



**The County of Orange - Social Services Agency
Employer Audit**

Report Date: March 30, 2022

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

OCERS Internal Audit
The County of Orange – Social Services Agency Employer Audit
March 30, 2022

Table of Contents

Audit Objective and Scope.....	1
Conclusion and Executive Summary.....	1
Background.....	1
Observation Summary.....	2
Observation Details.....	3

Audit Objective and Scope

The objective of this audit was to provide an independent review of the completeness and accuracy of The County of Orange – Social Services Agency (SSA) payroll transmittal data. This includes, but is not limited to the controls both SSA and OCERS management have in place over the payroll transmittals.

The scope of the audit included SSA's payroll data submitted to OCERS between January 2020 and December 2021 on a sample basis.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

Conclusion / Executive Summary

Opinion: <i>Satisfactory</i>

Overall, controls are in place to ensure the completeness, accuracy and proper supporting documentation over the SSA payroll transmittal data. While there were no observations noted for the controls at SSA, there was one Important Observation identified to OCERS during the audit regarding a discrepancy in job title for one SSA retiree. The discrepancy did not impact the Final Average Salary (FAS) calculation.

Internal Audit sampled 60 payroll transactions from SSA's more than 4,300 active members and performed the following:

- Internal Audit reviewed, on a sample basis, SSA's supporting documentation for the pensionable pay reported in its payroll transmittals to OCERS.
- Verified that base pay reported by SSA through payroll transmittals matched SSA human resource records and publicly available pay schedules for completeness and accuracy.
- For premium pay items, verified the information reported in the transmittals against SSA's supporting documentation evidencing that the employee was entitled to that premium pay, such as certification pay.
- Recalculated contributions collected from SSA to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS' Board.
- Noted that SSA has controls in place to ensure its compliance with OCERS' Board Membership Eligibility Policy.

Background

SSA is an agency within OCERS' largest employer, the County of Orange. SSA has more than 4,300 employees across four divisions: Assistance Program; Children and Family

Services; Family Self-Sufficiency and Adult Services; and Administrative Services. SSA administers Federal, State, and County social services programs serving the children, adults with disabilities, seniors, and families of Orange County. For the 2019-2020 fiscal year, SSA had an annual budget of \$970M, which represented 14% of the County of Orange's total budget. SSA's operation's budget included \$397M in salaries and benefits.

Important Observation (to OCERS)

1. The job title in the OCERS pension administration system (PAS) records for a Social Services Agency retiree in our sample did not reflect the retiree's actual job title. The PAS did not apply the correct job title due to an outdated listing of job titles in the system. Member Services use the job titles to reference the appropriate section(s) within the Memorandum of Understanding (MOU) to calculate pensionable vacation and holiday pay includable in the member's FAS. In this instance, the member's FAS was not impacted by this error due to similar terms in the MOU sections for both the correct and incorrect job titles.

In response to our observation, OCERS Member Services Employer Payroll management team will perform a reconciliation of all County employee job titles and make the necessary corrections. Member Services will continue to validate job titles as part of the retirement application quality assurance review. Additionally, another reconciliation will be performed when OCERS migrates to a new pension administration system.

Copies to OCERS:

S. Delaney
S. Jenike
M. Murphy
G. Ratto
B. Shott

J. Lamberson
Audit Committee Members

Copies to Employer:

I. Alvarado
H. Juarez
E. Lin
E. Narciso
K. Peters

T. Thibeault
H. Thomas
T.White

Observation	Action Plan / Responsible Party / Completion Date
<p style="text-align: center;">Important Observation (to OCERS)</p>	
<p>1. The job title in the OCERS pension administration system (PAS) records for a Social Services Agency retiree in our sample did not reflect the retiree’s actual job title.</p> <p>In this exception, the member’s FAS was not affected by the error. However, the job title is important for Member Services because it helps identify the appropriate section(s) within the MOU to use for calculating pensionable vacation and holiday pay includable in the member’s FAS.</p> <p>The job title information is provided to OCERS through a six-character job class code included in the electronic payroll transmittals from The County of Orange. The PAS uses the first four digits of the job class code to map to the corresponding job title from a listing of job class codes stored within the PAS. (The remaining two alpha codes represent the bargaining unit.) The mapping of the job class code to the job title in the PAS was not current.</p> <p>To help ensure a correct job title, Member Services performs certain manual controls. This includes searching the member in The County of Orange’s HR system known as CAPS+ (Countywide Accounting and Personnel System) to confirm the job title. If a discrepancy exists between the job title in CAPS+ and the job title in the PAS, Member Services will clarify the job title with The County. Additionally, Member Services will confirm the member’s job title during pre-retirement meetings with the member.</p>	<p>Action Plan: Member Services Employer Payroll (EP) Management Team will perform a one-time audit of the records between OCERS and all employers supported through the County (Not Just SSA). Once complete, updates will be sent to OCERS IT to make the necessary changes.</p> <p>After IT makes the changes to the system, a member of the EP Team will verify that the changes were successfully implemented.</p> <p>Ongoing, accuracy validation of the data at the time a member retires is currently performed and is also part of our updated Quality Assurance Process initiated in 2021.</p> <p>As a result of our updated quality assurance program and the fact that we rarely receive new or changed Bargaining Units and Job Class, Management is recommending we continue to review the quality for these records at the time of retirement. We will perform another global reconciliation at the time we perform a migration from the current pension administration system to our new pension administration system in the coming years.</p> <p>Responsible Party: Jeff Lamberson – OCERS, Director of Member Services</p> <p>Completion Date: December 1, 2022</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>However, a regular reconciliation between updated job codes provided by The County to job titles maintained within the PAS would help keep members' job titles up to date, were these controls to not operate effectively. The last such reconciliation was performed in 2015 in preparation for the PAS go-live date.</p> <p>Updated job codes in the PAS would help streamline processing by reducing the need for Member Services to call The County to clarify discrepancies.</p> <p>Risk: If an incorrect job title is not identified, the member's benefit may not be processed accurately.</p>	

Categories of Observations (Control Exceptions):

Priority Observations:

These are observation(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 Priority Observations brought to its attention immediately.

Important Observations:

These items are important to the process owner and they do impact the control environment and/or could be observations for improving the efficiency and/or effectiveness of OCERS' operations. Management is expected to address within six to twelve months.

Management's Responsibility for Internal Control

Management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and self-assessment of control risks.

Internal Control Limitations

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with OCERS' policies.

Audit Report Opinions:

Satisfactory:

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

Opportunities for Improvement:

Multiple issues classified as “Important Observations” (typically two or more Important Observations) with no more than one “Priority Observation”.

Inadequate:

Usually rendered when multiple issues are classified as “Priority” (typically one or more Priority Observations), together with one or more other issues classified as “Important Observations”. The Priority Observations identified have a major effect on processes, plan sponsors/members, financials, and/or regulatory requirements.