



John Keel, CPA  
State Auditor

A Report on  
**The Audit of the Office of the Fire Fighters'  
Pension Commissioner's Fiscal Year 2012  
Financial Statements**

January 17, 2013

Members of the Legislative Audit Committee:

In our audit report dated December 20, 2012, we concluded that the Office of the Fire Fighters' Pension Commissioner's (the Office) basic financial statements for fiscal year 2012 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/ffpc\\_Accounting.aspx](https://www.ffpc.state.tx.us/ffpc_Accounting.aspx).

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 management, is presented in the attachment to this letter). In that report, auditors determined that the Office should improve the overarching controls that are the basis for operating its organization. Auditors also determined that the Office should develop and implement controls related to the development, implementation, and monitoring of its 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.

As required by auditing standards, we will also communicate to the Office's 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 Verma Elliott, 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  
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  
Ms. Sherri Walker, 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 governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Fire Fighters' Pension Commissioner (Office) as of and for the year ended August 31, 2012, which collectively comprise the Office's basic financial statements and have issued our report thereon dated December 20, 2012. 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.

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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 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 significant deficiencies. 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.

Summary of Findings and Responses
Finding Number
2012-1
2012-2

#### **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 findings identified in our audit is included in the accompanying schedule of findings and responses. Office management did not agree with auditors' determination that it did not adequately monitor its information technology function. The information in the Office's management responses did not cause the State Auditor's Office to modify the findings or recommendations in this report. 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 Texas Emergency Services Retirement System 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, 2012

## Schedule of Findings and Responses

### Section 1

### **The Office Should Strengthen the Control Environment It Uses for Management of Its Organization**

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Reference No. 2012-1

Type of finding: Significant Deficiency

The Office of the Fire Fighters' Pension Commissioner (Office) should improve the overarching controls that are the basis for operating its organization. This includes controls over financial reporting. Although the Office is small (eight employees), effective management of any organization requires a set of specific controls to provide the necessary framework through which each employee can carry out his or her assigned responsibilities. Many of the controls the Office uses are informal and undocumented. In addition, auditors identified several weaknesses in the Office's control environment. Those weaknesses relate to information technology systems, which support all functions of the organization, and to the general operations of the Office. The weaknesses in totality limit the Office's ability to meet its goals and objectives and produce accurate and complete financial reporting. Specifically:

- The Office has outsourced its entire information technology function; however, it does not adequately monitor that function and provide necessary guidance to the contractor that performs that function. The Office also does not have a formal information technology policy to help provide guidance. As indicated in finding 2012-2 (see below), the Office has a number of significant issues related to information technology that have not been addressed for at least two fiscal years. While management can use others to execute activities for or on behalf of the Office, management is still responsible for monitoring those activities and implementing controls to manage the associated risks.
- The Office does not ensure that its employees are adequately informed about its policies and procedures. For example, the Office could not provide auditors a copy of the *Employee Handbook* that was in effect during fiscal year 2012. The Office provided evidence that it updated its *Employee Handbook* in February 2011; however, the *Employee Handbook* could not be located on the Office's computer system. It appeared that the changes were related to changing the Social Security rate and other minor changes. In November 2012, the Office provided auditors a copy of the *Employee Handbook* that was recently updated in July 2012 and in effect during fiscal year 2013. However, employees could produce only a copy of the 2010 handbook. The *Employee Handbook* contains policies that

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govern the Office, including human resources policies. When employees do not have access to updated handbooks, they may not be informed about the Office's policies. For example, none of the Office employees that auditors interviewed knew what was in the Office's ethics policy or where a copy of the policy was located—which was in the *Employee Handbook*. The Office noted, however, that some employees signed an ethics policy on the day they were hired. The Office should ensure not only that each employee receives and retains the *Employee Handbook* but also document that each employee has reviewed all updates.

- The Office could not provide job descriptions for all employees. The job descriptions the Office provided were standard statewide job descriptions, rather than job descriptions that were specific to an employee's duties. The Office stated that the standard job descriptions are adequate because many of the employees' jobs are fluid and assignments can change frequently. Within the past two years, the Office has experienced significant turnover. Four of the Office's eight employees have worked at the Office for fewer than two years. Three employees have worked there between two and five years, and only one employee has worked at the Office for more than five years. Job descriptions are an important tool to clearly communicate management's expectations of employees and related job duties.
- The Office does not have documentation showing that it conducted employee evaluations for fiscal year 2012 or within a year of employees'

last evaluations. The Office's *Employee Handbook* states that each employee will have an evaluation on his or her respective employment anniversary date. The Office provided evidence that it last conducted evaluations for some employees in July 2011. Without current evaluations, employees' ability to assess their performance throughout the year is limited.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework to help management implement better internal controls (see text box for additional details). The Office could use the COSO framework to help it strengthen its overall control environment and provide structure over Office operations, reporting, and compliance.

**Five Components of an Internal Control Integrated Framework**

- **Control Environment:** Sets the tone of an organization, influencing the control consciousness of its people.
- **Risk Assessment:** An organization's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how risks should be managed.
- **Control Activities:** Established by policies and procedures and should be performed at all levels and at various stages of business processes to ensure that management directives are carried out.
- **Information and Communication:** The identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- **Monitoring:** A process that assesses the quality of internal control performance over time.

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### Recommendations

The Office should strengthen the control environment it uses for management. This should include:

- Developing processes to monitor the information technology function.
- Ensuring that employees receive the updated version of the *Employee Handbook* and document that they have reviewed the handbook, including the Office's ethics policy.
- Developing current job descriptions for all employees.
- Conducting and documenting annual employee performance evaluations.



Section 2

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

Reference No. 2012-2

**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 (the 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. TOPS also records and processes pension retiree/beneficiary information including the calculation of pension benefit payments

**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 ensuring 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.

Auditors identified the same significant deficiency during the audit of the Office's fiscal year 2011 financial statements (see *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2011 Financial Statements*, State Auditor's Office Report No. 12-013, January 2012). The Office did not implement any corrective actions to address the significant deficiency. Strong information technology controls are necessary to help ensure that amounts are accurately recorded in the financial statements and that funds are adequately safeguarded. The Office reported that it received \$3.56 million in Texas Emergency Services Retirement System (TESRS) contributions and paid approximately \$3.15 million in TESRS benefits in the fiscal year 2012.

Specifically, auditors identified control deficiencies in the following areas:

- **User access.** The Office lacks documented policies and procedures to help ensure that users have the appropriate level of access to TOPS and that periodic reviews of access rights for Office staff are performed and documented. As a result, user access is not always restricted to current employees who require access to perform their job duties.
- **Change management.** The Office does not have an adequate, documented change management process.

- **Monitoring.** TOPS does not have a reliable 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 TOPS application. Auditors communicated details about findings related to passwords separately in writing to management.

### **Recommendations**

The Office should:

- Periodically review user access to ensure that it appropriately restricts access based on each user's job responsibilities.
- Establish a documented change management process to help ensure that program changes to TOPS are authorized and that contractors' access rights are appropriate. This could include the development of mitigating controls to monitor program changes.
- Develop a reliable audit trail in TOPS that identifies all changes made to data and programming code.
- Strengthen its password policies to increase protection of data in TOPS.

## Management's Response



SHERRI WALKER  
COMMISSIONER

### FIRE FIGHTERS' PENSION COMMISSION

ANA TINSLEY  
BENEFITS DIRECTOR

#### AGENCY RESPONSE TO STATE AUDITOR'S FINDINGS

The Fire Fighters' Pension Commission (FFPC) has undergone a review by the State Auditor's Office (SAO) and is not in complete agreement with their findings. In November of 2010, this agency came under new management. The first year was spent assessing the operations and functions of the agency. New administration found significant issues regarding the operations of the agency. These issues were prioritized according to urgency and functionality of the agency. Corrective action has been a time-consuming and arduous process. The corrective measures is an ongoing work in progress. While the SAO has identified matters the administration should address, the SAO has been informed as to the corrective action that is in process. As a small agency with limited employees and resources, it takes time to make numerous corrective changes. This is especially true when significant issues are found. While it is understood the need of the SAO to identify these matters, it should also be noted that a significant number of corrective actions have already been taken that were not reflected in the SAO's report.

- The SAO has criticized the information technology function of the FFPC. The agency acknowledges the technology challenges. This agency has limited employees to provide the functions for which it is responsible. There is currently no computer technology expert on staff due to the number of full time employees and budget constraints. Technology functions and policies were not addressed in past administrations. The issues raised by the SAO are valid; however, they are currently being addressed.
- The technology deficiencies were among the first recognized for needing improvement and have been underway for the past year. Budgetary constraints have slowed the progress, but action is being taken to bring the agency into technological compliance. The FFPC has been working with the Department of Information Resources and SAO to ensure appropriate action is taken and policy established. The finding of the SAO does not credit the agency with the progress it has made and is inaccurate regarding the agency's monitoring and contact with vendors. Daily contact with the vendor and year-end reports are conducted. The communication vendor issues tickets acknowledging such contact.

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- The agency's employee handbook is kept and maintained on the agency's hard drive. When employees are hired, each receives a handbook and they are directed where the handbook is located on the computer. Employees acknowledge the receipt and direction instructions to the handbook by signing forms that are kept in their permanent employee file. The SAO was given evidence of this and could not find proof of any employee NOT receiving the handbook or knowing of its location. The 2011 handbook had been updated with the Commissioner's signed approval of the changes. During the audit it was discovered the 2011 handbook had been inadvertently deleted when the 2012 handbook was created. This was done in error and has since been corrected.
- The agency's ethics policy is located in the Employee Handbook. The employees all acknowledged receipt of the handbook and its in-house location. The employee who indicated they did not know of the Ethics Policy had a signed copy of the ethics policy in their permanent employee file. This same employee is the person charged with incorporating approved updates to the handbook where the ethics policy exists. To address any confusion, each employee will annually be required to acknowledge reading and understanding the agency's handbook and ethics policy.
- The SAO criticized that the FFPC did not have job descriptions for each employee. Under the new administration, each new employee is given a job description. A job description is also created and posted with the Texas Workforce Commission. The agency has lost two employees to better paying positions with other state agencies, one employee was dismissed after the probationary period, and one employee abandoned their position when it was discovered that the employee had not been performing their duties. When the lack of performance by the employee was addressed and a corrective plan of action was developed, the employee ceased coming to work. These positions have been filled since these departures and qualified candidates hired. The agency is working more efficiently and moving toward the goal the current administration seeks.
- The SAO criticized the employee evaluation process. The current administration has been in place two years and conducted evaluations in 2011. Due to the agency undergoing Sunset Review and the current audit by the SAO, the 2012 evaluations were postponed to the end of January 2013. Yearly evaluations have been the practice of the new administration. Prior to 2011, only two evaluations had been conducted in 6 years. The improvements made by the current administration are within reason and address the inefficiencies of the past. The SAO recommendation to consult the COSO framework for controls is within reason and acceptable.

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**Recommendations**

- The FFPC is in agreement with the recommendation to improve the process to monitor the information technology function. As stated earlier, steps are in place to address these matters.
- The Employee Handbook will be part of each evaluation as will the Ethics Policy. Documented annual receipt and understanding will be kept in the employee's permanent file.
- Employees will be given current job descriptions at each evaluation.
- Annual employee evaluations are already in place and will continue.

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#### **Auditor Follow-up Comment**

Auditors identified several issues related to the security of the Office's information technology systems, which was the basis for the determination that the Office did not adequately monitor its information technology function or provide adequate guidance to its contractor. Specifically, the Office did not provide the vendors with rules for setting up employees' passwords to the Office's systems, procedures for the management of information technology changes, or updates of users' access based on employees' responsibilities. Adequate change management procedures and security controls are particularly important because the Office is in the process of implementing significant changes in TOPS. Auditors reviewed management's reasons for disagreeing with the finding and determined that they do not mitigate the risk associated with the issue.