



**Orange County Superior Court  
Employer Audit**

**Report Date: April 5, 2023**

**Internal Audit Department**

**OCERS Internal Audit**  
**Orange County Superior Court Employer Audit**  
**April 5, 2023**

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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 Orange County Superior Court (Superior Court) payroll transmittal data. This includes, but is not limited to, the controls Superior Court and OCERS management have in place over the payroll transmittals.

The scope of the audit included Superior Court'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 four.

<p><b>Priority Observations</b></p> <p><b>0</b></p> <p><b>Important Observations</b></p> <p><b>2</b></p>	<p><b>Priority Observations</b></p> <p><b>None</b></p> <p><b>Important Observations</b></p> <ol style="list-style-type: none"><li><b>1. Thirteen members previously separated from Superior Court were still classified with Active Status in the pension administration system (PAS).</b></li><li><b>2. Two members did not have a Member Affidavit on file in the PAS and five additional Member Affidavits were sent to OCERS with either missing information or on an outdated form.</b></li></ol>
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Internal Audit sampled 60 payroll transactions from Superior Court's approximately 73,000 payroll transactions during our audit scope:

- Internal Audit reviewed, on a sample basis, Superior Court's supporting documentation for the pensionable pay reported in its payroll transmittals to OCERS.

- Verified that base pay reported by Superior Court through payroll transmittals matched Superior Court human resource records and publicly available pay schedules for completeness and accuracy.
- For premium pay items, verified the information reported in the transmittals against Superior Court's supporting documentation evidencing that the employee was entitled to that premium pay, such as certification pay.
- Recalculated contributions collected from Superior Court to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS' Board.
- Reconciled Superior Court employee headcount from The County of Orange payroll system against OCERS annual actuarial extract of members.
- Reviewed Member Affidavits for completeness.
- Reviewed Superior Court's controls in place to ensure its compliance with OCERS' Board Membership Eligibility Policy.

## **Background**

Superior Court is one of OCERS' five largest Employers. Based on the number of authorized judicial officers, the Superior Court is the third largest of the 58 county courts in California. The County of Orange mostly funded the Orange County Superior Court until January 1998 when it transitioned to being funded by the State of California. In 2004, the Court became an Employer with OCERS.

Superior Court and its employees contributed approximately \$52.9 million and \$56.3 million to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has over 1,400 current active members. Superior Court 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:**

D. Yamasaki, Chief Executive Officer  
 D. Dang, Chief Financial & Administrative Officer  
 S. Mays-Fontaine, Chief Human Resources Officer

H. Capps, Benefits & Disability Programs Officer  
B. Drinkward, HR Information Management Officer  
C. Lombardo, Accounting & Fiscal Services Director

Observations	Action Plan / Responsible Party / Completion Date
<p data-bbox="457 253 789 280" style="text-align: center;"><b>Important Observations</b></p> <p data-bbox="226 305 1024 402"><b>1. Thirteen members previously separated from Superior Court were still classified with Active Status in the pension administration system (PAS).</b></p> <p data-bbox="270 472 1024 597">During our test work, Internal Audit noted that thirteen members who had separated between November 2018 and November 2021 were instead reported on transmittal files with an Active status in the PAS as of January 2023.</p> <p data-bbox="270 670 1024 865">Upon review of the member accounts in V3, we did not see a termination notice form on file with OCERS; this form officially notifies OCERS of a member's separation date. Member Services uses this form to manually update the employee's status from Active to either Deferred or Retired.</p> <p data-bbox="270 938 1024 1101">Per Superior Court management, they believe the termination forms had been sent to OCERS via email, but due to both Superior Court's and OCERS email record retention policies, these emails no longer exist for IA to verify.</p> <p data-bbox="270 1222 1024 1320"><b>Risk:</b> 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 data-bbox="1056 305 1875 402"><b>Action Plan:</b> OC Superior Court to send existing records of OCERS Termination Notices to <a href="mailto:aaa@ocers.org">aaa@ocers.org</a> for all 13 members indicating the separation dates.</p> <p data-bbox="1056 524 1875 589"><b>Responsible Party:</b> Bryan Drinkward, OC Superior Court HR Information Management Officer</p> <p data-bbox="1056 703 1875 768"><b>Completion Date:</b> 2/17/2023. OCERS confirmed receipt of all termination notices on 2/22/23.</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>3. Two members did not have a Member Affidavit on file in the PAS and five additional Member Affidavits were sent to OCERS with either missing information or on an outdated form.</b></p> <p>Member Affidavits were:</p> <ul style="list-style-type: none"> <li>not received for two members</li> <li>were sent with missing information for three members</li> <li>were sent on an outdated form for two members</li> </ul> <p>Two members did not have a Member Affidavit on file within the PAS. One member was hired in May 2022 and is currently Active with 0.7 years of service. The second member was hired in November 2021 and later transferred to The County of Orange.</p> <p>Member Affidavits for three members were incomplete in terms of the previous California public service disclosure section. The three members are currently active and joined Superior Court in 1999, 2000, and 2007.</p> <p>In addition, Member Affidavits for two employees hired in December 2021 and July 2022 were an outdated form of the Member Affidavit. The updated form was revised by OCERS in November 2021, in part to obtain positive confirmation of previous public service.</p> <p>Per §31526 of the CERL (County Employee Retirement Law), “<i>The filing of a sworn statement by every person who</i></p>	<p><b>Action Plan:</b> The Court will complete the following:</p> <ul style="list-style-type: none"> <li>Send the two OCERS Member Affidavits that are missing from OCERS Records to <a href="mailto:employerpayroll@ocers.org">employerpayroll@ocers.org</a></li> <li>OCERS Member Services instructed the Court to obtain emails from the three members with missing information answering the following: “<i>Are you a member of any other public retirement system in the state of California? If yes, please list other public retirement systems along with dates of service.</i>”</li> </ul> <p><i>If no please respond to confirm you do not have any other public service in California”</i></p> <p>Emails to be sent by the Court HR to the employees to obtain their responses</p> <ul style="list-style-type: none"> <li>OCERS Member Services instructed the Court to obtain emails from the two members with outdated forms answering the following: “<i>Are you a member of any other public retirement system in the state of California? If yes, please list other public retirement systems along with dates of service.</i>”</li> </ul> <p><i>If no please respond to confirm you do not have any other public service in California”</i></p> <p>Emails to be sent by the Court HR to the employees to obtain their responses</p> <p><b>Responsible Party:</b> Bryan Drinkward, OC Superior Court HR Information Management Officer</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><i>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><b>Risk:</b> 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.</p>	<p><b>Completion Date:</b></p> <ul style="list-style-type: none"> <li>• Two missing OCERS Member Affidavits were sent to <a href="mailto:employerpayroll@ocers.org">employerpayroll@ocers.org</a>. One was sent 3/1/23, the other 3/13/23.</li> <li>• Email responses for the three members with missing information on the OCERS Member affidavit were sent to OCERS Member Services on 3/14/23 and OCERS confirmed receipt on 3/14/23.</li> <li>• Email responses for the two members with outdated OCERS Member affidavit were sent to OCERS Member Services on 3/14/23 and OCERS confirmed receipt on 3/14/23.</li> </ul>



### **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.