



**Children and Families Commission of Orange
County Employer Audit**

Report Date: April 5, 2023

Internal Audit Department

OCERS Internal Audit
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Audit Objective and Scope

The objective of this audit was to provide an independent review of the completeness and accuracy of the Children and Families Commission of Orange County (CFCOC) payroll transmittal data. This includes, but is not limited to, the controls CFCOC and OCERS management have in place over the payroll transmittals.

The scope of the audit included CFCOC's payroll data submitted to OCERS between January 2021 and December 2022 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: *Opportunities for Improvement*

Overall, Internal Audit identified opportunities to improve controls to ensure that payroll data is sent accurately and completely to OCERS. For further detail of the below observations please see page three.

<p>Priority Observations</p> <p>0</p> <p>Important Observations</p> <p>3</p>	<p>Priority Observations</p> <p>None</p> <p>Important Observations</p> <ol style="list-style-type: none">Four members previously separated from CFCOC were still classified with Active Status in the pension administration system (PAS).One member did not have a Member Affidavit on file in the PAS and five additional Member Affidavits were sent to OCERS with missing information.There are no formal internal guidelines helping to monitor independent contractors for compliance with IRS regulations defining independent contractors.
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Internal Audit sampled 45 payroll transactions from CFCOC's approximately 800 payroll transactions during our audit scope:

- Internal Audit reviewed, on a sample basis, CFCOC's supporting documentation for the pensionable pay reported in its payroll transmittals to OCERS.
- Verified that base pay reported by CFCOC through payroll transmittals matched CFCOC human resource records and publicly available pay schedules for completeness and accuracy.

- For premium pay items, verified the information reported in the transmittals against CFCOC’s supporting documentation evidencing that the employee was entitled to that premium pay, such as certification pay.
- Recalculated contributions collected from CFCOC to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS’ Board.
- Reconciled CFCOC employee count from The County of Orange payroll system against OCERS annual actuarial extract of members.
- Reviewed Member Affidavits for completeness.
- Reviewed CFCOC’s controls in place to ensure its compliance with OCERS’ Board Membership Eligibility Policy.

Background

CFCOC was established by the Orange County Board of Supervisors in September 1999 following the passage of Proposition 10, through which California voters made an investment in early childhood development. The Commission’s activities have been built to develop, adopt, promote and implement programs to support early childhood development. CFCOC and its employees contributed approximately \$321,000 and \$338,000 to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has 17 current active members. CFCOC is one of OCERS employers that outsources its OCERS payroll transmittal process to The County of Orange Auditor-Controller’s Office.

Copies to OCERS:

S. Delaney	J. Lamberson
S. Jenike	S. Ardeleanu
M. Murphy	Audit Committee Members
G. Ratto	
B. Shott	

Copies to Employer:

M. Garcell – Director of Finance
 K. Goll – President/CEO
 N. Preciado – Financial Analyst

Observations	Action Plan / Responsible Party / Completion Date
Important Observations	
<p>1. Four members previously separated from CFCOC were still classified with Active Status in the pension administration system (PAS).</p> <p>During our test work, Internal Audit noted that four members who had separated between June 2020 and March 2022 were instead reported with an Active status in the PAS as of January 2023.</p> <p>In these instances, the employer did not submit a termination notice form to OCERS; this form officially notifies OCERS of a member's separation date. Member Services uses this form to manually update the member's status from Active to either Deferred or Retired.</p> <p>Per CFCOC management, they had thought a notification to The County of Orange Auditor Controller's office was all that was required to notify OCERS of a separated member. CFCOC had not known that a termination form submitted to OCERS was also needed of CFCOC.</p> <p>Risk: Incorrect member status would be included in the annual PAS extract of member data provided to OCERS actuary for use in the annual actuarial valuation.</p>	<p>Action Plan: The CFCOC Assistant to CEO will add the required termination form to the off-boarding process when an employee terminates. Once completed, the CFCOC Director of Finance will review for accuracy and submit to OCERS.</p> <p>Responsible Parties: Rhonda Esera (CFCOC Assistant to CEO) & Michael Garcell (CFCOC Director of Finance)</p> <p>Completion Date: 3/1/2023</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>2. One member did not have a Member Affidavit on file in the PAS and five additional Member Affidavits were sent to OCERS with missing information.</p> <p>One member did not have a Member Affidavit on file within the PAS. The member with a missing Member Affidavit was hired in February 2015 and separated from CFCOC in March 2022 with 7 years of service.</p> <p>Member Affidavits for five members were incomplete in terms of previous public service disclosure, a witness signature, or employment information required of the employers. The five Member Affidavits with missing information were for currently active members who joined CFCOC in 2013 (1), 2017 (2), and 2020 (2).</p> <p>Per §31526 of the CERL (County Employee Retirement Law), <i>“The filing of a sworn statement by every person who is or becomes a member, showing date of birth, nature and duration of employment with the county, compensation received, and other information as is required by the board.”</i></p> <p>Risk: There is no official record of the member joining the OCERS plan if a sworn Member Affidavit is not on file. Incomplete member affidavits could have affected a member’s ability to establish reciprocity benefits and a witness signature provided by the employer is needed to help independently validate the member’s identity for OCERS.</p>	<p>Action Plan: All future Member Affidavit forms will be reviewed for accuracy and completeness by the CFCOC Assistant to CEO at time of onboarding new staff. A final review of the form will be performed by CFCOC Director of Finance before being submitted to OCERS.</p> <p>CFCOC will either amend or correct affidavits currently on file that are incomplete depending on direction from OCERS.</p> <p>Responsible Parties: Michael Garcell (CFCOC Director of Finance), Nicole Preciado (CFCOC Financial Analyst)</p> <p>Completion Date: by 3/31/2023</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>3. There are no formal internal guidelines helping to monitor independent contractors for compliance with IRS regulations defining independent contractors.</p> <p>CFCOC currently uses eighteen (18) independent contractors to help facilitate their business plan of implementing programs to support early childhood development. While each contract is reviewed by the CFCOC Legal department, processes are not in place for management to ensure IRS regulations are maintained.</p> <p>Per IRS regulations, independent contractors must remain wholly responsible for the manner in which it performs the services required by CFCOC. Furthermore, CFCOC shall neither have nor exercise any control or direction over the methods by which the independent contractor shall perform its work.</p> <p>Risk: Independent contractors who no longer meet IRS guidelines, could be classified as members who meet OCERS membership guidelines. This would subject CFCOC to employment back taxes payable to taxing authorities and a potentially large contribution dollar amount owed by both the member and employer, plus interest.</p>	<p>Action Plan: CFCOC staff will work with Commission Counsel and develop internal guidelines.</p> <p>Responsible Parties: Michael Garcell (CFCOC Director of Finance), Jennifer Berthon (CFCOC Contract Admin), & Commission Counsel.</p> <p>Completion Date: April 30, 2023</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.