliations not later than 30 days after the close of the preceding month and forward a signed reconciliation summary report to the Commissioner.

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- The Commissioner will review the CPA's reconciliation summary report and document the receipt and review.

We want to thank you and your staff for the thoroughness of the audit and the opportunity to respond to this report. If you have questions, please do not hesitate to contact this office.

Sincerely,



Lisa Ivie Miller  
Commissioner

CC: Board of Trustees

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