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FIRST FOLLOW-UP AUDIT:

COUNTY OF ORANGE RETIREE MEDICAL PLAN — ANNUAL REQUIRED COUNTY CONTRIBUTIONS

ORIGINAL AUDIT No. 2813

As of July 16, 2010

The original audit report contained five (5) recommendations. Our Follow-Up Audit indicated that the County Executive Office fully implemented four (4) recommendations and has partially implemented one (1) recommendation from our original audit report dated November 17, 2009. During our original audit, employer contributions by the County totaled \$18,460,729 from July 4, 2008 through December 4, 2008.

AUDIT NO: 2917-B REPORT DATE: AUGUST 2, 2010

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RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007









GAO & IIA Peer Review Compliant - 2001, 2004, 2007

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 2917-B August 2. 2010

TO: Thomas G. Mauk

County Executive Officer

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First Follow-Up Audit of the County of

Orange Retiree Medical Plan – Annual Required County Contributions, Original Audit No. 2813, Issued November 17,

2009

We have completed a First Follow-Up Audit of the County of Orange Retiree Medical Plan – Annual Required County Contributions. Our audit was limited to reviewing, as of July 16, 2010, actions taken to implement the five (5) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because there is one recommendation pending implementation, we have attached a Second Follow-Up Audit Report Form. Your department should complete this template as our audit recommendation is implemented. When we perform our Second Follow-Up Audit, we will obtain the completed document to facilitate our review.

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.

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

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As of July 16, 2010

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OC Internal Auditor's Report



Audit No. 2917-B August 2, 2010

TO: Thomas G. Mauk

County Executive Officer

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First Follow-Up Audit of the County of Orange Retiree Medical Plan – Annual

Required County Contributions, Original Audit No. 2813, Issued November 17,

te Hughes

2009

Scope

We have completed a First Follow-Up Audit of the County of Orange Retiree Medical Plan – Annual Required County Contributions. Our audit was limited to reviewing, as of July 16, 2010, actions taken to implement the **five (5) recommendations** from our original audit report dated November 17, 2009 (Audit No. 2813).

Background

We conducted an audit of the certain records and documents for the period July 1, 2008 through January 31, 2009 to determine if the County of Orange was properly funding the Trust established for the Retiree Medical Plan for Fiscal Year 2008-2009. During the original audit period, **employer contributions totaled \$18,460,729** from July 4, 2008 to December 4, 2008.

Results

Our First Follow-Up Audit indicated the County Executive Office took satisfactory corrective action to fully implement four (4) recommendations and one (1) recommendation has been partially implemented. We believe the remaining one (1) recommendation is still appropriate and further efforts should be made to fully implement it. All of the original recommendations are noted below along with a comment on their current status.

1. Review of ARC Rate Changes (Control Finding)

We recommend CEO ensure a control is in place to review the ARC Rate changes implemented by A-C Payroll. The procedure should be written and provided to appropriate personnel. The review should be documented with the reviewer's signature/initials and date of review, and the document retained for evidence of review and an audit trail.

<u>Current Status:</u> **Implemented.** The County Executive Office established written and approved policies and procedures for the administration of the Retiree Medical Trust. Our review of written policies and procedures disclosed that CEO/Budget will provide any revised ARC Rates to the Auditor-Controller to update the County's payroll system. Verification of the revised ARC Rates will be reviewed and documented in writing by the Chief Financial Officer, Public Finance Director or their designee. Both the preparer and reviewer will initial the written verification to evidence accountability. The County Executive Office indicated that appropriate personnel have received a copy of the approved policies and procedures.

OC Internal Auditor's Report



2. Reconciliation Method (Significant Issue)

We recommend CEO/Public Finance ensure their reconciliation method for OCERS Statements to the County's General Ledger (Fund 17A) is appropriate. The reconciliations should be signed and dated by the preparer and reviewer and retained as evidence of review and an audit trail.

<u>Current Status:</u> **Implemented.** The County Executive Office established written and approved policies and procedures for reconciling and updating County Fund 17A (Retiree Medical Trust) with financial activity from the OCERS Statements. Our review of reconciliation documentation for County Fund 17A for the period ending June 30, 2009 disclosed the financial activity that appears on each individual OCERS Statement is calculated and added to the County's balances. We found deposits, benefits paid, interest, and service fees on the OCERS Statements are added/subtracted to obtain the balances. CEO/Public Finance agrees the overall financial activity reported on the OCERS Statements. In addition, the reconciliation documentation shows the preparer's initials, reviewer's initials, date prepared, and date reviewed to evidence accountability.

3. <u>Timeliness of Reconciling and Recording Financial Activity</u> (Control Finding)

We recommend a control be implemented to ensure timely reconciling and recording of financial activity from the OCERS Statements to the County's Fund 17A (Retiree Medical Trust) so that the County's records are current and accurate.

<u>Current Status:</u> **Partially Implemented.** The County Executive Office established written and approved policies and procedures for reconciling and updating County Fund 17A with financial activity from the OCERS Statements. The written policies and procedures require each participating entity's balance be reconciled to the appropriate Department Balance Sheet Account on a monthly basis. Our review of reconciliation documentation for County Fund 17A disclosed the financial activity on the OCERS Statements were not reconciled and recorded timely into the County's Fund 17A. We noted that reconciling and recording of financial activity for May 2009 through April 2010 was not completed until June 2010.

CEO Planned Action:

CEO/Public Finance will reconcile and record monthly financial activity on the OCERS Statements in a timely manner.

4. <u>Documented Supervisory Reviews</u> (Control Finding)

We recommend CEO/Public Finance management ensure the preparer and reviewer of key supporting documents sign/initial and date the documents to increase accountability and provide an adequate audit trail.

<u>Current Status:</u> **Implemented.** The County Executive Office approved policies and procedures that require the preparer and reviewer to initial and date the key supporting documents. In our test work, we found that preparer and reviewer initialed and dated the key supporting documents.

OC Internal Auditor's Report



5. Written Procedures for Retiree Medical Trust Responsibilities (Control Finding)

We recommend CEO/Public Finance provide written procedures/policies for the processes involved in the Retiree Medical Trust, specifically for reconciling and recording financial activity into the appropriate reporting categories, allocating contributions, wiring of contributions to OCERS, and monitoring of the Retiree Medical Trust Fund 17A. In addition, the procedures should include the initialing and dating of key documents by the preparer and the reviewer to ensure timeliness, establish accountability, and strengthen the control environment.

<u>Current Status:</u> **Implemented.** The County Executive Office established written and approved policies and procedures for the administration of the Retiree Medical Trust. Our review of the approved policies and procedures disclosed the processes addressed include reconciling and recording financial activity into the appropriate reporting categories, allocating contributions, wiring of contributions to OCERS, monitoring of the Retiree Medical Trust Fund 17A, and documenting supervisory review of key supporting documents.

We appreciate the cooperation and assistance extended to us by the personnel of the CEO/Public Finance during our First 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:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Chief Financial Officer
Colleen Clark, Public Finance Director, CEO Public/Finance
Louis McClure, Manager, CEO/Public Finance
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