



John Keel, CPA  
State Auditor

A Report on the Audit of  
**The Office of the Fire Fighters' Pension  
Commissioner's Fiscal Year 2008  
Financial Statements**

January 28, 2009

Members of the Legislative Audit Committee:

In our audit report dated December 19, 2008, we concluded that the Office of the Fire Fighters' Pension Commissioner's (Office) basic financial statements for fiscal year 2008 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.

As required by professional auditing standards, we will also communicate the results of the audit and certain matters related to the conduct of a financial statement audit to the Audit Committee of the Texas Emergency Services Retirement System's (System) Board of Trustees.

#### Actuarial Funding Status<sup>1</sup>

Conducting our audit of the Office's financial statements enabled us to obtain information on the actuarial funding status of the System's pension plan. The actuarial valuation was as of August 31, 2008.

The primary change that occurred in the System since the prior biennial actuarial valuation as of August 31, 2006, was the State's appropriation of \$8,800,000 to the System in September 2007. This contribution was significantly more than the maximum state contribution expected in accordance with Texas Government Code, Section 865.015, governing the System ("...the state's contribution may not exceed one-third of the total of all contributions by governing bodies in a particular year"). The amounts originally requested for the biennium from September 1, 2007, through August 31, 2009, were \$794,905 for the first fiscal year and \$838,149 for the second fiscal year. Primarily as a result of the \$8,800,000 appropriation, the actuarial valuation indicated that the System has:

#### 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 2008, the System had 8,254 members, including 1,939 retirees and beneficiaries.
- Retirement benefits paid in fiscal year 2008 totaled \$2,732,034, which represented 93 percent of the System's total expenses.
- At the end of fiscal year 2008, the System held \$561,878 in cash in the State Treasury and \$54,975,829 in total investments. Investment holdings constituted 98 percent of the System's total assets, as of August 31, 2008.

<sup>1</sup> For additional information about the System's actuarial funding status and subsequent events, see *Texas Emergency Services Retirement Actuarial Valuation as of August 31, 2008* by Rudd and Wisdom, Inc. at <http://www.ffpc.state.tx.us/tesrs/publications/2008%20final%20val%20report.pdf>.

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- An adequate contribution arrangement with the expected contributions from the governing body of each participating department.
- Approximately \$425,000 each year from state appropriations to help pay for the System’s administrative expenses, but without any future maximum annual contributions from the State.

**Subsequent Events**

Since the August 31, 2008, actuarial valuation date, the national and global economies have worsened, and the domestic and international equity markets have dropped significantly. In the two months between the valuation date and October 31, 2008, the market value of the System’s net assets dropped from \$56 million to \$44 million. Markets dropped further in November 2008, and there are uncertainties about how and when the national and global economies will recover.

The System has an adequate contribution arrangement with the expected contributions from the governing body of each participating department, assuming that the State will continue to appropriate (1) the maximum annual contribution as needed in accordance with the state law governing the System and (2) approximately \$425,000 each year to pay for a portion of the System’s administrative expenses. Without these expected appropriations from the State, the System would have an inadequate contribution arrangement because of the significant decrease in the System’s assets in the two months immediately following the August 31, 2008, valuation date. Table 1 lists additional information related to the System’s actuarial valuations.

Table 1

**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 2008 financial statements.

The audit scope covered the Office’s basic financial statements for fiscal year 2008.

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:

- Cesar Saldivar, CGAP (Project Manager)
- Kelley Bellah
- Dana Musgrave, MBA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)

Selected Information from Actuarial Valuations of the Texas Emergency Services Retirement System		
	As of August 31, 2006	As of August 31, 2008
Information Related to Unfunded Actuarial Accrued Liability		
Actuarial Accrued Liability	\$58,082,828	\$64,227,341
Actuarial Value of Assets (excludes unrecognized investment gains and losses)	\$42,268,305	\$60,987,157
Unfunded Actuarial Accrued Liability (UAAL)	\$15,814,523	\$ 3,240,184
Present Value of Maximum State Contributions	\$ 8,853,211	\$ 0
Adjusted UAAL	\$ 8,143,105	\$ 3,682,061
Information Related to Projected Contributions		
Required Annual Contributions to Fund Normal Costs	\$1,856,675	\$1,887,720
Expected Annual Contributions	\$2,553,216	\$2,692,680
Annual Amount Available to Amortize the Adjusted UAAL	\$ 696,541	\$ 804,960
Years to Amortize the Adjusted UAAL	30	6

Source: Texas Emergency Services Retirement System actuarial valuations as of August 31, 2006, and August 31, 2008.

Implementation of Prior Year Recommendations

The Office has fully implemented recommendations included in *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2007 Financial Statements* (State Auditor's Office Report No. 08-019, January 2008). Table 2 lists the implementation status of each prior year recommendation.

Table 2

Implementation Status of Prior Year Recommendations	
Recommendation	Status
The Office should ensure that all reconciliations are performed and documented within a reasonable amount of time after the end of each month.	Implemented. The System's Board of Trustees approved accounting policies and procedures in May 2008 that require the Office to complete monthly reconciliations and that each reconciliation be completed before the end of the following month. Auditors selected and reviewed a reconciliation and confirmed that it was performed within the required time frame.
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.	Implemented. As a result of completing monthly reconciliations, transactions are being posted to the month in which they occur.
The Office should ensure that management-level reviews of all reconciliations are performed and documented.	Implemented. During review of a selected monthly reconciliation, auditors determined that a management-level review was performed and documented on a timely basis.

If you have any questions, please contact Lisa Collier, Assistant State Auditor, 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  
Mr. Kyle A. Donaldson  
Ms. Gracie G. Flores  
Mr. Patrick Hull  
Mr. Dan Key  
Mr. Rex W. Klesel  
Mr. Ron Larson  
Mr. Maxie L. Patterson  
Mr. Don Shipman  
Ms. Lisa Ivie Miller, Commissioner, Office of the Fire Fighters' Pension Commissioner



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