

Internal Audit Department

O R A N G E C O U N T Y
 6th Largest County in the USA

FINAL CLOSE-OUT

SECOND FOLLOW-UP AUDIT:

COUNTY OF ORANGE RETIREE MEDICAL PLAN – ANNUAL REQUIRED COUNTY CONTRIBUTIONS ORIGINAL AUDIT No. 2813

AS OF MAY 23, 2011

Our Second and Final Close-Out Follow-Up Audit found the County Executive Office implemented one (1) recommendation remaining from our original audit containing five (5) findings and recommendations. Four (4) recommendations were implemented in our First Follow-Up Audit report dated August 2, 2010. During our original audit, employer contributions by the County totaled \$18,460,729 from July 4, 2008 through December 4, 2008.

AUDIT NO: 1017-B
 REPORT DATE: JUNE 16, 2011

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 Deputy Director: [Eli Littner, CPA, CIA](#)
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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1017-B June 16, 2011

TO: Thomas G. Mauk
County Executive Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Second and Final Follow-Up Audit: County
of Orange Retiree Medical Plan – Annual
Required County Contributions, Original
Audit No. 2813, Issued November 17, 2009

We have completed a Second and Final Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions. Our audit was limited to reviewing, as of May 23, 2011, actions taken to implement the **one (1) recommendation** remaining from our First Follow-Up Audit report dated August 2, 2010 where **four (4) recommendations** were implemented from our original audit. We conducted this Second Follow-Up Audit in accordance with the *FY 10-11 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second and Final Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical 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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County of Orange Retiree Medical Plan –
Annual Required County Contributions
Audit No. 1017-B***

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OC Internal Auditor's Report

Audit No. 1017-B

June 16, 2011

TO: Thomas G. Mauk
County Executive Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department



SUBJECT: Second and Final Follow-Up Audit: County of Orange Retiree Medical Plan – Annual Required County Contributions, Original Audit No. 2813, Issued November 17, 2009

Scope of Review

We have completed a Second and Final Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions. Our audit was limited to reviewing, as of May 23, 2011, actions taken to implement the remaining **one (1) recommendation** from our original audit report.

Background

We conducted an audit of 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 Second and Final Follow-Up Audit indicated that the **one (1) remaining recommendation was fully implemented**.

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.

Current Status: **Implemented (First Follow-Up Audit).** 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.

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.

OC Internal Auditor's Report

Current Status: **Implemented (First Follow-Up Audit).** 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. Timeliness of Reconciling and Recording Financial Activity (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.

Current Status: **Implemented (Second Follow-Up Audit).** We noted that CEO/Public Finance prepares a monthly reconciliation and updates County Fund 17A with financial activity from the OCERS Statements. Our review of the documentation for County Fund 17A disclosed CEO/Public Finance made significant improvement with the timing for reconciling and recording financial activity for November 2010 through January 2011. Because the timeliness of reconciling and recording financial activity has improved, we consider this recommendation implemented.

4. Documented Supervisory Reviews (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.

Current Status: **Implemented (First Follow-Up Audit).** 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.

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.

OC Internal Auditor's Report

Current Status: **Implemented (First Follow-Up Audit).** 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 CEO/Public Finance during our Second and Final 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, Deputy CEO/Chief Financial Officer
Colleen Clark, Public Finance Director, CEO/Public Finance
Louis McClure, Manager, CEO/Public Finance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors