

**An Audit at the Office of the
Fire Fighters' Pension Commissioner**

**Fiscal Year 1997 Financial Statements
Management Control Follow-Up**

November 25, 1998

Members of the Legislative Audit Committee:

The Office of the Fire Fighters' Pension Commissioner's (Commission) fiscal year 1997 financial statements are materially correct and conform with generally accepted accounting principles. In addition:

- During fiscal year 1998, the Board of Trustees and the Commission substantially reduced the investment operations risk to the \$25 million Fire Fighters' Pension Fund. In less than one year, the Commission implemented 13 and partially implemented 3 of the 16 audit recommendations in *An Audit Report on Management Controls at the Office of the Fire Fighters' Pension Commissioner* (SAO Report No. 98-003, October 1997). Such progress is notable because the Commission had a history of not resolving significant or material control weaknesses over its investment operation.

Staff resources and workloads keep the Commission from fully implementing the remaining three recommendations in SAO Report No. 98-003. These recommendations relate to monitoring internal controls, contractor performance, and investment activity. For example, the Commission's new investment custodian has the capability to allow the Commission to monitor its investment activity online. However, staff resources and workloads have delayed the set-up and initial training needed to put the monitoring process in place.

- The Commission has two new reportable conditions related to internal controls:

A **reportable condition** is a problem that, if not corrected, could adversely affect the Commission's ability to record, process, summarize, and report its financial data accurately.

- The Commission is unable to separate duties effectively. If only one employee performs all the steps in a process, the risk of that employee processing transactions with undetected errors or without the agency's knowledge or authorization increases.
- Back-up employees are not available to perform the essential functions of absent employees (such as providing services to local fire fighters' pension boards and calculating benefit determinations and payments).

We recommend that the Commission continue to improve its monitoring processes and provide adequate segregation of duties among employees. Segregation of duties at small agencies can be

difficult, especially when attempting to expand monitoring activities. Options the Commission might explore include working with the Legislature and Governor's Office to provide additional funding for:

- Helping to maintain full staffing or increasing staffing
- Contracting with another state agency to provide support for monitoring activities

The Commission generally agrees with our recommendations. We provided the Commission with the following two reports required by Governmental Auditing Standards: (1) Auditor's Report on Internal Controls and (2) Auditor's Report on Compliance with Laws and Regulations Material to the General Purpose Financial Statements.

We appreciate the cooperation of the Commissioner and staff. The Commission's Board of Trustees will receive more details about the results of this audit at an upcoming board meeting. Please call Carol A. Smith, Audit Manager, at 479-4700 if you have any questions.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Objective, Scope, and Methodology

Our objectives were to accomplish the following:

- Perform a financial audit in order to express an opinion on the fiscal year 1997 general-purpose financial statements in accordance with generally accepted auditing standards and Government Auditing Standards.
- Assist the Commission in implementation of Statement No. 25 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.
- Evaluate the status of prior year findings that have a significant impact on other audit objectives.

The scope included consideration of the following:

- Internal controls over cash receipts, cash disbursements, and investments
- Compliance with laws and regulations that could have a material effect on the financial statements
- Accuracy of financial statement reporting and selected accounts, including investments with market value of \$22.9 million, additions of \$6.1 million, and deductions of \$1.2 million

The methodology used during our audit consisted of:

- Collecting and analyzing financial information and performing fluctuation analyses of account balances
- Gaining an understanding of internal controls
- Performing tests of details on cash, revenues, expenditures, investments, accounts payable, compensable leave, fixed assets, net appreciation in fair value of investments, and net assets held in trust
- Reviewing the accuracy of the overall financial statements and the status of prior year findings

We also tested for compliance with GASB 3 and GASB 25.

cc: Fire Fighters' Pension Commissioner Board of Trustees
Mr. Morris E. Sandefer, Commissioner