AGENDA

This agenda contains a brief general description of each item to be considered. The Committee may take action on any item included in the agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Committee may consider matters included on the agenda in any order, and not necessarily in the order listed.

OPEN SESSION

PUBLIC COMMENT

At this time, members of the public may comment on matters not included on the Agenda that are within the subject matter jurisdiction of the Committee, provided that no action can be taken on any item not appearing on this Agenda unless otherwise authorized by law.

When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

CONSENT AGENDA

C-1

APPROVE AUDIT COMMITTEE MINUTES

Audit Committee Meeting Minutes August 3, 2018

ACTION ITEMS

NOTE: Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee’s discussion of the item. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Committee prior to the Committee’s discussion on the item by signing in on the Public Comment Sign-In Sheet located at the back of the room.
A-1  INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

A-2  AUDIT OF ORANGE COUNTY TRANSPORTATION AUTHORITY PAYROLL TRANSMITTALS
Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A-3  AUDIT OF ORANGE COUNTY FIRE AUTHORITY PAYROLL TRANSMITTALS
Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A-4  AUDIT OF ORANGE COUNTY SUPERIOR COURT PAYROLL TRANSMITTALS
Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A-5  TRIENNIAL REVIEW OF THE RISK POLICY
Presentation by Brenda Shott, Assistant CEO, Internal Operations

Recommendation: Approve and recommend that the Board approve the Risk Policy.

INFORMATION ITEMS

I-1  STATUS UPDATE OF 2018 AUDIT PLAN
Written Report

I-2  INTERNAL AUDIT TRANSITION
Presented by David Kim, Director of Internal Audit

* * * * * * END OF OPEN SESSION AGENDA * * * * * *

CLOSED SESSION

E-1  THREAT TO PUBLIC SERVICES OR FACILITIES (GOVERNMENT CODE SECTION 54957)

Adjourn into Closed Session pursuant to Government Code section 54957 to consult with Steve Delaney, CEO, Brenda Shott, Asst. CEO; Matthew Eakin, Director of Cyber Security; Jenny Sadoski, Director of Information Technology; Jon Gossard, IT Manager; and Gina M. Ratto, General Counsel

Recommendation: Take appropriate action.
Audit Committee Meeting
December 11, 2018

*** END OF CLOSED SESSION AGENDA ***

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

INVESTMENT COMMITTEE MEETING
December 17, 2018
9:00 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

REGULAR BOARD MEETING
December 17, 2018
11:00 A.M. OR FOLLOWING THE ADJOURNMENT OF THE INVESTMENT COMMITTEE MEETING, WHICHEVER IS LATER

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at adminsupport@ocers.org or by calling 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours’ notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
2223 WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701  

AUDIT COMMITTEE MEETING  
August 3, 2018  
9:00 a.m.

Members of the Committee  
Frank Eley, Chair  
Charles Packard, Vice Chair  
Russell Baldwin  
Shari Freidenrich

MINUTES

OPEN SESSION

The Chair called the meeting to order at 9:02 a.m.

Attendance was as follows:

Committee Members: Frank Eley, Chair; Charles Packard, Vice Chair; Russell Baldwin; Shari Freidenrich

Staff: Steve Delaney, CEO; Gina Ratto, General Counsel; Felicia Durrah, Human Resources Staff Analyst

Guest: Harsh Jadhav, Director of Internal Audits, ACERA

PUBLIC COMMENT

None.

CLOSED SESSION

The Committee adjourned into Closed Session at 9:05 a.m., under the authority of Government Code section 54957 to consider employment of a public employee, and conducted interviews of candidates for the position of OCERS’ Director of Internal Audit.

A. INTERVIEWS OF CANDIDATE FOR OCERS’ DIRECTOR OF INTERNAL AUDIT

The Committee took a break from 10:30 a.m. until 10:45 a.m.
The Committee took a break from 12:25 p.m. until 12:30 p.m.

OPEN SESSION

The Committee reconvened in Open Session at 12:30 p.m.
Committee member Russell Baldwin was not present.
INFORMATION ITEMS

I-1 MACIAS, GINI & O'CONNELL (MGO) PERFORMANCE REVIEW
Jim Doezie, OCERS Contracts, Risk and Performance Administrator presented MGO’s performance review.

The Committee took a lunch break at 12:37 p.m.

CLOSED SESSION

The Committee reconvened in Closed Session at 1:15 p.m. under the authority of Government Code section 54957 to consider employment of a public employee, and continued to conduct interviews of candidates for the position of OCERS’ Director of Internal Audit.

All Committee members were present.

A. (CONTINUED) INTERVIEWS OF CANDIDATE FOR OCERS’ DIRECTOR OF INTERNAL AUDIT

OPEN SESSION

The Committee reconvened in Open Session at 3:40 p.m.

ACTION ITEMS

A-1 REPORT OF ANY ACTION TAKEN IN CLOSED SESSION

Charles Packard moved and Russell Baldwin seconded that (1) David Kim be selected as first place finalist for OCERS’ Director of Internal Audits; (2) that CEO Steve Delaney be appointed OCERS’ representative to negotiate salary and other benefits with the finalist; and (3) that if such negotiations fail, Mr. Delaney proceed to negotiate with the second place finalist. The Motion passed unanimously.

A-2 JULY 17, 2018 AUDIT COMMITTEE MEETING MINUTES

A motion was made by Mr. Baldwin, seconded by Mr. Packard, to approve the July 17, 2018 minutes.

The motion passed unanimously.

COMMITTEE MEMBER COMMENTS
None.

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS
None.

COUNSEL COMMENTS
None.

The Committee adjourned at 3:50 p.m.
Memorandum

DATE: December 11, 2018
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: AUDIT REPORT – ORANGE COUNTY TRANSPORTATION AUTHORITY PAYROLL TRANSMITTALS

Recommendation
Receive and file.

Background/Discussion
As per the 2018 Audit Plan, Internal Audit performed an audit of Orange County Transportation Authority Payroll (OCTA) Transmittals.

There was one audit finding directed towards OCERS management which agreed with Internal Audit’s recommendation.

The full audit report is attached.

Submitted by:

David Kim
Director of Internal Audit
Audit of Orange County Transportation Authority (OCTA) Payroll Transmittals

Report Date: November 12, 2018

Internal Audit Department

David Kim, Director of Internal Audit
Mark Adviento, Internal Auditor
Table of Contents

Conclusion..................................................................................................................................1
Objective, Scope, and Methodology...........................................................................................2
Background..................................................................................................................................2
Findings, Recommendations, and Management Responses.......................................................5
Conclusion / Executive Summary

OCERS’ Internal Audit Division has completed an audit of Orange County Transportation Authority (OCTA) payroll transmittals submitted between January 2016 and December 2017. Plan sponsors’ payroll transmittals contain payroll data needed for OCERS to calculate a member’s future benefit payment.

Internal Audit concludes that the OCTA’s payroll transmittals were accurate and complete. However, Internal Audit has made one recommendation to OCERS’ management, detailed in the report, in regards to Legacy\(^1\) employees' vacation and/or sick pay cashouts.

Finding #1 (Efficiency/Effectiveness) – OCTA collects both employer and employee contributions for each Legacy employee’s annual cashout of accrued vacation hours and/or accrued sick pay hours. However, this is contrary to most of OCERS’ plan sponsors who do not collect any employer or employee contributions when a Legacy employee cashes out vacation hours and/or sick pay hours.

- Recommendation – OCERS should define a cashout contribution policy that applies uniformly across OCERS’ plan sponsors and their Legacy employees on a go-forward basis.

The details of our findings, recommendations, and management’s responses begin on page 5.

\(^1\) Non-PEPRA employees.
Objective, Scope, and Methodology

The objective of this audit was to determine that OCTA payroll transmittals submitted electronically to OCERS were accurate and complete.

The scope of the audit included payroll transmittals submitted between January 2016 and December 2017. Internal Audit randomly selected a sample of 60 employee payroll transactions for detailed testing.

Appendix #1 details the audit testing methodology.

Background

The below charts show OCTA’s recent employer and employee pension contribution history and active membership population:

![OCTA Contributions (millions)](chart1)

![OCTA, Active Members](chart2)
For retirement purposes, FAS (Final Average Salary) calculations include base pensionable salary plus pensionable pay items. Since 2014, certain pensionable pay items paid by OCTA to its employees, averaged annually, are listed below:

- Scheduled (i.e. forced) Overtime Pay ($1.7 million)
- Special Merit Pay ($1.5 million)
- Certified Mechanic Pay ($166,000)
- Car Allowance Pay ($150,000)
- Night Shift Differential Pay ($131,000)
- Cell Phone Allowance Pay ($47,000)

The above items accounted for 85% of total premium pay items going back to 2014.

**Contributions Related to Vacation and Sick Pay Sellbacks (i.e. Cashouts)**

When an individual OCTA Legacy employee annually sells back (i.e., cashes out) accrued vacation hours and/or sick pay hours, both OCTA and the individual employee pay an employer and employee contribution on the cashout to OCERS. Also, when an individual OCTA Legacy employee terminates employment, both OCTA and the employee pay employer and employee contributions to OCERS on the cashout of any remaining vacation hours owed to the employee upon termination.

- OCTA’s MOUs and its Personnel and Salary Resolution allow employees to annually sell back (1) up to 120 to 200 hours of accrued vacation hours; and (2) sick pay hours in excess of 80 to 120 accrued sick hours, depending on years of service and MOU or Personnel and Salary Resolution.

- Since 2014, Legacy employee cashouts have annually averaged $2.8 million from which both employee and employer contributions have been collected (approximately $950,000 using recent contribution rates).

OCTA’s payroll manager indicated that its practice of collecting employer and employee contributions from Legacy employee cashouts has been in place since at least 2004, possibly earlier. OCTA collects contributions on every single hour of vacation pay or sick pay cashed out by a Legacy employee. During the course of the audit, OCTA inquired of Internal Audit and OCERS’ Member Services if OCTA’s practice of collecting and paying contributions on vacation and sick pay cash outs by a Legacy employee (and on all vacation hours cashed out upon termination) is a correct practice for an OCERS plan sponsor.

Member Services informed Internal Audit that the practice of collecting contributions from such cashouts varies across plan sponsors. See Finding #1 that OCERS should define
a cashout contribution policy that applies uniformly across OCERS’ plan sponsors and their Legacy employees on a go-forward basis.
Findings, Recommendations, and Management Responses

Finding #1 (Efficiency/Effectiveness) – OCTA collects both employer and employee contributions for each Legacy employee’s annual cashout of accrued vacation hours and/or accrued sick pay hours. However, this is contrary to most of OCERS’ plan sponsors who do not collect any employer or employee contributions when a Legacy employee cashes out vacation hours and/or sick pay hours.

Finding Detail

OCERS’ actuarial cashout assumption is one of several actuarial assumptions adopted by the OCERS Board upon recommendation from Segal. As a cost-sharing multiple-employer pension plan, OCERS generally applies these actuarial assumptions uniformly across all plan sponsors with some distinctions made for safety versus non-safety plan sponsors.

Specifically, OCERS’ actuarial cashout assumption is used by Segal to adjust employer contribution rates and Legacy employee contribution rates. This adjustment “pays” for the actuarial cost of adding vacation pay and sick pay to a Legacy member’s FAS calculation upon retirement. For instance, applying the current cashout assumption of a 2.80% addition to FAS for all Legacy non-safety Tier 2 members regardless of employer has resulted in pension contribution costs to employers and Legacy employees that generally fall between:

- 0.3% to 1.4% of pay for employers
- 0.2% to 0.3% of pay for employees

In addition to the above increases to contribution rates, OCTA also collects both employer and employee contributions for each individual Legacy employee cashout of accrued vacation hours and/or sick pay hours. This practice is contrary to most of OCERS’ plan sponsors (including the County of Orange) who do not collect contributions at all (i.e., neither upon annual cashout nor at termination) from individual Legacy employee cashouts of vacation and sick hours. For these other plan sponsors, the

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2 Vacation and sick pay to the extent earned, not taken as time off, and permitted to be cashed out by the member’s MOU for each year of the member’s FAS measuring period.

3 The change in the normal cost rate is spread over only payroll of General Tier 2 members while the change in the unfunded actuarial accrued liability rate is spread over payroll of General members in all Tiers within each Rate Group.
actuarial cash out assumption “pays” for the actuarial cost of adding vacation pay and sick pay to a Legacy member's FAS calculation upon retirement. Currently, OCERS has no system-wide policy that addresses this difference.

Recommendation to OCERS:

OCERS should define a cashout contribution policy that applies uniformly across OCERS' plan sponsors and their Legacy employees on a go-forward basis.

Management Response:

Agree  Disagree

OCERS is in the process of reviewing and evaluating all pay items in order to categorize and document in policy each item of compensation earnable for Legacy members and pensionable compensation for PEPRA members. OCERS intends to present this policy to the OCERS Board for review and approval by 1st quarter of 2019.

The majority of OCERS' plan sponsors do not apply the contribution rates to cashouts (as does OCTA); instead, they rely on the actuarial cash out assumption (Load Factor) to pay for the actuarial cost of adding vacation pay and sick pay to a Legacy member’s FAS calculation upon retirement. OCERS believes this is the better approach and will incorporate this in the new policy in order to have consistency among all plan sponsors. In addition to the new policy, by 1st quarter of 2019, OCERS intends to distribute a circular letter to all plan sponsors informing them of this approach to not collect contributions on these cashouts.
Categories of Audit Findings:

Critical Control Weaknesses:
These are finding(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS’ reputation or integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

Significant Control Weaknesses:
These are finding(s) that represent a significant deficiency in the design or operation of internal controls. Management is expected to address Significant Control Weaknesses brought to their attention promptly.

Findings:
These are finding(s) concerning (1) internal control, (2) compliance, or (3) efficiency/effectiveness issues in which Internal Audit will recommend to management a corrective action to implement or enhance processes and/or internal controls. Findings are expected to be addressed within six to twelve months.
Appendix #1

Audit Testing Methodology

- Reviewing sections within OCTA MOU’s (Memorandum of Understanding) in regards to the OCERS pension plan and OCTA pay practices.
- Verifying members’ age of entry in V3 against executed Member Affidavits and Reciprocity verification documents.
- Recalculating employer and employee contributions submitted on OCTA transmittals against Segal’s entry-age contribution.
- Tracing employer and employee contributions from OCTA transmittals to V3 records and copies of OCTA employee paystubs.
- Tracing pensionable salaries and pensionable pay items from OCTA transmittals to public pay schedules, employee work history records, and certification documentation maintained by OCTA's Human Resources department.
- Recalculating pensionable pay items on the transmittals against relevant terms stated in MOU’s.
- Stratifying pensionable pay items by total per year, and by pay item, going back to the beginning of 2014.
- Reviewing a listing of pay codes in OCTA payroll system to search for pensionable pay items not reported to OCERS.
- Reviewing employee paystubs in our sample of 60 employees for pensionable pay items not reported to OCERS.
- Reviewing final average salary history of recent OCTA retirees for possible signs of pension spiking.
- Consulting with Segal about any actuarial issues.
DATE: December 11, 2018

TO: Members of the Audit Committee

FROM: David Kim, Director of Internal Audit

SUBJECT: AUDIT REPORT – ORANGE COUNTY FIRE AUTHORITY PAYROLL TRANSMITTALS

Recommendation
Receive and file.

Background/Discussion
As per the 2018 Audit Plan, Internal Audit performed an audit of Orange County Fire Authority Payroll (OCFA) Transmittals.

There were six audit findings in the report and both OCERS management and OCFA management agreed with all of Internal Audit’s recommendations.

The full audit report is attached.

Submitted by:

David Kim
Director of Internal Audit
Audit of Orange County Fire Authority (OCFA) Payroll Transmittals

Report Date: October 23, 2018

Internal Audit Department

David Kim, Director of Internal Audit
Mark Adviento, Internal Auditor
## Table of Contents

Conclusion ........................................................................................................................................ 1  
Objective, Scope, and Methodology ............................................................................................. 3  
Background .................................................................................................................................. 3  
Findings, Recommendations, and Management Responses ....................................................... 5  

Exhibit 1 (OCFA's Attachment to Management Responses)
Conclusion / Executive Summary

OCERS’ Internal Audit Division has completed an audit of OCFA’s payroll transmittals submitted between December 2015 (V3’s inception date) and June 2017. Plan sponsors’ payroll transmittals contain payroll data needed for OCERS to calculate a member’s future benefit payment.

Internal Audit has made recommendations to both OCFA and OCERS as detailed in the six findings noted below.

Finding #1 (Efficiency/Effectiveness) – As per OCERS’ concurrence beginning in 2005, OCFA and its Legacy (i.e. non-PEPRA) members do not pay bi-weekly contributions on a pensionable pay item named “Vacation Excess” regularly transmitted through the bi-weekly payroll process. This led to the unintended consequence of annually adding to OCFA’s Unfunded Actuarial Accrued Liability (UAAL).

- Recommendation - On a go-forward basis, OCERS should now require that OCFA and its Legacy employees pay employer and employee contributions on the “Vacation Excess” pensionable pay item on a bi-weekly basis.

Finding #2 (Efficiency/Effectiveness) – As per OCERS’ concurrence beginning in 2005, OCFA does not include “On Call” pay to Legacy members in its automated payroll transmittals; thus, manual procedures are required to include “On Call” pay in a retiring member’s Final Average Salary (FAS).

- Recommendation - On a go-forward basis, OCERS should now require that OCFA report “On Call” pay to Legacy members as a pensionable pay item in its automated bi-weekly payroll transmittals and that OCFA and its employees pay both employer and employee contributions on a bi-weekly basis.

Finding #3 (Efficiency/Effectiveness) – V3’s “Contribution Discrepancy Tracking Report” does not solely summarize unresolved contribution discrepancies.

- Recommendation - OCERS should consider the cost-benefit of having Vitech correct the design of V3’s “Contribution Discrepancy Tracking Report”. Determining the cost to fix the report would require OCERS formally requesting a proposal from Vitech (i.e. a Change Order).

Finding #4 (Compliance) – OCFA’s Memorandum of Understanding (MOU) language in regards to employer paid pickups of Legacy employee contributions does not reflect actual payroll processes.
• Recommendation - OCFA should update its MOUs (e.g., Side Letter to the MOU) to clarify how employer paid pickups of employee contributions are to be classified according to ‘37 Act sections § 31581.1 and § 31581.2.

Finding #5 (Internal Controls) – OCERS’ Director of IT, not OCFA’s Payroll Manager, maintains spreadsheets that split OCERS’ age of entry rates into separate rate categories required of OCFA’s MOUs and OCFA’s payroll system.

• Recommendation - OCFA’s payroll manager should take over maintenance for the above spreadsheets from OCERS’ Director of IT.

Finding #6 (Internal Controls) – There is not a proper segregation of duties within OCERS’ IT Division in regards to the configuration of contribution rates in V3.

• Recommendation - OCERS’ management should re-assign the duties of configuring updated rates in V3 from OCERS’ Director of IT to the appropriate OCERS’ personnel for cross-training, process documentation, and backup purposes.

The details of our findings, recommendations, and management’s responses begin on page 5.
Objective, Scope, and Methodology

The objective of this audit was to determine that OCFA payroll transmittals submitted electronically to OCERS were accurate and complete.

The scope of the audit included payroll transmittals submitted since between December 2015 (V3’s inception date) and June 2017. Internal Audit randomly selected a sample of 60 employee payroll transactions for detailed testing.

Appendix #1 details the audit testing methodology.

Background

Employees at most of OCERS’ plan sponsors pay the full entry-age contribution rate calculated by Segal Consulting (Segal) and adopted by OCERS’ Board. However, as stated in OCFA’s MOUs, most OCFA employees (e.g., Legacy Safety employees) pay employee contributions using the lower of OCERS’ full entry-age rate or a fixed rate (i.e. 9%, 12.5%, etc.) defined in the MOU.

If the employee pays a fixed rate, then OCFA pays OCERS the difference between the employee’s fixed rate and OCERS’ full entry-age rate (e.g. employer paid pickup of employee contributions). Current MOUs state that such OCFA employer paid pickups of employee contributions will be phased out by mid-2020. The remainder of OCFA’s membership (i.e. PEPRA and Legacy General employees) already pays OCERS’ full entry aged based contribution rates.

Below charts show OCFA’s recent employer and employee pension contribution history and active membership population:
Since OCFA’s fiscal year 2013/2014, OCFA has paid an additional $80 million in contributions towards its Unfunded Actuarial Accrued Liability (UAAL) balance. In September 2013, the OCFA Board of Directors approved an “Expedited Pension UAAL Payment Plan” with an expected payment of the entire UAAL balance over 13 years by 2026/2027.

For retirement purposes, FAS (Final Average Salary) calculations include base pensionable salary plus pensionable pay items. Since 2014, the largest pensionable pay items paid by OCFA to its employees, averaged annually, are listed below:

- Paramedic Pay ($4.0 million)
- Holiday Compensation Pay ($3.9 million)
- Emergency Medical Technician Pay ($3.5 million)
- Vacation Excess Payoffs ($2.6 million)
- FLSA Pay, i.e. pensionable regularly scheduled overtime ($2.5 million)
- Educational Incentive, Bachelor’s degree ($2.4 million)
- Educational Incentive, 90 units of college credit ($1.8 million)

The above items accounted for 88% of total pensionable pay items going back to 2014.
Findings, Recommendations, and Management Responses

Finding #1 (Efficiency/Effectiveness) – As per OCERS’ concurrence beginning in 2005, OCFA and its Legacy (i.e. non-PEPRA) members do not pay bi-weekly contributions on a pensionable pay item named “Vacation Excess” regularly transmitted through the bi-weekly payroll process. This has led to the unintended consequence of annually adding to OCFA’s Unfunded Actuarial Accrued Liability (UAAL).

Finding Detail

For pensionable base pay and pensionable pay items that are routinely reported bi-weekly to OCERS, as is the case with “Vacation Excess”, Segal’s actuarial valuation model assumes that plan sponsors and its members pay employer and employee contributions on a bi-weekly basis. “Vacation Excess” is an automated cash payment of vacation hours to employees who have exceeded vacation hour accrual limits stated within their MOUs. (“Vacation Excess” is a unique pay item not found with any other OCERS’ plan sponsor.)

- Upon sample testing of payroll transactions and a review of data extracted from OCFA’s payroll transmittal files in V3, we confirmed that OCFA and its Legacy employees have not been paying bi-weekly contributions on “Vacation Excess” pensionable pay since 2005. (More than 300 employees currently receive “Vacation Excess” pay.)

Although Internal Audit cannot confirm, both OCFA and OCERS may have thought in 2005 that the benefit associated with “Vacation Excess” was funded through what is known as an “actuarial load factor”, however Segal confirmed to us that the “actuarial load factor” does not apply to “Vacation Excess”.

But by not paying the employer and employee bi-weekly contributions on “Vacation Excess”, as presumed in Segal’s valuation model, OCFA has increased its UAAL on an annual basis. According to OCERS’ Actuarial Funding policy, plan sponsors pay down their UAAL over an amortization period (currently set at 20 years) at an interest rate equivalent to the assumed investment earnings rate (currently set at 7.0%).

- In other words, OCFA is financing both employer and employee contributions on “Vacation Excess” through its UAAL.

The chart below contains Internal Audit’s yearly estimates of what should have been collected through the normal bi-weekly payroll process:
Audit of OCFA Payroll Transmittals

OCFA provided Internal Audit with a document dated March 8, 2005 evidencing Jim Buck’s, the then OCERS’ Chief Operations Officer, official concurrence (via signature) with OCFA’s written request that bi-weekly payroll contributions not be paid by OCFA and its members on the then recently created pensionable pay item named “Vacation Excess”. OCFA also provided additional documentation indicating the same concurrence by other OCERS’ management personnel in subsequent years. However, as discussed above, the correct way to pay for the actuarial cost of “Vacation Excess” pay is through bi-weekly employer and employee contributions.

**Recommendation to OCERS:**

On a go-forward basis, OCERS should now require that OCFA and its Legacy employees pay employer and employee contributions on the “Vacation Excess” pensionable pay item on a bi-weekly basis. This would also require OCERS to reconfigure the “Vacation Excess” pay item in V3 to expect bi-weekly contributions from OCFA via the bi-weekly payroll transmittal process.

- Doing so would eliminate the added expense of OCFA financing contributions related to “Vacation Excess” through OCFA’s UAAL at a current interest rate of 7.0% over 20 years.
- It would also mean that those OCFA employees receiving “Vacation Excess” pay would begin paying for their share of the actuarial cost, instead of having the employer pay for the entire actuarial cost through the UAAL portion of employer rates.
- OCERS management should also review other plan sponsors’ pensionable pay items for occurrences similar to OCFA’s “Vacation Excess” payoffs. (OCERS’ 2018 Business Plan includes a stated goal to “Perform a comprehensive review of all employer pay items to determine pensionable attributes.”)
OCERS' Management Response:

☐ Agree  □ Disagree

OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include “Vacation Excess” for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS’ management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

Recommendation to OCFA:

OCFA and its Legacy employees who receive “Vacation Excess” pay should begin paying employer and employee contributions on the “Vacation Excess” pensionable pay item on a bi-weekly basis.

OCFA’s Management Response:

☐ Agree  □ Disagree

OCFA management agrees that pensionable pay items should be reported biweekly and subject to employee and employer contributions. OCFA staff provided the OCERS auditor with eight (8) correspondence dating back to 2005 from OCERS senior staff concurring with OCFA’s practice of not paying retirement on vacation excess. The documents are included as an attachment to this audit report.

While we would rather wait for OCERS completion of the comprehensive review of all OCFA’s earnings as part of the 2018 OCERS Business Plan prior to implementing the change, we understand that this may not be complete until the end of the calendar year. Therefore, OCFA’s planned implementation date for collection of employee and employer retirement contributions on vacation excess (for legacy members only) on a biweekly basis beginning pay period 16 that will be paid August 10, 2018.
Finding #2 (Efficiency/Effectiveness) – As per OCERS’ concurrence effective in 2005, OCFA does not include “On Call” pay to Legacy members in its automated payroll transmittals; thus, manual procedures are required to include “On Call” pay in a retiring Legacy member’s Final Average Salary (FAS).

Finding Detail

The current process for including “On Call” pay in a Legacy retiring member’s FAS has required the following manual steps performed by (1) the retiring member, (2) OCFA and (3) OCERS:

- **Step #1** - The member must request that OCERS include “On Call” pay in FAS calculations upon retirement. OCERS has no record of such pay in the member’s salary history in V3, because OCFA does not report “On Call” pay in payroll transmittals. OCFA’s payroll system does not code “On Call” pay as a pensionable pay item.

- **Step #2** - OCFA must provide OCERS with payroll documentation (e.g. dates/hours worked and hourly pay rates) proving that the retiring member actually received “On Call” pay during the FAS measuring period.

- **Step #3** - OCERS’ Member Services must manually calculate both the employer and employee contributions (plus interest) for “On Call” pay that should have been paid bi-weekly by OCFA and the member during the retiring member’s FAS measuring period. OCERS informs OCFA of this dollar amount.

- **Step #4** - OCFA must remit to OCERS both the employer and employee contributions calculated above (OCFA later bills its employee for the employee portion of the contributions).

- **Step #5** - After OCERS receives the above employer and employee contributions from OCFA, Member Services must recalculate the member’s benefit payment to include “On Call” pay in FAS. Retroactive adjustments to benefit payments are required if the member’s benefit payment had already commenced before OCERS received the above dollar contributions from OCFA.

The following are risks associated with the above procedures.

**Risk with Step #1** - OCFA members could be retiring without the benefit of adding “On Call” pay to FAS if they do not know to ask OCERS to include “On Call” pay, or if Member Services does not ask the retiring member if the member had potentially received “On Call” pay during the FAS measuring period.
• Member Services staff recall five retiring members in recent years requesting “On Call” pay, resulting an increased retirement benefit of $300 to $600 per month.

• OCERS’ Member Services will soon provide OCFA with a listing of recent OCFA retirees (who retired anytime within 2015 to 2017) to determine if these retirees' FAS calculations were eligible to include “On Call” pay. OCERS’ Member Services will coordinate with OCFA’s payroll department to identify retired members requiring any resulting retroactive benefit adjustments due to “On Call” pay.

Risk with Step #3 - Funding of the retirement benefit associated with “On Call” pay does not match with Segal’s actuarial valuation model. According to Segal, OCFA and its members should pay bi-weekly contributions on pensionable pay items received throughout the member’s entire career, not just during the members’ FAS measuring period, as is the current procedure for “On Call” pay. Segal’s actuarial valuation model prefers to have all known pensionable pay amounts reported when received, and to have contributions made on such pensionable pay when received throughout the member’s career. According to OCFA, there are 96 currently active members who have received “On Call” pay.

Risk with Step #3 - There is inherent risk for error when Member Services staff manually calculates contributions for “On Call” pay.

OCFA provided Internal Audit with a matrix dated March 8, 2005 signed by Jim Buck referencing OCERS’ acceptance of the above practices in regard to “On Call” pay.

Recommendation to OCERS

On a go-forward basis, OCERS should now require that OCFA report “On Call” pay to Legacy members as a pensionable pay item in its automated bi-weekly payroll transmittals and that OCFA and its employees pay both employer and Legacy employee contributions on a bi-weekly basis. Doing so would help:

• Ensure that the member’s salary records in V3 reflect “On Call” pay so that members receive the full benefit of “On Call” pay if so received during the FAS measuring period.

• Help ensure funding of the OCERS’ pension system in accordance with Segal’s actuarial valuation model.

• Reduce the chance for human error inherent in the manual processes described above.
OCERS’ Management Response:

 Agree  □ Disagree

OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include “On Call” pay for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS’ management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

Recommendation to OCFA

OCFA should report “On Call” pay to Legacy members as a pensionable pay item in its bi-weekly payroll transmittals (i.e. code “On Call” pay as pensionable in its payroll system). OCFA and its employees who receive “On Call” pay should begin paying employer and employee contributions on the “On Call” pensionable pay item on a bi-weekly basis.

Going forward, OCFA should avoid reporting pensionable pay items in the manual manner described in the Finding Detail above; pensionable pay items paid bi-weekly should be sent to OCERS via automated bi-weekly transmittal files.

OCFA’s Management Response:

 Agree  □ Disagree

AGREE- OCFA management agrees that pensionable pay items should be reported biweekly and subject to employee and employer contributions. OCFA staff provided the OCERS auditor with various correspondence dating back to 2005 from OCERS senior staff concurring with OCFA’s practice of not paying retirement on “On Call” pay.

While we would rather wait for OCERS completion of the comprehensive review of all OCFA’s earnings as part of the 2018 OCERS Business Plan prior to implementing the change, we understand that this may not be complete until the end of the calendar year. Therefore, OCFA’s planned implementation date for collection of employee and employer retirement contributions on “On Call” (for Legacy members) on a biweekly basis beginning pay period 16 that will be paid August 10, 2018.

A comprehensive review of all OCFA employees that have retired within the last three years determined that no retiree was eligible for additional compensation to be included in their Final Average Salary (FAS) as a result of “On Call” pay not being included in the final compensation calculation.
Finding #3 (Efficiency/Effectiveness) – V3’s “Contribution Discrepancy Tracking Report” does not solely summarize unresolved contribution discrepancies.

Finding Detail

Both plan sponsors and OCERS use V3’s bi-weekly “Transmittal Exception Report” to identify discrepancies between expected contributions and actual contributions that occur in the current pay period for further research and resolution. V3 automatically runs the report each pay period and lists discrepancies by member.

V3’s year-to-date report (“Contribution Discrepancy Tracking Report”) summarizes all such discrepancies, both in the current pay period and from past pay periods.

However, the “Contribution Discrepancy Tracking Report” needs improvement to be more useful for monitoring purposes.

V3’s year-to-date “Contribution Discrepancy Tracking Report” does not remove corrected contribution discrepancies so that only the open discrepancies remain. For this primary reason, OCFA’s payroll manager stopped using V3’s year-to-date “Contribution Discrepancy Tracking Report”.

Furthermore, users find the report difficult to navigate and scroll through due to repetitive column headers, which also make sorting, pivoting, and filtering data more difficult in Excel.

This increases the risk of OCFA not correcting older, open contribution discrepancies since the bi-weekly “Transmittal Exception Report” only captures discrepancies applicable to the current pay period.

- With a properly updated year-to-date report, OCERS can better monitor if plan sponsors correct contribution discrepancies in a timely manner.
  - Prior to V3, OCERS staff researched contribution discrepancies on behalf of the plan sponsors. With V3, OCERS delegated this process to the plan sponsors.

Recommendation to OCERS

OCERS should consider the cost-benefit of having Vitech correct the design of V3’s “Contribution Discrepancy Tracking Report”. Determining the cost to fix the report would require OCERS formally requesting a proposal from Vitech (i.e. a Change Order). OCERS’ 2018 approved budget has $300,000 budgeted for potential Change Orders. V3’s year-to-date “Contribution Discrepancy Tracking Report” should only capture open contribution discrepancies still needing resolution.
OCERS’ Management Response:

 Agree  □ Disagree

In June 2018, OCERS incorporated the necessary changes to the V3 “Contribution Discrepancy Tracking Report” within a system enhancement to V3. The cost to incorporate these changes was approximately $7,800.
Finding #4 (Compliance) – OCFA’s Memorandum of Understanding (MOU) language in regards to employer paid pickups of Legacy employee contributions does not reflect actual payroll processes.

Finding Detail

CERL §31581.1 - The governing body of a district may elect to pay up to one-half of the contributions normally required of members …The payments shall not become part of the accumulated contributions of the member (instead belonging to the district).

CERL §31581.2 - The governing body of a district may agree to pay any portion of the contributions required to be paid by a member. All payments shall be credited to member accounts.

Current MOU language says that the OCFA employer paid pickups of employee contributions vests with the employee (i.e. § 31581.2).

However, this is contrary to what actually occurs with OCFA employer paid pickups of Legacy employee contributions in both OCFA’s payroll system and OCERS’ V3 system. Based on advice of OCFA circa 2011/2012, employer paid pickups of employee contributions have since been split evenly as a § 31581.2 pickup and a § 31581.1 pickup. See below example for an illustration. (Prior to this, OCFA employer paid pickups of employee contributions were classified as a § 31581.2 pickup.)

Using an example of an entry age of 31 (Safety, Legacy employee) with an OCERS’ entry age rate of 17.57%:

*Segal gives a small discount to employer paid pickup contributions classified as a § 31581.1 pickup.

If a member terminates (i.e. withholds contributions from OCERS and forfeits eligibility for a future OCERS’ benefit) from the OCERS’ plan, then OCERS issues the member a refund of contributions paid by the employee and any OCFA employer paid pickups of
employee contributions classified as a § 31581.2 pickup. To comply with § 31581.1, the V3 system does not refund the accumulated OCFA employer paid pickups of employee contributions classified as a § 31581.1 pickup because these funds instead vest with OCFA.

However, with current MOU language noted above, a terminating employee could theoretically argue that the amount withheld (the § 31581.1 pickup) actually vests with the employee, not to OCERS.

For context, since 2014, 25 OCFA employees have terminated (with an average contribution refund of $22,215). The largest refund was for $145,242.

**Recommendation to OCFA**

To avoid potential confusion when refunding contributions to a terminating Legacy employee, OCFA should update its MOUs (e.g., Side Letter to the MOU) to clarify how employer paid pickups of Legacy employee contributions are to be classified according to ‘37 Act sections § 31581.1 and § 31581.2.

**OCFA’s Management Response:**

Agree  □  Disagree

**AGREE-**

OCFA agrees that this needs to be corrected, but not by a side letter. Effective pay period 21 (pay date 10/19/18) OCFA management corrected the OCFA payroll interface to the OCERS’ V3 system to be consistent with the Firefighter MOU. Per CERL 31581.2 the employer paid pickup of employee contributions are to be considered vested with the employee.
Finding #5 (Internal Controls) – OCERS’ Director of IT, not OCFA’s Payroll Manager, maintains spreadsheets that split OCERS’ age of entry rates into separate rate categories required of OCFA’s MOU’s and OCFA’s payroll system.

Finding Detail

OCERS provides all plan sponsors with OCERS’ updated age of entry contribution rates annually adopted by OCERS’ Board so that plan sponsors can update their own payroll systems.

However, we noted that OCERS’ Director of IT manually maintains several contribution rate spreadsheets to help OCFA’s payroll manager split OCERS’ age of entry rates into separate rate categories required of OCFA’s own MOUs and OCFA’s payroll system. OCFA’s split categories are equal to OCERS’ age of entry rates minus a very small actuarial discount; using the same example from Finding #4, below is an illustrative example of this split and discount.

Using an example of an entry age of 31 (Safety, Legacy employee) with an OCERS’ entry age rate of 17.57%:

*Segal gives a small discount to employer paid pickup contributions classified as a § 31581.1 pickup.

It should be OCFA’s responsibility, not OCERS, to initiate and maintain the above spreadsheets splitting OCERS’ age of entry rates into the rates required of OCFA’s MOUs and OCFA’s payroll system. This would not eliminate OCERS’ own review process of contribution rates before the rates are entered into V3.

OCFA’s payroll manager typically requests updated rate spreadsheets from OCERS’ Director of IT when OCFA’s MOUs require a change in its own fixed rates and when OCERS annually updates its entry age rates.
**Recommendation to OCFA**

OCFA’s payroll manager should take over maintenance for the above spreadsheets from OCERS’ Director of IT.

OCFA should provide updated spreadsheets to OCERS in a timely manner, at least 30 to 45 days prior to the effective pay period in which there is a rate change, for OCERS’ review. (OCERS will continue to provide OCFA with OCERS’ updated age of entry contribution rates annually adopted by OCERS’ Board.)

**OCFA’s Management Response:**

**Agree □ Disagree**

AGREE- As discussed and agreed to by OCERS Internal Auditor, this is not reflective of an internal control weakness for OCFA. The original intent of having both OCFA and OCERS staff maintain the spreadsheets was to prevent the errors that would occur due to either rounding differences or applying actuarial discounts differently. OCFA staff will take over the maintenance of the spreadsheets from OCERS Director of Technology. OCERS would need to ensure that the OCFA rates reflected in the rate spreadsheets provided by OCFA staff to OCERS are the same rates as those entered into the V3 system. The above transition from OCERS to OCFA took place beginning with Pay Period #14 in 2018.
Finding #6 (Internal Controls) – There is not a proper segregation of duties within OCERS' IT Division in regards to the configuration of contribution rates in V3.

Finding Detail

We noted that OCERS' Director of IT maintains sole responsibility for configuring V3 with the Board-adopted contribution rates. With updated rates, V3 automatically calculates expected bi-weekly contributions from members and employers.

V3 can then automatically compare expected contributions against actual contributions transmitted bi-weekly from the plan sponsors to flag any discrepancies needing correction.

However, if the Director of IT departs from OCERS, there would be a loss of knowledge in how to configure V3 with Board-adopted contribution rates. OCERS' Director of IT also performed this function before her promotion to Director of IT.

Recommendation to OCERS

OCERS’ management should re-assign the duties of configuring updated rates in V3 from OCERS’ Director of IT to the appropriate personnel for cross-training, process documentation, and backup purposes.

OCERS’ Management Response:

☑ Agree  ☐ Disagree

OCERS’ management agrees with this recommendation. We will be reassigning responsibilities related to updating contribution rates in V3. The revised process will encompass multiple departments, and will segregate duties related to preparing the rate schedules, data input into V3 and verification/audit of contribution rates.
Categories of Audit Findings:

Critical Control Weaknesses:
These are finding(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS’ reputation or integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

Significant Control Weaknesses:
These are finding(s) that represent a significant deficiency in the design or operation of internal controls. Management is expected to address Significant Control Weaknesses brought to their attention promptly.

Findings:
These are finding(s) concerning (1) internal control, (2) compliance, or (3) efficiency/effectiveness issues in which Internal Audit will recommend to management a corrective action to implement or enhance processes and/or internal controls. Findings are expected to be addressed within six to twelve months.
Appendix #1

Audit Testing Methodology

- Reviewing sections within the four current OCFA MOU’s (Memorandum of Understanding) in regards to the OCERS pension plan and OCFA’s pay practices.
- Verifying members’ age of entry in V3 against executed Member Affidavits and Reciprocity verification documents.
- Recalculating employer and employee contributions submitted on OCFA transmittals against Segal’s entry-age contribution rates and fixed rates stipulated in OCFA’s MOU’s.
- Tracing employer and employee contributions from OCFA transmittals to V3 records and copies of OCFA employee paystubs.
- Tracing pensionable salaries and pensionable pay items from OCFA transmittals to public pay schedules, employee work history records, and certification documentation maintained by OCFA’s Human Resources department.
- Recalculating pensionable pay items on the transmittals against relevant terms stated in MOU’s.
- Stratifying pensionable pay items by total per year, and by pay item, going back to the beginning of 2014.
- Reviewing a listing of pay codes in OCFA’s payroll system to search for pensionable pay items not reported to OCERS.
- Reviewing employee paystubs in our sample of 60 employees for pensionable pay items not reported to OCERS.
- Reviewing final average salary history of recent OCFA retirees for possible signs of pension spiking.
- Consulting with Segal about any actuarial issues.
Attachment
OCFA Response to OCERS Payroll Audit

Supporting Detail
Supporting Documentation Provided to OCERS Internal Auditor Regarding Vacation Excess Payoff and On Call Pay Retirement Contributions

1. Memo dated February 14, 2005 to Jim Buck, OCERS CEO, discussing how OCFA was applying retirement on various pay elements
   • While the memo was not signed, Vacation Excess Payoff and On Call pay were in the earnings not subject to retirement worksheet

2. March 8, 2005 memo to Jim Buck Requesting that he concur with the attached matrix regarding retirement contributions on pay elements
   • Jim Buck concurred with the matrix and signed the memo
   • The attached matrix specifically excluded vacation excess payoff and on call pay from being subject to retirement

3. February 2, 2006 Email from Jim Ruane documenting the conference call with OCERS regarding paying retirement on payoffs
   • Documents Stephen (Cadena) request we not change our practice until they (OCERS) determines what to do with the various pay elements

4. February 9, 2006 Email from Jim Ruane documenting the conference call with Stephen Cadena
   • Stephen Cadena instructed OCFA not to change any of our retirement rates to any pay elements except Holiday Comp for Safety
5. February 7, 2008 Email from Jim Ruane to Michelle Williamson discussing vacation and sick leave payoffs
   - The attached matrix documented that OCFA was not paying retirement contributions on vacation excess payoff

6. August 5, 2010 Memo from OCERS regarding the calculation of on call pay for retirement calculations
   - Validates that this was a current process and not a weakness in internal controls

7. February 24, 2011 Email from OCERS staff confirming that Vacation Excess is not subject to retirement in the Pension Gold system
   - Validates the process and they also perform a manual review to ensure that the vacation excess does not exceed the amount allowed by the MOU

8. November 13, 2017 Email to OCERS Auditor stating that not paying retirement on vacation excess is an established practice and there will be limited documentation supporting the practice as it occurred 12 years ago
February 14, 2005

Jim Buck  
Chief Operations Officer  
Orange County Employees Retirement System  
2223 Wellington Ave  
Santa Ana, Ca  92701

Dear Mr. Buck:

Subject: Ventura Pay Elements

After our meeting on Thursday, January 20 regarding the Ventura pay elements and how the rates apply to each earning category, we have tried to determine the combined impact of the rates themselves and the size of the base. In preparation for our next meeting on Tuesday, February 15 at 1:30 PM, I am enclosing a matrix of OCFA’s earnings and how the retirement rates are applied.

It is our understanding that the rates may not be changing, but based on our meeting on the 20th, the base on which the rates are applied may be changing. Any change in the retirement rates or base would result in a significant impact to OCFA’s budget. As we prepare our budget, it would be appreciated if you could confirm in writing our application of the retirements rates and the inclusion (or exclusion) of the Ventura pay elements no later than February 22nd.

Should you have any questions regarding the matrix, please call me at (714) 573-6346.

Sincerely,

Linda Cable, Payroll Manager

cc: Jim Ruane, Finance Division Manager  
Cindy Guziak, Budget Manager
### Orange County Fire Authority
#### Compensable Earnable Elements

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**Base Elements**

- COMPENSABLE EARNABLE
- COMP TIME OFF
- HOLIDAY COMP PAYMENT
- HOLIDAY COMP TRANS. DRIVER
- HOLIDAY PAY
- HOLIDAY PAID
- JURY DUTY
- LIGHT DUTY
- LEAVE WITH PAY
- MILITARY LEAVE WITH PAY
- MILITARY PAY WITH NO ACCRUALS
- OFFICERS RETIREMENT BOARD
- REGULAR WORK
- RETRO PAY OF HCP
- RETRO PAY OF REGULAR BASE HOUR
- RETIREE SICK PAY PRE BANKRUPTC
- RETRO PAY OF WORKERS COMP
- STATE SICK LEAVE
- SICK OTHER
- UNION TIME USED FROM BANK
- UT BOARD - FROM UT BANK
- UT GRIEVANCE-NOT FROM UT BANK
- UT NON-BOARD - FROM UT BANK
- UT COLLABORATION - NO UT BANK
- VACATION TAKEN
- WA BENEFIT SAFETY
- WC SUPPLEMENTAL NON SAFETY
- WD BENEFIT NON-SAFETY
- WE SUPPLEMENTAL SAFETY
- WC BENEFIT NON-SAFETY INVALID

45108
| Rate          | Tier 1 | Tier 2 | Tier 1 | Tier 2 | Tier 1 | Tier 2 | Ventura | Ventura | Ventura | Ventura | Ventura | Ventura |
|--------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|
| Employer     | $12.12 | $12.12 | $12.12 | $12.12 | $32.88 | $32.88 | $0.00   | $0.00   | $0.00   | $0.00   | $0.00   | $0.00   |
| .1 Pick Up   | $0.00  | $0.00  | $3.10  | $2.40  | $4.04  | $5.86  | $0.00   | $0.00   | $0.00   | $0.00   | $0.00   | $0.00   |
| .2 Pick Up (average) | $4.26 | $7.34 | $1.66 | $4.41 | $3.56 | $5.96 | $4.26 | $7.34 | $1.66 | $4.41 | $3.56 | $5.96 |
| Total        | $16.38 | $19.48 | $15.88 | $18.93 | $40.50 | $44.70 | $4.26 | $7.34 | $1.66 | $4.41 | $3.56 | $5.96 |

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**Ventura Elements**

- **EXECUTIVE MGMT CAR ALLOWANCE**: Y Y Y Y Y Y Y
- **EDUCATION PAY - 7.5%**: Y Y Y Y Y Y Y
- **MOVE-UP FOR DISPATCHERS**: Y Y Y Y Y Y Y
- **NIGHT SHIFT DIFFERENTIAL**: Y Y Y Y Y Y Y
- **DISPATCHER NIGHT SHIFT DIFF**: Y Y Y Y Y Y Y
- **NIGHT SHIFT**: Y Y Y Y Y Y Y
- **PARAMEDIC RECERT**: Y Y Y Y Y Y Y
- **RETRO PAY - VENTURA RULING**: Y Y Y Y Y Y Y
- **RESOLUTION INCENTIVE BONUS**: Y Y Y Y Y Y Y
- **USAR MEDIC BONUS**: Y Y Y Y Y Y Y
- **USAR BONUS**: Y Y Y Y Y Y Y
| CALL BACK | CALL BACK BC AND DC | CAFETERIA CASH REIMBURSEMENT | COMP EARNABLE TRANSPORT DRIVER | VACATION DONATED - CAT LEAVE | COMP PAYOFF | MOBP CASH REIMBURSEMENT | ADMIN MGMT FLEX SPENDING CASH | CONTINUOUS SERVICE AWARD | COMP TIME EARNED | DOCK PAY | DISCIPLINARY SUSPENSION | EXTRAHOLP RETIRE INTEREST PAID | FAMILY LEAVE | PCF FLSA RETRO PAYMENT | FIREFIGHTER CASH REIMBURSEMENT | HOLIDAY COMPENSATION | LEAVE WITHOUT PAY | MANAGEMENT LUMP SUM PAYMENT | MILITARY LEAVE WITHOUT PAY | MANAGEMENT MOBP ADJUSTMENT | MANDATORY COMP PAYOFF | MOBP MISCELLANEOUS | MEDICAL MOBP REIMBURSEMENT | ADMIN MGMT FLEX MEDICAL | MISC NON-TAXABLE |
|-----------|---------------------|-----------------------------|-------------------------------|-----------------------------|------------|-------------------------|--------------------------------|----------------------------|-----------------|----------|---------------------|-----------------------------|---------------|------------------------|--------------------------------|--------------------------|----------------|------------------------|-----------------------------|--------------------------|------------------------|------------------|------------------------|-----------------------------|--------------------------|------------------------|-----------------|------------------------|
March 8, 2005

Jim Buck
Chief Operations Officer
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701

Dear Jim:

This letter is a follow-up to our February 15, 2005 meeting regarding employer contributions on specialty pays. The following is our understanding of the change in methodology you will be implementing the first full pay period in July 2005:

- All specialty pays will now be subject to the full, employer and total employee, retirement rate. The total employee rate includes contributions made under both Government Code Sections 31581.1 and 31581.2.
- Vacation and sick leave payoffs allowed by MOUs are subject to the total employee rate only.
- Holiday comp pay is subject to the total employee rate only.
- Vacation hours that are paid because they exceed the maximum allowable vacation credit are not subject to retirement.
- Payoffs at termination are not subject to retirement.
- Specialty pays earned on overtime hours worked are not subject to retirement.

If the attached matrix reflecting the above changes is correct, please sign and return this letter.

If you have any questions or corrections, please contact me at 573-6302 or Linda Cable at 573-6346.

Thanks for your assistance with this change.

[Signature]
OCERS’ Concurrence

Sincerely,

Cindy Guziak, Budget Manager

Attachment

c: Jim Ruane, Finance Division Manager
   Linda Cable, Payroll Manager

Attachment 2

Serving the Cities of: Aliso Viejo • Buena Park • Cypress • Dana Point • Irvine • Laguna Hills • Laguna Niguel • Laguna Woods • Lake Forest • La Palma • Los Alamitos • Mission Viejo • Placentia • Rancho Santa Margarita • San Clemente • San Juan Capistrano • Seal Beach • Stanton • Tustin • Villa Park • Westminster • Yorba Linda • and all Fire Protection Districts of Orange County
# Orange County Fire Authority

## Retirement Deduction Subject Earnings Matrix

| Code | Description                  | Type* | Csh | Sv | RMF | RMM | RMP | RE2 | GP1 | GP2 | MP1 | MP2 | SP1 | SP2 | GV1 | GV2 | MV1 | MV2 | SV1 | SV  |
|------|-------------------------------|-------|-----|----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1AR  | STAFF AIRCRAFT RESCUE PAY     | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1BF  | STAFF BILINGUAL FIREFIGHTER   | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1E6  | STAFF EDUCATION PAY FF - 2.5% | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1E9  | STAFF EDUCATION PAY FF - 5%   | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1EM  | STAFF EMT BONUS               | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1EP  | STAFF EDUCATION PAY FIREFIGHTR| Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1HM  | STAFF HAZMAT PAY              | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1PT  | STAFF PARAMEDIC PAY           | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1UM  | STAFF USAR MEDIC BONUS        | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 1US  | STAFF USAR BONUS              | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 2AR  | STAFF AIRCRAFT RESCUE PAY - OT| NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 2BF  | STAFF BILINGUAL FF - OT      | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 2HM  | STAFF HAZMAT PAY - OT         | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 2PT  | STAFF PARAMEDIC PAY - OT      | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 2UM  | STAFF USAR MEDIC BONUS - OT   | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| 2US  | STAFF USAR BONUS - OT         | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| ACO  | SUPP ASSIGN PAY - STAFF BC - OT| NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| AP   | SUPP ASSIGN PAY               | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| APC  | SUPP ASSIGN PAY - STAFF BC    | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| APO  | SUPP ASSIGN PAY - OT          | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| ARE  | MOBP CASH REIMBURSEMENT       | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| ARF  | AIRCRAFT FIRE RESCUE PAY      | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| ARO  | AIRCRAFT FIRE RESCUE PAY - OT | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BEX  | BUSINESS REIMBURSEMENT        | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BFM  | BILINGUAL FIRE MANAGEMENT     | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BFO  | BILINGUAL FIREFIGHTER - OT    | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BLP  | BEREAVEMENT W/PAY             | Base   |     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BPS  | BUENA PARK SICK               | NotUsed|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BS   | BILINGUAL PAY                 | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BSF  | BILINGUAL FIREFIGHTER         | Ventura|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BSO  | BILINGUAL PAY - OT            | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |
| BT   | BOAT REIMBURSEMENT             | NonRtmt|     |    |     |     |     |     | Y   | Y   | Y   | Y   | Y   | Y   |     |     |     |     |     |     |

**Date/Time Printed:** Tuesday, July 26, 2005

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Date/Time Printed: Tuesday, July 26, 2005
Report Name: O_RTMT_01
Query Name: O_P_RTMT_SUBJ_EARN_TABLE_W_EARNTYPE
# Orange County Fire Authority

**Retirement Deduction Subject Earnings Matrix**

| Code | Description                                | Type* | Csh | Sv | RMF | RMM | RMP | RE2 | GP1 | GP2 | MP1 | MP2 | SP1 | SP2 | GV1 | GV2 | MV1 | MV2 | SV1 | SV  |
|------|--------------------------------------------|-------|-----|----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| MP   | MILITARY LEAVE WITH PAY                    | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| MPN  | MILITARY PAY WITH NO ACCRUALS              | Base  |     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MRE  | MEDICAL MOBP REIMBURSEMENT                 | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MRF  | ADMIN MGMT FLEX MEDICAL                    | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MSC  | MISCELLANEOUS NON-TAXABLE                  | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MST  | MISCELLANEOUS TAXABLE                      | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MT   | MILEAGE TAXABLE                            | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MU   | MOVE-UP FOR DISPATCHERS                    | Ventura|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MUO  | MOVE-UP FOR DISPATCHERS - OT               | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| MUT  | MANDATORY UNION TIME DONATED               | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OC   | ON CALL                                   | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OEH  | EXTRA HELP OVERTIME                       | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OF   | OF FLSA PAY ON EXCESS HOURS                | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OFH  | FORCED HAZMAT PAY OT                      | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OFM  | FORCED MEDIC PAY OT                        | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OK   | PREMIUM OVERTIME FOR BCS ONLY              | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| ORB  | OCERS RETIREMENT BOARD                     | Base  |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |   Y |
| OT   | PREMIUM OVERTIME                           | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OV   | VOLUNTARY OVERTIME                         | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OVM  | VOLUNTARY HAZMAT OT                        | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PCF  | PAID CALL FF - PAY HOURS                  | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PCS  | PROFESSIONAL CONFERENCES                   | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PJ   | PROFESSIONAL JOURNALS                      | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PM   | NIGHT SHIFT DIFFERENTIAL                   | Ventura|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PMD  | NIGHT SHIFT DIFF - DISPATCHER              | Ventura|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PMF  | NIGHT SHIFT                                | Ventura|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PMS  | PROFESSIONAL MEMBERSHIPS                   | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| OT   | PREMIUM OVERTIME                           | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PR   | PREMIUM OVERTIME                           | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PRG  | PARAMEDIC RECERT                           | NotUsed|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PT   | PARAMEDIC PAY                              | Ventura|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| PTO  | PARAMEDIC PAY - OT                         | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| REH  | EXTRA HELP RETRO PAY                      | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |

**Date/Time Printed:** Tuesday, July 26, 2005

**Report Name:** O_RTMT_01

**Query Name:** O_P_RTMT_SUBJ_EARN_TABLE_W_EARNTYPE
### Orange County Fire Authority

**Retirement Deduction Subject Earnings Matrix**

| Code    | Description                        | Type* | Csh | Sv | RMF | RMM | RMP | RE2 | GP1 | GP2 | MP1 | MP2 | SP1 | SP2 | GV1 | GV2 | MV1 | MV2 | SV1 | SV |
|---------|------------------------------------|-------|-----|----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| UMO     | USAR MEDIC BONUS - OT              | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| US      | USAR BONUS                         | Venture|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| USO     | USAR BONUS - OT                    | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| UT      | UNION TIME BANK USED - FF          | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| UTB     | UT BOARD - FROM UT BANK            | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| UTC     | COMP HOURS DONATED TO OCPFA        | NotUsed| N   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| UTG     | UT GRIEVANCE- NOT FROM UT BANK     | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| UTN     | UT NON-BORAD - FROM UT BANK        | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| UTT     | UT COLLABORATION - NOT UT BANK     | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| UTV     | VACATION HRS DONATED TO OCPFA      | NotUsed| N   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| VE      | EXCESS VACATION PAY                | Special|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| VP1     | VACATION PAY                       | NotUsed| N   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| VP2     | VACATION PAY                       | NotUsed| N   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| VP3     | VACATION PAY                       | Special|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| VPT     | VACATION PAYOFF TERMINATION        | Special|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| VT      | VACATION TAKEN                     | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WA      | WA BENEFIT SAFETY                  | Base  |     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| WC      | WC SUPPLEMENTAL NON SAFETY         | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WD      | WD BENEFIT NON-SAFETY              | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WE      | WE SUPPLEMENTAL SAFETY             | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WG      | WC BENEFIT NON-SAFETY INVALID      | NotUsed| N   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WG      | WC SUPPLEMENTAL NON-SAFETY         | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WLR     | WELLWISE REIMBURSEMENT             | NonRmt|     |    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| WSX     | WC BENEFIT SAFETY - INVALID        | NotUsed| N   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |
| WSS     | WC SUPPLEMENTAL SAFETY             | Base  | Y   | Y  | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   | Y   |

*Items designated with a type of SPECIAL will be sent to OCERS as "Additional pay items" even though they are not "Pensionable".

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**Date/Time Printed:** Tuesday, July 26, 2005  
**Report Name:** O_RTMT_01  
**Query Name:** O_P_RTMT_SUBJ_EARN_TABLE_W_EARNTYPE  
**Page 6 of 6**
Good afternoon all,

Linda and I just finished up a conference call with Steve and Jim @ OCER’s. As part of their research into the rates OCFA should be paying on behalf of the Holiday Comp Hours (employee is paid for hours due to holiday falling on non scheduled work day), OCER’s has discovered inconsistencies with the manner the other plan sponsors are applying retirement to this pay element. This inconsistency also appears to occur in the special / premium pays along with the Sick / Vacation payoffs for the non-safety members.

Jim then requested that OCFA beginning paying Employer retirement on the payoffs. We reference the matrix he signed March of 2005 stating Employee only retirement rates should apply. We expressed our concern that these types of changes are causing us great concern in terms of processing and $$$ impact. Jim stated that the issue is really a miscommunication of the interpretation of the various pay elements between OCER’s and the plan sponsors.

Fortunately, Steve said don’t do anything until they (OCER’S) determine what to do with all the various pay element interpretations and the appropriate retirement rate(s) that should be applied. They also plan on meeting with the actuarial and various plan sponsors to discuss this issue. Steve also stated that it will be at least 3 months before they may have a resolution.

Next steps:

OCFA will not change any of the current retirement calculations for the non safety earnings including special / premium pays, vacation / Sick payoffs and holiday comp.

For the Safety holiday comp, we will need to pay it. It is budgeted and the outstanding amount is about $750K.

Jim Ruane
Finance Manager / Auditor
Orange County Fire Authority
jimruane@ocfa.org
(714) 573-6304
-----Original Message-----
From: Ruane, Jim
Sent: Thursday, February 09, 2006 4:25 PM
To: Jakublak, Tricia; Guziak, Cindy
Cc: Hamilton, Stephan; Guziak, Cindy
Subject: Ocers retirement matrix

Hi All,

Per a telephone conversation today with Steve Cadena, we are not going to change the retirement rates (E/R or E/E) to any pay elements, except Holiday Comp for Safety. OCER’S has formed a committee tasked with resolving the inconsistencies between actuarial assumptions and actual plan sponsor contributions. He did confirm that the actuarial does have the detail pay element assumptions.

Should we get any calls from OCER’S regarding our current practice, please refer them back to Steve.

Jim Ruane
Finance Manager / Auditor
Orange County Fire Authority
jimruane@ocfa.org
(714) 573-6304
Hi Michelle,

I thought the attached spreadsheet might help when we discuss the issue. It reflects what OCFA should be paying on the vacation and sick payoffs and also a column that we can include the actuarial assumptions. Hopefully they agree.

No pride of ownership. Feel free to use it, modify or delete it.
Orange County Fire Authority  
Business Services  
Jim Ruane Finance Manager / Auditor  
(714) 573-6304  
jrRuane@ocfa.org

OCERS Retirement - Sick and Vacation Payoffs

<table>
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</tr>
<tr>
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<td>(2)</td>
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</table>

| Sick     | Sick Payoff - Annual allowed per MOU | No | Yes |
|          | (2)                               |    |    |

Notes
(1) Per the memo signed by Jim Buck to OCFA on March 8, 2005.
(2) OCFA is currently not contributing the employee retirement portion on these two earning codes as it was discovered in 2006 that other OCERS plan sponsors were not contributing employee retirement on similar earning codes.
August 5, 2010

Jim Ruane, Finance Division Manager
OCFA
1 Fire Authority Road
Irvine, CA  92602

RE: On Call Pay -

Dear Mr. Ruane,

Orange County Employees Retirement System has recalculated final average salary to include the on-call hours reported by OCFA as pensionable. The member’s retirement allowance has been adjusted retroactively to his retirement date and his account is now current.

The total employee and employer cost associated to those pensionable on-call earnings has been calculated to be equal to $2,575.29. For you convenience I have included a spreadsheet showing how this number was calculated.

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<th>Description</th>
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<td>$1,812.41</td>
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<td>Total Contributions</td>
<td>$2,575.29</td>
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</table>

Please let me know when OCERS should expect to receive these funds. Feel free to contact me directly if you have any questions or concerns.

Sincerely,

Suzanne J. Filer
Member Services Director

Cc:  Karen Angers, OCFA
     Julie Wyne, Assistant CEO, OCERS

Attachment 6
On-Call Pay, 02/27/08 (PP 5'08) - 02/26/2009 (PP 5 '09)

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<tr>
<td>Employer (ER) Contributions Owed</td>
<td>$1,812.41</td>
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</table>

**TOTAL CONTRIBUTIONS OWED:** $2,575.29
EMPLOYEE (EE) CONTRIBUTIONS OWED TO OCERS FOR ON CALL PAY
For Measuring Period of 02/27/08 (PP 5'08) - 02/26/209 (PP 5'09)

OCFA - General, Plan I

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<th>To Date</th>
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$189.74 Subtotal 1/1/08 - 6/30/08

| 6/20/2008  | 7/3/2008 | 14         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 7/4/2008   | 7/17/2008| 15         | none                       | none                   | $0.00       | 10.02%                | $0.00               |
| 7/18/2008  | 7/31/2008| 16         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 8/1/2008   | 8/14/2008| 17         | 110.00                     | 110.00                 | $942.23     | 8.00%                 | $75.38              |
| 8/5/2008   | 8/28/2008| 18         | 102.00                     | 102.00                 | $814.47     | 8.00%                 | $65.16              |
| 8/29/2008  | 9/11/2008| 19         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 9/12/2008  | 9/25/2008| 20         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 9/26/2008  | 10/9/2008| 21         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 10/10/2008 | 10/23/2008| 22         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 10/24/2008 | 11/6/2008| 23         | 110.00                     | 110.00                 | $878.35     | 8.00%                 | $70.27              |
| 11/7/2008  | 11/20/2008| 24         | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 11/21/2008 | 12/4/2008| 25         | 145.00                     | 145.00                 | $1,157.83   | 8.00%                 | $92.63              |
| 12/5/2008  | 12/18/2008| 26         | none                       | none                   | $0.00       | 0.00                  | $0.00               |

$580.05 Subtotal 7/1/08 - 12/31/08

$4.74 Interest 12/31/08

$574.33 Running Total

| 12/19/2008 | 1/1/2009 | 1          | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 1/2/2009   | 1/15/2009| 2          | none                       | none                   | $0.00       | 0.00                  | $0.00               |
| 1/16/2009  | 1/19/2009| 3          | 150.00                     | 118.00                 | $956.10     | 8.00%                 | $76.49              |
| 1/30/2009  | 2/12/2009| 4          | 7.00                       | 7.00                   | $56.72      | 8.00%                 | $4.54               |
| 2/13/2009  | 2/26/2009| 5          | 107.00                     | 107.00                 | $866.97     | 8.00%                 | $69.36              |

$188.33 Subtotal 1/1/09 - 6/30/09

Interest 6/30/09

(N/A - member
retired on
$0.00 3/27/2009)

$762.88 Running Total

TOTAL EE CONTRIBUTIONS OWED FOR ON CALL PAY TO OCERS

$762.88
EMPLOYER (ER) CONTRIBUTIONS OWED TO OCERS FOR ON CALL PAY

For Measuring Period of 02/27/08 (PP 5’08) - 02/26/2009 (PP 5’09)

OCFA - General, Plan I

Hours/Amounts provided by OCFA

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<th>From Date</th>
<th>To Date</th>
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<th>On Call Hours per OCFA</th>
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$427.62 Subtotal 1/1/08 - 6/30,

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$919.39 Subtotal 7/1/08 - 12/3,

$10.69 Interest 12/31/08

$1,357.70 Running Total

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$494.71 Subtotal 1/1/09 - 6/30,

Interest 6/30/09 (N/A - member retired on 3/27/09)

$1,812.41 Running Total

TOTAL ER CONTRIBUTIONS OWED FOR ON CALL PAY TO OCERS

$1,812.41
Angers, Karen

From: Jenike, Suzanne <sjenike@ocers.org>
Sent: Monday, February 28, 2011 11:56 AM
To: Ruane, Jim
Cc: Angers, Karen; Guziak, Cindy
Subject: RE: Follow up to our meeting on rates

Follow Up Flag: Follow up
Flag Status: Flagged

Sick leave is also considered compensation earnable up to the amount that is earned and cashable in a year.

From: Ruane, Jim [mailto:JimRuane@ocfa.org]
Sent: Monday, February 28, 2011 11:54 AM
To: Jenike, Suzanne
Cc: Angers, Karen; Guziak, Cindy
Subject: RE: Follow up to our meeting on rates

One more question. Our MOU's allow payoffs for unused sick leave during the year. Is that considered compensation earnable?

Jim Ruane
Finance Manager / Auditor
Orange County Fire Authority
(714) 573-6304
Jimruane@ocfa.org

From: Jenike, Suzanne [mailto:sjenike@ocers.org]
Sent: Thursday, February 24, 2011 12:49 PM
To: Ruane, Jim
Cc: Angers, Karen; Guziak, Cindy
Subject: RE: Follow up to our meeting on rates

Hello there! I also reviewed the vacation excess and payoffs after our meeting yesterday. We see the VE pay item each pay period and it is coded as includable in final average salary but isn't pensionable. Meaning that we will include it in the calculation of a benefit but are not collecting contributions on it biweekly.

I verified the reconciliation process with our payroll manager for the steps involved when members retire. She confirmed that we receive the total vacation balances, cash outs and VE payments for the entire measuring period year(s) from your payroll department. We validate the amount they are eligible to receive credit for and add any pay items that haven't already been included.

Firefighters are eligible to receive credit for 112 hours of vacation per year, regardless of whether or not they actually take the cash (earned and cashable). If they have the maximum allowed balance (I believe 80 hours) on the books they are automatically paid the excess as it is accrued (VE). It isn't unusual for all of these VE credits throughout the year to exceed the 112 hours that is the maximum so our team occasionally has to back out some of these hours. In addition, if
they are within 15 hours of the maximum we can include an extra 112 hours of vacation, per measuring period year. The grand total for a Tier 2 member comes to 672 hours of vacation that potentially can be included in final average salary.

I am comfortable treating vacation as an element of pay that not pensionable so contributions aren't associated to it biweekly. This would include the VE pay so I will have our IT team update PG so we aren't expecting contributions on the RVE pay item.

Let me know if you have any questions/comments/concerns.

From: Ruane, Jim [mailto:JimRuane@ocfa.org]
Sent: Thursday, February 24, 2011 12:16 PM
To: Jenike, Suzanne
Cc: Angers, Karen; Guziak, Cindy
Subject: Follow up to our meeting on rates

Good afternoon Suzanne,

As a follow up to our meeting yesterday, I had a questions about vacation excess and payoffs.

In terms of Vacation Excess (VE) and Retro Vacation Excess (RVE), OCFA does not current pay the EE or ER portion, per the attached matrix. Before we start, I think we need some help in clarifying Compensation Earnable as it relates to Vacation Excess and Vacation payoffs. What I thought we heard yesterday was that an employee could receive 80 hours of compensation earnable credit, per measurement year, for having vacation balances that equal or exceed 80 in the last three years (assuming it is a tier II employee). There is no requirement to actually pay off those balances to receive the compensation earnable credit.

Is the Vacation Excess that an employee gets paid off every pay period due to reaching the maximum allowable also be additional compensation earnable added to my retirement calculation?

Jim Ruane
Finance Manager / Auditor
Orange County Fire Authority
(714) 573-6304
Jimruane@ocfa.org
So we (OCFA staff and myself) discussed this numerous times with prior CEO’s and it was also discussed when we had our prior audit of retirement (a few years ago). The practice has also gone through at least one if not two system conversions and there hasn’t been an issue. It would not be in an OCERS or OCFA minutes because it is part of an all-encompassing MOU. I was at OCFA when it was implemented and did not add a retirement factor based on the discussions with OCERS staff. That’s almost 12 years ago, so there would limited, if any documentation still around as it has been an accepted practice. If you believe that there may be an issue with this, I’d like to have a discussion on the topic before it ends up in an audit report as it wasn’t an issue during the exit briefing.

Thanks

From: Angers, Karen  
Sent: Monday, November 13, 2017 11:49 AM  
To: Adviento, Mark <madviento@ocers.org>  
Cc: Ruane, Jim <JimRuane@ocfa.org>  
Subject: FW: VE vacation excess policy

Here is what I previously sent regarding the VE.

Hi Jim, do you possibly have anything in writing (whether by policy/procedure, e-mail, or meeting minutes, etc.) that show OCFA/OCERS coming to an agreement that bi-weekly contributions would not be taken directly from the VE “Vacation Excess” pay item?

Looks like “VE” came about in 2005, and Member Services here doesn’t really have anything in writing either.

I couldn’t find anything in our 2005 OCERS’ Board Meeting minutes either. Catherine and Suzanne were not at that level of management back in 2005 either.

Unless I’m mistaken from when last we spoke, I think you only recollect discussing this verbally with former OCERS’ CEO’s and actuaries at the time?

Thanks,
<table>
<thead>
<tr>
<th>Plan Sponsor</th>
<th>Pay Item</th>
<th>Pay Item Description</th>
<th>Audit Results</th>
<th>Management’s Response</th>
</tr>
</thead>
</table>
| OCTA         | Vacation Sell Back (VSB) | Common practice among all of OCERS’ plan sponsors  
• A Employee may elect to sell back (i.e. cashout) accrued vacation and/or sick hours annually  
• Executed during specific cashout periods held once or twice a year | Contribution collection process inconsistent across plan sponsors  
In addition to the “Load Factor”, OCTA had been paying contributions upon cashout | OCERS recommends the practice of relying on the Load Factor for Liabilities associated from pensionable payouts, and not collect additional contributions upon cashout |
| OCFA         | Vacation Excess (VE) | Only applicable to OCFA  
• An OCFA Employee automatically receives bi-weekly cash payments in lieu of bi-weekly vacation accruals once that employee’s vacation accrual limit has been reached | No contributions had been paid for “VE” pay since 2005  
Neither bi-weekly, nor through the “Load Factor” | OCFA has started collecting employee and employer contributions on VE when VE is paid (i.e., biweekly) |
Memorandum

DATE: December 11, 2018
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: AUDIT REPORT – ORANGE COUNTY SUPERIOR COURT PAYROLL TRANSMITTALS

Recommendation
Receive and file.

Background/Discussion
As per the 2018 Audit Plan, Internal Audit performed an audit of Orange County Superior Court Payroll Transmittals.

There were six audit findings in the report and both OCERS management and Orange County Superior Court management agreed with all of Internal Audit’s recommendations.

The full audit report is attached.

Submitted by:

David Kim
Director of Internal Audit
Audit of Orange County Superior Court Payroll Transmittals

Report Date: November 8, 2018

Internal Audit Department

David Kim, Director of Internal Audit
Mark Adviento, Internal Auditor
OCERS Internal Audit
Audit of Orange County Superior Court Payroll Transmittals
November 8, 2018

Table of Contents

Conclusion.................................................................................................................................1
Objective, Scope, and Methodology.................................................................3
Background............................................................................................................................3
Findings, Recommendations, and Management Responses.....................................6
Conclusion / Executive Summary

OCERS’ Internal Audit Division has completed an audit of Orange County Superior Court (Superior Court) payroll transmittals submitted between January 2016 and December 2017. Plan sponsors’ payroll transmittals contain payroll data needed for OCERS to calculate a member’s future benefit payment.

Internal Audit concludes that the Court’s payroll transmittals were accurate and complete. Internal Audit has made recommendations to Superior Court as detailed in the six findings below.

Finding #1 (Internal Control) – Superior Court’s documentation supporting payment of a 2.75% premium pay item (“Realtime Certified Reporter” pay) to court reporters is not adequate.

- Superior Court should consider requiring current court reporters receiving this premium pay to provide proof of currently valid CRR certification in order to continue receiving the 2.75% premium pay item.
- Proof of currently valid certification should be part of the employee’s file on a go-forward basis at Superior Court.

Finding #2 (Internal Control) – Superior Court’s documentation supporting payment of a 5.5% premium pay item (“Realtime Qualified Reporters” pay) to court reporters is not adequate.

- To comply with the stated terms of the MOU, Superior Court should consider requiring an annually signed attestation from the court reporter indicating the reporter provided at least 45 days of realtime court reporting services within the previous past 12 months (and a new confirmation) to continue earning the above 5.5% premium pay.
- Superior Court should verify the 45 days of realtime court reporting service (e.g. timekeeping records, court room transcripts, etc.).

Finding #3 (Compliance) – Superior Court does not monitor independent contractor court reporters who are OCERS’ retirees for compliance with County Employee Retirement Law’s (CERL) and the California Public Employees’ Pension Reform Act of 2013 (PEPRA) 960 hour rule limit.

- Superior Court should add independent contractor court reporters who are retired from OCERS to its monitoring report to ensure they do not work more than 960 hours, as set by CERL §31680.3 and PEPRA §7522.56.

Finding #4 (Compliance) – Superior Court’s Human Resources Department does not have policies and procedures in place to determine if the independent contractor status for its independent contractors complies with IRS rules.
• Superior Court should implement policies and procedures for determining if the independent contractor status for its independent contractors complies with relevant IRS rules.

Finding #5 (Efficiency/Effectiveness) – V3 is missing transmittal records for four Superior Court employees currently on an unpaid leave status.

• Superior Court should send over manually adjusted transmittal files necessary to update the four employees' history in V3 since they were last updated in V3 between October 2017 and February 2018.

Finding #6 (Efficiency/Effectiveness) – For one Superior Court member in our test sample, Internal Audit could not locate a Member Affidavit on file with either OCERS or with Superior Court.

• Superior Court should obtain a signed Member Affidavit for the above member and submit to OCERS.
• OCERS should consider using V3 reporting capabilities to automatically identify Member accounts that are missing Member Affidavit documents.

The details of our findings, recommendations, and management's responses begin on page 6.
Objective, Scope, and Methodology

The objective of this audit was to determine that Superior Court payroll transmittals submitted electronically to OCERS were accurate and complete.

The scope of the audit included payroll transmittals submitted between January 2016 and December 2017. Internal Audit randomly selected a sample of 60 employee payroll transactions for detailed testing.

Appendix #1 details the audit testing methodology.

Background

The below charts show Superior Court’s recent employer and employee pension contribution history and active membership population:
For retirement purposes, FAS (Final Average Salary) calculations include base pensionable salary plus pensionable pay items. Since 2014, the largest pensionable pay items paid by Superior Court to its employees, averaged annually, are listed below:

- Court Reporter Pay ($432,000)
- Bilingual Pay ($210,000)
- Night Shift Differential Pay ($64,000)
- On Call Pay ($59,000)

The above items accounted for approximately 83% of total pensionable pay items going back to 2014.

Superior Court maintains its own Human Resources function, but it uses the County’s automated timekeeping system (i.e. VTI) and outsources the V3 payroll transmittal process to the County Auditor-Controller's Office. Supporting documentation necessary for audit testwork resides with Superior Court’s Human Resources Division and within V3.

County Auditor-Controller’s Office is working on programming efforts to better allocate retroactive earnable salary adjustments in Superior Court’s V3 transmittal files. Currently, such adjustments are included as a lump sum amount in the pay period in which the lump sum was paid to the employee. The correct methodology is to transmit individually adjusted prior pay periods actually affected by the retroactive earnable salary adjustment(s) so that the Member’s earnable salary history is accurate per pay period. To mitigate risk, OCERS’ Member Services manually reviews each retiring member's
FAS measuring period to ensure that any retro earnable salary adjustments only apply to pay periods within the FAS measuring period. The County Auditor-Controller’s current estimate is approximately one year to complete the necessary programming changes within its payroll system (i.e. CAPS+).

**Other Information**

OCERS’ management indicated that it is performing a comprehensive review of all employer pay items to determine pensionable attributes under the Master Final Average Salary project. The outcome of this review could have an impact on contributions directly related to those pay items for all plan sponsors.
Findings, Recommendations, and Management Responses

| Finding #1 (Internal Control) | Superior Court’s documentation supporting payment of a 2.75% pensionable pay item (“Realtime Certified Reporter” pay) to court reporters is not adequate. |

**Finding Detail**

Realtime court reporting is a combination of stenographic skills with computer technology to provide instant real-time transcripts of court proceedings. This eliminates the historical practice of a person manually transcribing stenographer notes to produce a verbatim transcript of court proceedings. The National Court Reporters Association (NCRA) administers and issues certification in realtime court reporting – a.k.a. Certified Realtime Reporter (CRR).

According to the Superior Court MOU for general employees:

| “Realtime Certified Reporters - |
| Official Court Reporters shall be eligible for and shall receive a 2.75% premium pay Realtime Certification Allowance upon satisfaction of the following: |
| 1. Possession of a realtime certificate issued by the National Court Reporters’ Association (NCRA) or other recognized certifying entity.” |

Out of Superior Court’s 80 employee court reporters, 15 are paid the above 2.75% premium pay item. However, Superior Court only maintains evidence of the original CRR certification earned by these court reporters, not current certification. The NCRA requires continuing education every three years to maintain a currently active certification.

- Thus, there is risk that Superior Court is paying (or has paid) the above pensionable pay item to court reporters who do not possess a current CRR certification.
- OCERS may have possibly overpaid benefit payments to court reporter retirees whose CRR certification was not current during the FAS measuring period\(^1\).

**Recommendation to Superior Court:**

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\(^1\) OCERS’ Board *Overpaid and Underpaid Plan Benefits Policy* provides the basis for resolving erroneous payments of Plan benefits to OCERS’ members and their beneficiaries.
• Superior Court should consider requiring current court reporters receiving this premium pay to provide proof of currently valid CRR certification in order to continue receiving the 2.75% premium pay item.
• Proof of currently valid certification should be part of the employee’s file on a go-forward basis at Superior Court.

Management Response:

☒ Agree ☐ Disagree

Superior Court will implement a process in October 2018 by which Court Reporters receiving CRR pay must provide proof of active certification (such as proof of training transcripts over a three year period) within 90 days or have the CRR pay removed. Record of this will be placed in the employee’s electronic personnel file. Additionally, a reminder in the Court’s training system will be flagged on these employees to check for certification every 3 years.
Finding #2 (Internal Control) – Superior Court’s documentation supporting payment of a 5.5% pensionable pay item (“Realtime Qualified Reporters” pay) to court reporters is not adequate.

Finding Detail
According to Superior Court MOU for general employees:

“Realtime Qualified Reporters -

Official Court Reporters shall receive 5.5% premium pay if the Reporter attests and the Superior Court confirms that the Reporter has provided realtime services for at least 45 days within the previous 12 months AND signs an agreement confirming willingness to provide realtime services upon request. Refusal to realtime report may result in removal of the premium pay.”

However, Superior Court only maintains the very first signed 45-day attestation and confirmation agreement from the court reporter, instead of a new 45-day attestation and a new confirmation every 12 months. This pay item, according to Superior Court, was added as an incentive to get more court reporters to use realtime court reporting technology. Over the years, realtime court reporting has become a more widely used tool for court reporters to more quickly transcribe court proceedings versus manually transcribing stenographer notes of court proceedings.

- However, there is risk that Superior Court is paying (or has paid) the above pensionable pay item to court reporters who did not actually provide 45 days of realtime court reporting services within any given 12 month period as described in the MOU.
- OCERS may have possibly overpaid benefit payments to court reporter retirees who did not actually provide at least 45 days of realtime court reporting services during the FAS measuring period\(^2\).

Recommendation to Superior Court:

- To comply with the stated terms of the MOU, Superior Court should consider requiring an annually signed attestation from the court reporter indicating the reporter provided at least 45 days of realtime court reporting services within the previous past 12 months (and a new confirmation) to continue earning the above 5.5% premium pay.

\(^2\) OCERS’ Board Overpaid and Underpaid Plan Benefits Policy provides the basis for resolving erroneous payments of Plan benefits to OCERS’ members and their beneficiaries.
• Superior Court should verify the 45 days of realtime court reporting service (e.g. timekeeping records, court room transcripts, etc.).

Management Response:

 Agree  Disagree

Superior Court will implement annually signed attestations beginning October 2018. Employees currently receiving QRR pay will need to complete the annual 45 day attestation within 90 days of the announcement to maintain the QRR pay. If no attestation is received, QRR pay will be removed for that employee. The Court will verify that at least 45 days of realtime court reporting services have been worked by the employee over the course of the last year.
Finding #3 (Compliance) – Superior Court does not monitor independent contractor court reporters who are OCERS’ retirees for compliance with County Employee Retirement Law’s (CERL) 960 hour rule limit.

Finding Detail
For the audit period in scope (2016 and 2017 calendar years), there were three occurrences in which OCERS’ retirees hired by Superior Court as independent contractor court reporters worked beyond the 960 hour limit set by CERL and PEPRA.

The CERL and PEPRA rules below are intended to prevent the practice of “double-dipping” or collecting a retirement benefit from a ’37 Act county pension plan while at the same time working for pay from a plan sponsor belonging to the same pension plan.

CERL §31680.3. Post-retirement service in positions requiring special skills or knowledge;

…any member who has … retired may be reemployed in a position requiring special skills or knowledge, as determined by the county or district employing the member, for not to exceed 120 working days or 960 hours…

PEPRA §7522.56. Retired persons; service and employment restrictions

Appointments of the person authorized under this section shall not exceed a total for all employers in that public retirement system of 960 hours or other equivalent limit, in a calendar or fiscal year, depending on the administrator of the system.

Superior Court actively monitors hours worked by OCERS’ retirees hired by the court to comply with limitations on hours worked. However, this control did not include OCERS’ retirees hired by the court as independent contractor court reporters.

Recommendation to Superior Court:
Superior Court should add independent contractor court reporters who are retired from OCERS to its monitoring report to ensure they do not work more than 960 hours, as set by CERL §31680.3 and §7522.56.

Management Response:
 Agree  Disagree
Superior Court will monitor hours worked for all retired independent contractor court reporters to ensure they do not work more than 960 hours in a fiscal year. A new report has been established through Superior Court’s RITS tracking system and will be monitored monthly. Current retired independent contractors who have already worked more than 960 hours in the current fiscal year will not work hours until the next fiscal year.
Finding #4 (Compliance) – Superior Court’s Human Resources Department does not have policies and procedures in place to determine if the independent contractor status for its independent contractors complies with IRS rules.

Finding Detail

Superior Court does not have policies and procedures in place for determining that its classification of independent contractor status for court reporters complies with Internal Revenue Service (IRS) rules. Currently, there are just over 100 court reporters available for Superior Court to hire as independent contractors for court reporting services.

The IRS has published specific rules and benchmarks that an employer can use to distinguish a person paid as an independent contractor versus a person paid as an employee. According to the IRS³, “People such as …public stenographers…are generally independent contractors. However, whether these people are independent contractors or employees depends on the facts in each case.”

Superior Court could potentially face IRS payroll tax penalties if it incorrectly classifies court reporters as independent contractors instead of as full time employees.

Furthermore, court reporters could be missing membership with OCERS and a defined benefit pension plan, if Superior Court incorrectly classified a court reporter as an independent contractor instead of as a Superior Court employee with OCERS membership.

OCERS’ Board Policy “Membership Eligibility Requirements” effective January 31, 2018 also clarifies rules that OCERS and its plan sponsors should use as a basis for determining eligibility of persons to be OCERS members.

Recommendation to Superior Court:

Superior Court should implement policies and procedures for determining if the independent contractor status for its independent contractors complies with relevant IRS rules.

Management Response:

図 Agree □ Disagree

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Superior Court to review independent contractors working for court reporting services, court language services and court technology to determine if their independent contractor status complies with IRS rules defined for independent contractors.
Finding #5 (Efficiency/Effectiveness) – V3 is missing transmittal records for four employees currently on an unpaid leave status.

Finding Detail

Even when an employee is on unpaid leave status and does not earn service credit hours or pay contributions, OCERS’ V3 system must still know what the employee’s salary would have been had the employee worked a full pay period. FAS calculations must include all such salary history.

Superior Court has not provided salary records for four employees who have been placed on unpaid leave status with dates ranging from October 2017 to February 2018.

Due to ongoing technical limitations with the County’s payroll system CAPS+, Superior Court employees placed on an unpaid leave status such as due to illness (and having completely exhausted all vacation/sick pay) are not reported on the regular V3 payroll transmittal files. OCERS staff must rely on V3’s bi-weekly missing member report to flag such potential employees and request manually adjusted transmittal files containing the necessary salary history records from the plan sponsor. For the above four employees, Member Services requested salary information from Superior Court but no response was returned.

Recommendation to Superior Court:

Superior Court should send over manually adjusted transmittal files necessary to update the four employees’ history in V3 since they were last updated in V3 between October 2017 and February 2018.

Management Response:

 Agree  Disagree

Orange County Superior Court currently uses the CAPS+ system that is administered by Orange County Auditor Controller. The current CAPS+ system has known limitations for employees in an “O” (unpaid leave) status. These employees are not included on the regular transmittal file to OCERS and thus no earnable record is generated. They do appear on the missing member report from OCERS.

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4 Auditor Controller’s Office does not have a current timeline as to when they can correct the limitations. They are currently testing possible programming solutions within CAPS+.
Auditor Controller is working on a long-term solution for “O” status employees to still appear on the OCERS transmittal file. There is no current timeline for implementation.

However, in the meantime, Superior Court's human resources staff will create updated employment records indicating a "Leave of Absence" in V3 for the above employees. Also, on a go-forward basis Superior Court's human resources staff will perform the same step in V3 for each employee who becomes classified with the above "O" status in CAPS+. This will allow OCERS personnel to more easily identify the reason for gaps in earnable salary records until the point in time when Auditor-Controller can correct the above CAPS+ limitations.

OCERS' Employer Payroll team will provide any necessary V3 training and materials to Superior Court staff.
Finding #6 (Efficiency/Effectiveness) – For one Superior Court member in our test sample, Internal Audit could not locate a Member Affidavit on file with either OCERS or with Superior Court.

Finding Detail

The missing Member Affidavit is for a Superior Court employee who became an OCERS’ member in March 2016 and is still working for Superior Court. A Member Affidavit is a required document in the member’s file. It details the member’s date of birth and entry date necessary to determine age of entry; contribution rate; beneficiary information; previous public service necessary for determining reciprocity with another pension system, and a signature approval from both the member and a Plan Sponsor Human Resource’s employee.

OCERS’ Member Services has a manual process in place to verify new members submitted in the payroll transmittal files against copies of signed Member Affidavits provided by the plan sponsor. It is possible that the above missing Member Affidavit was due to manual oversight.

Recommendation to Superior Court:

Superior Court should obtain a signed Member Affidavit for the above member and submit to OCERS.

Recommendation to OCERS:

OCERS should consider using V3 reporting capabilities to automatically identify Member accounts that are missing Member Affidavit documents.

Management Response:

 Agree  □ Disagree

Superior Court Action Plan

Superior Court Human Resources was able to obtain a new OCERS member affidavit from employee and submitted it to OCERS on 4/11/18. OCERS acknowledged receipt of the member affidavit on 4/18/18. A scanned copy has been placed in the employee’s electronic personnel file. The employee did not remember signing an affidavit when first hired.
OCERS Action Plan
Beginning in 4th quarter 2018, OCERS’ Member Services will run a recently updated V3 report (“Missing Member Affidavit” report) that flags any member account without the Member Affidavit document type. OCERS’ Member Services’ Payroll Transmittal Team will monitor this quarterly report and contact plan sponsors to request a completed Member Affidavit for any members flagged in the above report.
**Categories of Audit Findings:**

**Critical Control Weaknesses:**
These are finding(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS’ reputation or integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

**Significant Control Weaknesses:**
These are finding(s) that represent a significant deficiency in the design or operation of internal controls. Management is expected to address Significant Control Weaknesses brought to their attention promptly.

**Findings:**
These are finding(s) concerning (1) internal control, (2) compliance, or (3) efficiency/effectiveness issues in which Internal Audit will recommend to management a corrective action to implement or enhance processes and/or internal controls. Findings are expected to be addressed within six to twelve months.
Appendix #1

Audit Testing Methodology

- Reviewing sections within Superior Court MOU’s (Memorandum of Understanding) in regards to the OCERS pension plan and Superior Court pay practices.
- Verifying members’ age of entry in V3 against executed Member Affidavits and Reciprocity verification documents.
- Recalculating employer and employee contributions submitted on Superior Court transmittals against Segal’s entry-age contribution.
- Tracing employer and employee contributions from Superior Court transmittals to V3 records and copies of Superior Court employee paystubs.
- Tracing pensionable salaries and pensionable pay items from Superior Court transmittals to public pay schedules, employee work history records, and certification documentation maintained by Superior Court’s Human Resources department.
- Recalculating pensionable pay items on the transmittals against relevant terms stated in MOU’s.
- Stratifying pensionable pay items by total per year, and by pay item, going back to the beginning of 2014.
- Reviewing a listing of pay codes in Superior Court payroll system to search for pensionable pay items not reported to OCERS.
- Reviewing employee paystubs in our sample of 60 employees for pensionable pay items not reported to OCERS.
- Reviewing final average salary history of recent Superior Court retirees for possible signs of pension spiking.
- Consulting with Segal about any actuarial issues.
Memorandum

DATE: December 4, 2018
TO: Members of the Audit Committee
FROM: Brenda Shott, Assistant CEO, Finance and Internal Operations
SUBJECT: TRIENNIAL REVIEW OF THE RISK POLICY

Recommendation

Approve, and recommend that the Board approve, proposed revisions to the Risk Policy as presented.

Background/Discussion

The Board of Retirement (including the Investment Committee) has formally adopted over 40 charters and policies and has established a review schedule that requires review of every charter and policy every three years. At its February and June 2015 meetings, on recommendation of the Governance Committee, the Board approved a streamlined procedure to more efficiently manage the scheduled review of the charters and policies. Pursuant to this process, certain of the charters and policies are to be first reviewed by the Audit Committee before presentation to the Board for approval.

The Risk Policy (Policy) is scheduled for review and approval by the Board, after review by the Audit Committee, in 2018. The Policy sets forth guidelines for the Board and staff that will ensure OCERS is aware of and prepared for risks facing the organization.

Staff has reviewed the Policy and does not recommend any substantive changes at this time.

A copy of the Policy, with proposed non-substantive changes indicated in underlined/strikeout text, is attached.

Attachment

Submitted by:

[Signature]
Brenda Shott
Assistant CEO, Finance and Internal Operations
Background

1. The Board considers risk management an essential component of strategic, operational, financial and reputational management.

Policy Objectives

2. To help achieve long-term sustainability by ensuring that OCERS is aware of and prepared for risks facing the organization.

Policy Guidelines

3. OCERS embeds risk management in all business practices to keep it relevant, effective and efficient.

4. Management is responsible for identifying, assessing, and responding to risks and timely communication of the results of these processes, with accountability addressed in annual performance evaluations.

5. At least annually, the Audit Committee will review management responsibilities, strategies, and actions for addressing material risks facing OCERS.

Policy Review

6. The Board shall review this policy at least every 3 years to ensure that it remains relevant and appropriate.

Policy History

7. This policy was adopted by the Board of Retirement on November 16, 2015.

7.8. This policy was revised by the Board of Retirement on January 22, 2019

Secretary’s Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney
Secretary of the Board

Date
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Steve Delaney
Secretary of the Board

Date
DATE: December 11, 2018
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: STATUS UPDATE OF 2018 AUDIT PLAN

Written Report

Background/Discussion
Attached is a comparison of budgeted 2018 audit plan hours versus year to date actual hours, by project.

The 2018 planned audit of the Orange County Sheriff’s Department is postponed to the 2nd half of 2019 (tentatively).

Internal Audit has also completed fieldwork of OCERS’ Disability Payments and will soon provide a draft audit report to OCERS management.

Submitted by:

_________________________
David Kim
Director of Internal Audit
<table>
<thead>
<tr>
<th>Audit Activity</th>
<th>Description</th>
<th>Planned Hours - Original Budget</th>
<th>Actual Hours as of 11/28/18</th>
<th>Hours Estimated to Complete</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td><strong>Internal Audits</strong></td>
<td></td>
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<tr>
<td>OCTA Payroll Transmittals</td>
<td>Review of certain key data used in system conversion from PensionGold to V3.</td>
<td>275</td>
<td>313</td>
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<td>Presented to AC in December 2018</td>
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<td>Superior Court Payroll Transmittals</td>
<td>Review payroll transmittals and employee data of selected plan sponsor.</td>
<td>275</td>
<td>299</td>
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<td>Benefit Setup Audit</td>
<td>Review internal processes for validating members' disability applications and supporting medical documentation. Recalculate benefits payments.</td>
<td>250</td>
<td>265</td>
<td>20</td>
<td>To be presented to AC in January 2019</td>
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<td>RFP Cybersecurity Risk Assessment</td>
<td>Cybersecurity Risk Assessment</td>
<td>120</td>
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<td>Postponed until 2019 as directed by the Audit Committee</td>
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<td>Orange County Sheriff's Department</td>
<td>Review payroll transmittals and employee data of selected plan sponsor.</td>
<td>250</td>
<td>12</td>
<td>-</td>
<td>Postponed until 2019</td>
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<td>Investment Rebalancing Audit</td>
<td>Carried over from 2017</td>
<td>0</td>
<td>70</td>
<td>-</td>
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<td>OCFA Payroll Transmittals</td>
<td>Carried over from 2017</td>
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<td>Actual Hours as of 11/28/18</td>
<td>Hours Estimated to Complete</td>
<td>Comments</td>
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<tr>
<td><strong>Non-Audit Projects</strong></td>
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<td>External Quality Review Audit</td>
<td>IIA - Institute of Internal Auditors</td>
<td>100</td>
<td>128</td>
<td>80</td>
<td>Final report to be issued Jan 2019</td>
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<td>Annual Plan Sponsor report</td>
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<td>70</td>
<td>80</td>
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<td>Presented to Board in March 2018</td>
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<td>Use of hotline reporting system.</td>
<td></td>
<td>30</td>
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<td>No complaints reported in 2018</td>
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<td>Review and update Risk and Control Matrix.</td>
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<td>40</td>
<td>4</td>
<td>24</td>
<td>To be updated along with 2019 audit planning</td>
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<td>Annual preparation of the Audit Plan, updates to the current Audit Plan.</td>
<td></td>
<td>50</td>
<td>126</td>
<td>24</td>
<td>To be presented to AC in January 2019</td>
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<td>Mississippi Fund fraud case</td>
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<td>Provided to new DIA in September 2018</td>
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<td>Board meetings, Audit Committee, Investment Committee, Governance Committee.</td>
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<td>104</td>
<td>82</td>
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<td>General admin time</td>
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<td>250</td>
<td>226</td>
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<td>Holidays, Annual Leave</td>
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<td>161</td>
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<td>SACRS training, CPE classes, and Harassment Prevention training</td>
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<td>IA Process Assessment</td>
<td></td>
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<td>IA Software Assessment</td>
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<td>IT Audit Assessment</td>
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<td>Audit Activity</td>
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<td>Actual Hours as of 11/28/18</td>
<td>Hours Estimated to Complete</td>
<td>Comments</td>
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<td>Administrative Subtotal</td>
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<td>196</td>
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<td>New Director of Internal Audit</td>
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<td>2,680</td>
<td>2,336</td>
<td>344</td>
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DATE: December 11, 2018
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: INTERNAL AUDIT TRANSITION

Presentation

Background/Discussion

The following presentation is to provide the Audit Committee a high-level overview of the short and long term goals as the new Director of Internal Audit. I look forward to this opportunity to collaborate with the Audit Committee during this time of transition.

Submitted by:

__________________________________
David Kim
Director of Internal Audit
Get plugged in at OCERS

- Get to know the Internal Auditor
- Assess status of current Internal Audit (IA) projects
- Review IA policies and workpapers
- Introduce myself to department contacts and other stakeholders
- Familiarize myself with OCERS Strategic Goals and Business Plans
## Q4 Focus

### IA Operational Tasks

- Finalize Superior Court, OCFA and OCTA audit reports
- Discussed audit scope with OCSD management
- Close out Disability Payment Audit
- Perform Annual Risk Assessment
- Develop 2019 Audit Plan
- Prepare for Institute of Internal Auditors peer review
Q4 Focus cont.

IA Assessment

• Assess current IA operations
• Assess IA software tool (Teammate) functionality for IA needs
• Assess IT audit program
Internal Audit Goals

• Finalize IA assessment
• Communicate results of assessment
• Obtain buy-in from key stakeholders
• Revise IA operations based on agreements
• Perform 2019 Audit Plan and continue to identify opportunities for enhancements as needed
Thank You