

Internal Audit Department

O R A N G E C O U N T Y C A L I F O R N I A

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT:

AUDIT OF THE SOURCE OF FUNDING FOR THE 2004 OCEA PENSION ENHANCEMENTS

(Original Audit No. 2765)

AS OF JANUARY 28, 2009

The County Executive Office successfully implemented all control enhancements.

The original audit report contained two (2) recommendations suggesting CEO establish written policies and procedures for documenting the development of employee's reverse pick up rates and conducting the annual reviews of enhanced benefits and costs.

AUDIT NO: 2818-A

REPORT DATE: MARCH 9, 2009

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Letter from Dr. Peter Hughes



Transmittal Letter

Audit No. 2818-A March 9, 2009



TO: Members, Board of Supervisors
Thomas G. Mauk, County Executive Officer

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: First and Final Close Out Follow-Up Audit:
Audit of the Source of Funding for the 2004
OCEA Pension Enhancements, Original
Audit No. 2765, Issued April 3, 2008

We have completed a First and Final Close-Out Follow-Up Audit of the Audit of the Source of Funding for the 2004 OCEA Pension Enhancements. Our audit was limited to reviewing, as of January 28, 2009, actions taken to implement two (2) recommendations made in our original audit report. In that audit, we determined that the Orange County Employees Association (OCEA) members themselves and not the County fully and accurately paid for the cost of the pension enhancements (2.7% @ age 55 benefit formula) as agreed upon in their 2004 Memorandum of Understanding for Fiscal Years 2005-06, 2006-07 & 007-08, totaling \$80 million, which included additional employee contribution of \$46.4 million (as of February 28, 2008) and health insurance cost savings of \$33.6 million.

The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the audit recommendations, **this report represents the close-out of the original audit.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Attachment

Other recipients of this report listed on the Internal Auditor's Report on page 3.

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Audit of the Source of Funding for the 2004
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OC Internal Auditor's Executive Report



Audit No. 2818-A

March 9, 2009

TO: Members, Board of Supervisors
Thomas G. Mauk, County Executive Officer

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

A handwritten signature in blue ink that reads "Peter Hughes".

SUBJECT: **First and Final Close-Out** Follow-Up Audit:
Audit of the Source of Funding for the
2004 OCEA Pension Enhancements,
Original Audit No. 2765, Issued April 3, 2008

Scope of Review

We have completed a First and Final Close-Out Follow-Up Audit of the Audit of the Source of Funding for the 2004 OCEA Pension Enhancements. Our audit was limited to reviewing actions taken as of January 28, 2009 to implement the recommendations made in our original audit report. It contained two recommendations suggesting County Executive Officers establish written policies and procedures for documenting the development of employee's reverse pick up rates and for conducting annual reviews of enhanced benefits and costs.

Background

On August 24, 2004, the Orange County Board of Supervisors (BOS) adopted Resolution No. 2004-247 to implement a 2.7% @ age 55 retirement formula for General Members of the OCERS retiring on or after July 1, 2005. This is the retirement formula is pension enhancement for the members. The bargaining units of the Orange County Employee Association (OCEA) agreed that the pension enhancement would be without any additional cost to the County. As a result, they would make additional employee contributions (known as *Reverse Pick Up*) to the system and agreed to the health benefit changes (increased co-payments, higher deductibles and increase employee payroll deductions). The combination of Reverse Pick Up and Health Insurance Cost Savings are required to cover the annual cost of implementing the Enhanced Retirement Benefits. In the original audit, we determined that OCEA members themselves and not the County fully and accurately paid for the cost of the pension enhancements as agreed upon in their 2004 Memorandum of Understanding for Fiscal Years 2005-06, 2006-07 & 007-08, totaling \$80 million, which included additional employee contribution of \$46.4 million (as of February 28, 2008) and health insurance cost savings of \$33.6 million.



Results

We are pleased to report that satisfactory corrective actions have taken place for the audit recommendations. The County Executive Officers satisfactorily implemented corrective actions to address two recommendations concerning establishing written policies and procedures for documenting the development of employee's reverse pick up rates and for conducting the annual reviews of enhanced benefits and costs. All of the original recommendations are noted below along with a comment on its status.

1. Recommendation No.1

We recommend the County Executive Officer (CEO) establish written policies and procedures for documenting the development of the reverse pick up rates for all bargaining units, the analysis of the health insurance cost savings amount, assigning responsibilities for maintaining all the supporting documents; and determining the appropriate retention period. **(Significant Issue)**

Current Status: **Implemented.** CEO established the Administrative Procedural Manual ~ *Development of Annual Retirement Rates for the 2.7% Age 55 Rate Group*. We noted that the procedure manual includes sections of developing the reverse pick up rates for all bargaining units, the analysis of the health insurance cost savings amount; assign responsibilities for maintaining all the supporting documents and determining the appropriation retention period. Because the procedure manual is adequately addressed the recommendation, we consider this recommendation implemented.

2. Recommendation No. 2

We recommend the County Executive Officer establish written policies and procedures for conducting the annual reviews of enhanced benefits and costs. **(Significant Issue)**

Current Status: **Implemented.** CEO established the Administrative Procedural Manual ~ *Development of Annual Retirement Rates for the 2.7% Age 55 Rate Group*. We noted that the procedure manual includes a section requiring annual reviews, necessary adjustments or cost revisions, and management review before any changes are implemented. Because the procedure manual is adequately addressed the procedures for conducting the annual reviews of enhanced benefits and costs, we consider this recommendation implemented.

OC Internal Auditor's Executive Report



We appreciate the cooperation and assistance extended to us by the personnel of County Executive Office/County Budget Office during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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