OC Board of Supervisors'
Internal Audit Department
ORANGE COUNTY

AUDIT HIGHLIGHT April 3, 2008

INTERNAL AUDITOR'S REPORT TO THE BOARD OF SUPERVISORS

AUDIT OF THE SOURCE OF FUNDING FOR THE 2004 OCEA PENSION ENHANCEMENTS
Audit No. 2765
(An Audit Oversight Committee Directed Audit)

WHAT WE FOUND?

The Internal Audit Department determined that the Orange County Employees Association (OCEA) members themselves and **not** Orange County fully and accurately paid for the cost of the pension enhancements (2.7% @ age 55 benefit formula) as agreed upon in their 2004 Memorandum of Understanding for Fiscal Years 2005-06, 2006-07, & 2007-08, totaling $80 million, which included additional employee contributions of $46.4 million (as of February 28, 2008) and health insurance cost savings of $33.6 million.

WHY WE DID THIS AUDIT?

At the request of the Chairman of the Board of Supervisors and the Audit Oversight Committee, we audited the cost allocations for the Orange County Employee Association (OCEA) pension enhancements (the "2.7% at age 55" benefit formula) to determine if member's additional retirement contributions and related health insurance cost savings under the OCEA contracts of 2004 fully covered the cost of the pension enhancements. As requested, we will review these pension cost allocations every three years to ensure accuracy.

WHY IS THIS AUDIT IMPORTANT?

This audit is important because it has a significant financial, County-wide impact. OCEA represents a large number of County employees and our review covered six (6) bargaining units of OCEA. These bargaining units consist of approximately 11,700 employees (or 71% of total County employment). In addition, it is of taxpayer's interest if the OCEA members are covering their pension costs as negotiated, or if County General Fund is paying for their pension enhancements in error. The OCEA bargaining units agreed that the pension enhancement will be without any additional cost to the County; therefore, they will make additional employee contributions to the system.

BACKGROUND & INFORMATION (SEE COMPLETE AUDIT REPORT FOR DETAIL)

On August 24, 2004, the Orange County Board of Supervisors adopted Resolution No. 2004-247 to implement a 2.7% @ age 55 retirement formula for General Members of the Orange County Employees Retirement System (OCERS) retiring on or after July 1, 2005. It is an enhanced retirement plan for the OCERS General Members. Through negotiations with the labor organizations, the bargaining units agreed that pension enhancement will be without any additional cost to the County. In addition, they agreed to make additional employee contributions to the retirement system and health benefit changes (increased co-payments, higher deductible and increased employee payroll deductions). The combination of the additional employee contributions and health insurance cost savings are to cover the annual cost of implementing the enhanced retirement benefits.

For more information, please contact Dr. Peter Hughes, CPA, Director of the Internal Audit Department at (714) 834-5475 or peter.hughes@iad.ocgov.com