



John Keel, CPA
State Auditor

A Report on
**The Audit of the Office of the
Fire Fighters' Pension Commissioner's
Fiscal Year 2011 Financial Statements**

January 6, 2012

Members of the Legislative Audit Committee:

In our audit report dated December 20, 2011, we concluded that the Office of the Fire Fighters' Pension Commissioner's (Office) basic financial statements for fiscal year 2011 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The Office published our audit report as part of its basic financial statements, which it intends to post on its Web site at <https://www.ffpc.state.tx.us/tesrs/tesrs.html>.

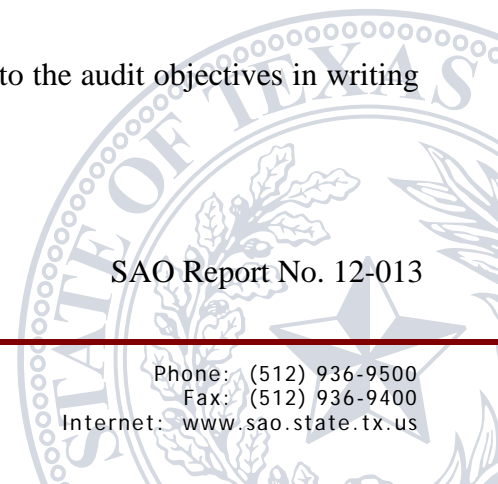
We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from Office management, is presented in the attachment to this letter). In that report, auditors identified the following deficiencies in the Office's internal control structure over its pension application:

- The Office lacks documented policies and procedures to help ensure that (1) users have the appropriate level of access to the pension application and (2) periodic reviews of access rights for Office staff are performed and documented. Auditors identified programmers who had inappropriate access to the application and one programmer who made improper deletions to application data for legitimate payments.
- The Office does not have an adequate, documented change management process in place.
- The pension application does not have an audit trail to help the Office identify any changes made to data or programming code.
- The Office should strengthen its password controls to increase protection of confidential data in the pension application.

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. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting or on compliance with laws and regulations.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Office's management.

SAO Report No. 12-013



As required by auditing standards, we will also communicate to the Texas Emergency Services Retirement System Board of Trustees certain matters related to the conduct of a financial statement audit.

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

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas Emergency Services Retirement System Board of Trustees
Mr. Frank Torres, Chairman
Ms. Gracie G. Flores, Vice Chair
Mr. Max Patterson, Secretary
Mr. Dan Key
Mr. Ron Larson
Ms. Jenny Moore
Mr. Dennis R. Rice
Mr. Don Shipman
Mr. Stephen Williams
Ms. Sherri Walker, Commissioner, Office of the Fire Fighters' Pension Commissioner



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Attachment



Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Texas Emergency Services Retirement System Board of Trustees:

Mr. Frank Torres, Chairman
Ms. Gracie G. Flores, Vice Chairman
Mr. Max Patterson, Secretary
Mr. Dan Key
Mr. Ron Larson
Ms. Jenny Moore
Mr. Dennis R. Rice
Mr. Don Shipman
Mr. Stephen Williams

We have audited the financial statements of the Office of the Fire Fighters' Pension Commissioner (Office) as of and for the year ended August 31, 2011, and have issued our report thereon dated December 20, 2011. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

Internal Control over Financial Reporting

Management of the Office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all

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deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Schedule of Findings and Responses
Finding Number
2011-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Office in writing.

The Office's response to the finding identified in our audit is included in the accompanying schedule of findings and responses. We did not audit the Office's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Trustees, Office management, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA
State Auditor

December 20, 2011

Schedule of Findings and Responses

Section 1

The Office Should Develop and Implement Controls Over Its Pension Application (TOPS)

Reference No. 2011-1

Type of finding: Significant Deficiency

The Office of Fire Fighter's Pension Commissioner (Office) should develop and implement controls related to the development, implementation, and monitoring of its pension application (Texas Emergency Services Retirement System Online Pension System, or TOPS) to ensure that logical access is adequate, changes to the application and data are authorized and appropriate, and that it has adequate password policies to ensure accountability as required by Title 1, Texas Administrative Code, Section 202.25 (see text box). The Office uses TOPS to record member data for participating volunteer emergency service personnel and to ensure that correct pension contributions are paid to administer the pension plan. Also, TOPS records and processes pension retiree/beneficiary information including the calculation of pension benefit payments. Strong information technology controls are necessary to help ensure that related amounts are accurately recorded in the financial statements and that funds are adequately safeguarded. The Office reported that it received \$3.1 million for Texas Emergency Services Retirement System (TESRS) contributions and paid approximately \$3.0 million for TESRS benefits for the fiscal year ended August 31, 2011. Specifically, auditors identified control deficiencies in the following areas:

Texas Administrative Code Information Security Standards

Title 1, Texas Administrative Code, Section 202.25, requires agencies to implement information resources security safeguards. These include:

- Managing access to information systems to ensure that the users are authorized.
- Protecting the confidentiality of data and systems and ensure that only authorized users have access to the data.
- Implementing password controls based on industry best practices to identify and track users.
- Maintaining appropriate audit trails to provide accountability for updates to information.
- Using a change management process that helps ensure the information owner approves system changes prior to implementation.
- Developing and documenting security policies, including those for account management, application security, and change management.

- **User access.** The Office lacks documented policies and procedures to help ensure that users have the appropriate level of access to the TOPS application and that periodic reviews of access rights for Office staff are performed and documented. Auditors identified programmers who had inappropriate access to the application and one programmer that made improper deletions to application data for legitimate payments.
- **Change management.** The Office does not have an adequate, documented change management process in place. Auditors identified instances of programming changes to the TOPS application that were not requested, reviewed, or approved.

- **Monitoring.** TOPS does not have an audit trail to help the Office identify any changes made to data or programming code.
- **Passwords.** The Office should strengthen its password controls to increase protection of confidential data in the TOPS application. Auditors communicated details about the findings related to passwords separately in writing to management.

Recommendations

The Office should:

- Restore all inappropriately deleted records to help ensure that the data in TOPS is accurate and complete.
- Establish a documented change management process to help ensure that program changes to the TOPS application are authorized and that contractors' access rights are appropriate. This could include the development of mitigating controls to monitor program changes.
- Develop an audit trail in TOPS that identifies all changes made to data and programming code.
- Strengthen its password policies to increase protection of data in the TOPS application.

Management's Response

- *The Fire Fighters' Pension Commission has addressed the issues with their programmers to further enhance the agency's security.*
- *The FFPC is working with the webhosting provider to correct any system failures.*
- *The agency is taking corrective action to maintain and restore data.*
- *The agency is implementing a detailed audit trail.*
- *Policies are being reviewed, updated and established as recommended.*