An Audit Report on

Performance Measures at the Texas Emergency Services Retirement System

October 2019
Report No. 20-001

Overall Conclusion

The Texas Emergency Services Retirement System (System) lacked adequate controls over the collection, calculation, review, and reporting of the three key performance measures audited. In addition, the System had weaknesses related to its information technology processes. As a result, the System reported results that were certified with qualification for one of the three performance measures audited, but reported inaccurate results for the other two measures. Specifically:

Reliable Results. The System reported reliable results for the Number of Benefit Payments Distributed performance measure in fiscal year 2018 and the first two quarters in fiscal year 2019. That measure was certified with qualification.

Unreliable Results. The System reported unreliable results for two of the performance measures tested for fiscal year 2018 and the first two quarters in fiscal year 2019. Specifically, the System reported inaccurate results for the following performance measures:

➢ The Average Annual Administrative Cost Per Pension Plan Member.

➢ The Number of Onsite Visits.

Table 1 on the next page summarizes the certification results for the three performance measures tested.

Performance Measures

Agencies 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. Key performance measures are:

- Budget drivers that are generally externally focused.
- Closely related to the goals identified in the statewide strategic plan.
- Reflective of the characteristics of good performance measures.

Source: *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012).

Background Information

The 83rd Legislature approved the creation of the Texas Emergency Services Retirement System (System) as a state agency, with an executive director hired by a board of trustees.

The System provides retirement, disability, and death benefits to eligible members and their surviving spouses. All emergency services personnel who provide services related to fire, rescue, and emergency medical services and who serve without monetary remuneration while members in good standing of a participating department are eligible.

The System's mission is to provide secure and meaningful benefits for members and their families, prudently manage assets, and recruit/retain additional members by offering a cost-effective solution to the sponsoring entities.

The System's appropriations totaled approximately $2 million for fiscal year 2018 and $2 million for fiscal year 2019.

Sources: The System and the General Appropriations Act (85th Legislature).

This audit was conducted in accordance with Texas Government Code, Section 2101.038.

For more information regarding this report, please contact Audrey O'Neill, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Table 1

Performance Measure Results for the Texas Emergency Services Retirement System (Agency No. 326)				
Related Objective or Strategy, Classification	**Description of Measure**	**Fiscal Year**	**Results Reported in ABEST**	**Certification Results [a]**
A.1.1, Efficiency	Average Annual Administrative Cost Per Pension Plan Member	2018 First and Second Quarter 2019 [b]	$93.05 $51.04	Inaccurate Inaccurate
A.1.1, Output	Number of Benefit Payments Distributed	2018 First and Second Quarter 2019 [b]	40,229 21,541	Certified with Qualification Certified with Qualification
A.2.1, Output	Number of Onsite Visits	2018 First and Second Quarter 2019 [b]	65 34	Inaccurate Inaccurate

[a] A performance 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 performance 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 performance measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A performance measure is also certified with qualification if agency calculation of performance deviated from the performance measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A performance measure is **inaccurate** when the actual performance is not within 5 percent of the reported performance, or when there is a 5 percent or greater error rate in the sample of documentation tested. A performance measure also is inaccurate if the agency's calculation deviated from the performance measure definition and caused a 5 percent or greater 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 performance measure definition and the auditor cannot determine the correct performance measure result.

[b] The Commission reported this performance measure in ABEST on a quarterly basis; therefore, auditors tested this performance measure for fiscal year 2018 and the first and second quarters of fiscal year 2019.

Auditors communicated other, less significant issues separately in writing to System management.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The System agreed with the recommendations in this report.

Audit Objectives and Scope

The objectives of this audit were to determine whether the System:

➢ Is accurately reporting its performance measures results 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.

The scope of this audit covered three key performance measures that the System reported for fiscal year 2018 (September 1, 2017, through August 31, 2018) and the first two quarters of fiscal year 2019 (September 1, 2018, through February 28, 2019).

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Detailed Results

The System Did Not Have Adequate Controls to Ensure That It Adequately Reports Its Performance Measures

The Texas Emergency Services Retirement System (System) did not have adequate controls over all three key performance measures audited. In addition, the System did not have adequate controls over its information technology systems used to support its performance measure reporting. Specifically, the System did not have adequate controls in the following areas:

- **Written Policies and Procedures.** The System did not have written policies and procedures for the collection, calculation, review, and reporting of performance measure results during fiscal year 2018 or the first two quarters of fiscal year 2019. Having written policies and procedures could help the System ensure consistency and accuracy in its performance measure process. The *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012) requires that state agencies document steps for collecting, calculating, reviewing, and reporting performance measure data in written policies and procedures. Without documented policies and procedures, a performance measure cannot receive a rating higher than certified with qualification.

- **Documented Reviews of Data Entered into the Automated Budget and Evaluation System of Texas (ABEST).** For fiscal year 2018 and the first two quarters of fiscal year 2019, the System did not have documented reviews of the data entry of performance measure results by an individual who did not enter the data before that data was released into ABEST, as required by the *Guide to Performance Measure Management*. The System's ABEST coordinator is responsible for entering and releasing data into ABEST. The lack of effective reviews contributed to the System reporting inaccurate performance measure results (see Chapter 3).

- **Information Technology Controls.** The System had weaknesses in its controls related to its information technology processes, such as weaknesses in its policies and procedures, change management processes, and user access management for the information technology systems it used to report performance measures. For example, the System had not established documented policies and procedures related to key information

technology areas, such as change management. Auditors communicated details related to the issues directly to System management.

Recommendations

The System should:

- Develop written policies and procedures to document all steps performed in the collection, calculation, review, and reporting of its performance measure data.

- Ensure that a documented review of performance measure data entered into ABEST is conducted by an individual other than the person who entered the data prior to releasing it into ABEST.

- Strengthen its information technology processes, including strengthening controls related to policies and procedures, change management, and user access.

Management's Response

Recommendation 1: Management agrees with the auditor's recommendation to develop written policies and procedures to document all steps performed in the collection, calculation, review, and reporting of its performance measure data. Management agrees that it is important to enhance its current documentation to ensure staff unfamiliar with the measures can easily and consistently produce (and reproduce) accurate and reliable results. In response to this recommendation, management will develop written policies and procedures that encompass the collection, calculation, review, and reporting of its performance measure data and that ensure consistency and accuracy in its performance measurement process. Management will also improve communication with System staff throughout the process of reviewing existing performance measures and measurement systems to ensure that each staff member understands their roles and responsibilities in the agency's performance measurement system.

Recommendation 2: Management agrees with the auditor's recommendation to enhance its reviews of performance measure results entered into ABEST prior to submitting those results into the system. In response to this recommendation, management will create written policies and the Chief Financial Officer will supervise the work of the ABEST Coordinator and will review the accuracy of performance measure data entered into the ABEST prior to release.

Recommendation 3: Management agrees with the auditor's recommendation to strengthen it information technology processes, including strengthening controls related to policies and procedures, change management, and user access. The System will strengthen its information technology (IT) processes by taking the following steps:

- *Work with its service providers to develop shared change management processes that will improve planning, documentation, and deployment of IT projects.*

- *Seek additional funding from the legislature to hire an IT manager with the experience needed to oversee the pension system's complex information management systems.*

- *Seek additional funding from the legislature to pay contract services needed to procure user management systems to control and monitor access to various IT resources, including systems, devices, applications, storage systems, and networks.*

The System Reported Reliable Results for One Key Performance Measure Tested

The System accurately reported the results for the Number of Benefit Payments Distributed performance measure for fiscal year 2018 and the first two quarters of fiscal year 2019. That measure was <u>certified with qualification</u> because of the control weaknesses discussed in Chapter 1. A result is considered reliable if it is certified or certified with qualification.

The System's reported results for Number of Benefit Payments Distributed was within 5 percent of the auditors' recalculation of the actual performance. In addition, the System accurately reported all 61 payments tested for this performance measure in ABEST in fiscal year 2018 and all 61 payments tested for the first two quarters of fiscal year 2019.

Certified With Qualification

A performance 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 performance measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A performance measure is also certified with qualification if agency calculation of performance deviated from the performance measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

Source: *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012).

The System Reported Unreliable Results for Two Key Performance Measures Tested

The System reported unreliable results for the Average Annual Administrative Cost Per Pension Plan Member and the Number of Onsite Visits key performance measures for fiscal year 2018 and the first two quarters of fiscal year 2019.

Average Annual Administrative Cost Per Pension Plan Member

The System reported <u>inaccurate</u> results for the Average Annual Administrative Cost Per Pension Plan Member performance measure for fiscal year 2018 and the first two quarters of fiscal year 2019. The System's actual results were not within 5 percent of the reported performance based on the System's documentation. Specifically:

> Inaccurate
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> A performance measure is inaccurate when the actual performance is not within 5 percent of the reported performance, or when there is a 5 percent or greater error rate in the sample of documentation tested. A performance measure also is inaccurate **if the agency's cal**culation deviated from the performance measure definition and caused a 5 percent or greater difference between the number reported to ABEST and the correct performance measure result.
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> Source: *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012).

- For fiscal year 2018, the System reported the average annual administrative cost as $93.05 per pension plan member when it should have reported that cost as $77.17 per member (a 17 percent difference).

- For the first two quarters of fiscal year 2019, the System reported the average annual administrative cost as $51.04 per pension plan member when it should have reported that cost as $43.35 per member (a 15 percent difference).

The System did not maintain source documentation for the results that it reported in ABEST for this performance measure. In addition, the System made data entry errors in preparing the summary documentation, which went undetected due to the control weaknesses discussed in Chapter 1. A more thorough review could have identified and corrected the data entry errors made by the System.

The *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012) requires state agencies to maintain that documentation for performance measure data reported in ABEST if that information cannot be reproduced in their automated systems. As a result, auditors recalculated the measure using other available information such as summary documents and data from the Uniform Statewide Accounting System (USAS).

Number of Onsite Visits

The System reported <u>inaccurate</u> results for the Number of Onsite Visits performance measure for fiscal year 2018 and the first two quarters of fiscal year 2019. Specifically:

- For fiscal year 2018, the System reported results for the measure were within 5 percent of actual performance, but the measure is certified as inaccurate because there was a greater than 5 percent error rate in the sample of onsite visits tested. Specifically, the System reported 65 onsite visits when it should have reported 68 onsite visits (a 4.6 percent difference). However, for 3 (14 percent) of 21 onsite visits tested that were reported in ABEST, the System either reported the visits in the wrong periods (2 visits) or did not have documentation to support that the visit occurred (1 visit).

- For the first two quarters of fiscal year 2019, the System reported 34 onsite visits when it should have reported 19 onsite visits (a 44 percent difference). The System made data entry errors in preparing the documentation, which went undetected due to the control weaknesses discussed in Chapter 1.

Recommendations

The System should:

- Ensure that it reports accurate results for the Average Annual Administrative Cost Per Pension Plan Member and the Number of Onsite Visits key performance measures.

- Maintain supporting documentation to validate performance measure data reported in ABEST.

- Improve controls for tracking onsite visits to ensure that it reports visits accurately.

Management's Response

Recommendation 1: Management agrees with the auditor's recommendation to ensure that it reports accurate results for the key performance measures Average Annual Administrative Cost Per Pension Plan Member and the Number of Onsite Visits. In response to this recommendation, management will institute policies and procedures that encompass the collection, calculation, review, and reporting of its

performance measure data and that ensure consistency and accuracy in its performance measure process.

Recommendation 2: Management agrees with the auditor's recommendation to maintain supporting documentation to validate performance measure data reported in ABEST. Management will create policies and procedures pertaining to document retention to ensure all necessary reports are properly documented and retained. Also, the Chief Financial Officer will supervise the work of the ABEST Coordinator and will review the accuracy of performance measure data entered into the ABEST prior to release.

Recommendation 3: Management agrees with the auditor's recommendation to improve controls for tracking onsite visits to ensure that it reports visits accurately. Management will create a process utilizing a database to track on-site visits including dates, meetings, and outcomes. Automating the process will help to eliminate common data entry errors and allow for more accurate reporting.

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the Texas Emergency Services Retirement System (System):

- Is accurately reporting its performance measures results 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 2018 (September 1, 2017, through August 31, 2018) and the first two quarters of fiscal year 2019 (September 1, 2018, through February 28, 2019).

Methodology

The audit methodology consisted of auditing reported results for accuracy and adherence to performance measure definitions; evaluating controls over the System's performance measure calculation processes; testing documentation; and assessing the reliability of the data obtained from the System's pension database (TESRS Online, or TOL), which supported the reported performance measure results. Auditors also tested support for onsite visits and member eligibility determinations.

Data Reliability and Completeness

Auditors assessed the reliability of the data from TOL related to the following key performance measures:

- Number of Benefit Payments Distributed.

- Average Annual Administrative Cost Per Pension Plan Member.

To do that, auditors (1) determined population completeness and reasonableness; (2) reviewed the process to generate data related to the calculation of the performance measures from TOL; (3) interviewed and obtained information from System staff; (4) reviewed source documentation for performance measure data when necessary; and (5) evaluated

for performance measure data when necessary; and (5) evaluated information technology general controls, including user access, change management, and backup and recovery controls. Auditors determined that for fiscal year 2018 and the first two quarters of fiscal year 2019, data from TOL was sufficiently reliable for purposes of this audit.

The System did not use TOL to track the results for the Number of Onsite Visits key performance measure tested; instead, it manually tracked information for that performance measure.

Sampling Methodology

For the Number of Benefit Payments Distributed performance measure, auditors selected a nonstatistical sample of payments primarily through random selection designed to be representative of the population. Test results may be projected to the population, but the accuracy of the projection cannot be measured. Auditors selected a sample of 61 payments of the 40,029 payments from fiscal year 2018 and 61 payments of the 21,546 payments from the first two quarters of fiscal year 2019.

For the Number of Onsite Visits key performance measure, auditors selected nonstatistical samples of 15 of the 68 onsite visits reported in fiscal year 2018 primarily through random selection designed to be representative of the population. Auditors selected 11 additional onsite visits for testing based on risk. Those sample items generally were not representative of the population. The test results as reported do not identify which items were randomly selected or selected based on risk. Therefore, it would not be appropriate to project those test results to the population.

Auditors used the samples to test whether controls over the performance measures were operating effectively to ensure that performance measure results were accurate and to determine whether the System was accurately reporting its performance measures in ABEST.

Information collected and reviewed included the following:

- Performance measure data in TOL and ABEST.

- The System's summary documents and TOL-generated reports used to report results for the performance measures tested.

- Documentation that supported performance measure results including travel vouchers and member eligibility certification forms.

Procedures and tests conducted included the following:

- Interviewed System staff to gain an understanding of the processes the System used to calculate performance measures.

- Interviewed System staff to gain an understanding of TOL, which the System used to collect performance measure data and generate reports that it used to calculate performance measure results.

- Audited performance measure calculations for accuracy and to determine whether the calculations were consistent with the definitions on which the System; the Legislative Budget Board; and the Governor's Budget and Policy Division agreed.

- Tested documentation to verify the accuracy of reported performance measures and the effectiveness of controls.

- Assessed performance measure results in one of the four categories: certified, certified with qualification, inaccurate, and factors prevented certification. For this audit, a result was considered reliable if it was certified or certified with qualification.

Criteria used included the following:

- *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012).

- ABEST performance measure definitions.

- Department of Information Resources' *Security Controls Standards Catalog*.

Project Information

Audit fieldwork was conducted from May 2019 through August 2019. We conducted this performance audit in accordance with generally accepted government auditing standards.[1] 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:

- Shahpar Michelle Hernandez, CPA, M/SBT, CISA (Project Manager)

- Thomas Andrew Mahoney, CGAP (Assistant Project Manager)

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[1] United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.