



January 9, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Orange County Employees Retirement System: Audit of Orange County Transportation Authority Payroll Transmittals

Overview

The Internal Audit Department of the Orange County Employees Retirement System has completed an audit of the Orange County Transportation Authority's payroll transmittals and has concluded that payroll transmittals were accurate and complete. The audit, which was completed in April 2018 and issued in November 2018, identified inconsistencies in contribution withholding practices among plan sponsors. To address this, the auditors recommended that Orange County Employees Retirement System management create a contribution policy and apply it uniformly across all plan sponsors.

Recommendation

Receive and file an audit completed by the Internal Audit Department of the Orange County Employees Retirement System, Audit of Orange County Transportation Authority (OCTA) Payroll Transmittals, Report Date: November 12, 2018, as an information item.

Background

The Orange County Transportation Authority (OCTA) is one of thirteen active plan sponsors that submit employer and employee payroll contributions, as well as member information, to the Orange County Employees Retirement System (OCERS) for administration of its pension fund.

OCERS' Internal Audit Department periodically conducts audits of payroll transmittals to ensure accuracy and completeness. This audit covered the period from January 2016 through December 2017.

The audit was conducted in March 2018, and results were presented to OCTA staff at an exit meeting held on April 27, 2018. Issuance of the draft report was delayed at the direction of OCERS' audit committee chairman. The final report was issued on November 12, 2018.

Discussion

During the audit, OCTA's payroll manager inquired about the practice of withholding employee and employer contributions from vacation and sick leave payouts for Legacy¹ employees. OCTA's practice had been to collect employee and employer contributions, since calculations of Final Average Salary (FAS) include these amounts, up to certain caps. OCERS' internal auditor (internal auditor) investigated and found no policies in place to provide direction on these pay items, and observed that practices vary among plan sponsors, with most plan sponsors not withholding contributions.

Since most plan sponsors do not collect these contributions, the actuarial cost of adding the vacation and sick leave payout amounts into FAS is reflected in the contribution rates set by the actuary. At the conclusion of the audit, OCERS' management had not yet provided guidance on the matter, but indicated that they were in the process of reviewing all pay items in order to develop policies.

The internal auditor concluded that OCTA's payroll transmittals were accurate and complete; however, a recommendation was made to OCERS' management to define a payout contribution policy that can be applied uniformly across all plan sponsors. OCERS' management responded that staff is in the process of reviewing and categorizing all pay items and intends to present a policy to the OCERS' Board of Directors for review and approval by the first quarter of 2019.

Summary

The OCERS Internal Audit Department has completed an audit of OCTA's payroll transmittals and has concluded that payroll transmittals were accurate and complete. One recommendation was offered to OCERS' management.

¹ Legacy members participate in plans available by employer and bargaining unit as of 12/31/2012. Legacy members may also include employees hired by an agency prior to 1/1/2013, within 180 days of separating from an eligible reciprocal retirement system.

Attachment

- A. Audit of Orange County Transportation Authority (OCTA) Payroll Transmittals, Report Date: November 12, 2018

Prepared by:

A handwritten signature in dark ink, appearing to read 'Janet Sutter', with a long horizontal flourish extending to the right.

Janet Sutter
Executive Director, Internal Audit
714-560-5591