



**OFFICE OF THE  
COUNTY AUDITOR-CONTROLLER**

County Administrative Center  
4080 Lemon Street, 11<sup>th</sup> Floor  
P.O. Box 1326  
Riverside, CA 92502-1326  
(951) 955-3800  
Fax (951) 955-3802



**COUNTY OF RIVERSIDE  
AUDITOR-CONTROLLER**

**Robert E. Byrd, CGFM**  
AUDITOR-CONTROLLER

**Ivan M. Chand, CGFM**  
ASSISTANT AUDITOR-  
CONTROLLER

June 6, 2006

Mr. Ronald Komers  
Assistant County Executive Officer/Human Resources Director  
4080 Lemon Street  
Riverside, CA 92502

Subject: Internal Auditor's Report #2006-304 – Human Resources Post Employment Plan (PEP)  
Follow-Up Audit

Dear Mr. Komers:

We have completed a follow-up audit of Human Resources Post Employment Plan. We conducted the audit during the period February 27, 2006 through May 19, 2006, for operations of July 2004 through March 2006.

Our primary objective was to determine if management implemented corrective action and resolved the findings identified in Internal Auditor's Report #2004-020, dated March 1, 2005. A summary of those findings and recommendations is attached to this letter.


We conducted our audit in accordance with auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives.

We performed tests and evaluated management's corrective actions to determine if the findings identified in Internal Auditor's Report #2004-020 were mitigated through the implementation of adequate internal controls.

Based upon the results of our follow-up audit, we determined management took action that was sufficient to correct the findings reported in Internal Auditor's Report #2004-020.

We thank the Human Resources' staff for their cooperation during this audit. Their assistance contributed significantly to the successful completion of the audit.

**ROBERT E. BYRD, CGFM**  
Auditor-Controller

  
By: Michael G. Alexander, MBA, CIA  
Chief Internal Auditor

cc: County Executive Office, Teresa Summers  
Human Resources, Barbara Olivier  
Human Resources, Jeanne Groen  
Auditor-Controller, Cathy Sanders

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**Finding 1** Although the proposal to implement a Post Employment Health Savings Plan and Special Pay Plan submitted to the Board on November 18, 2002, was approved to become effective on December 1, 2002, the contracts for the Special Pay Plan administrator were not signed until January 20, 2003, and the agreements with the new Health Saving Plan trustee and administrator were not signed until February 10, 2003, over two months after the Plan's effective date.

**Recommendation 1** Every effort should be made to submit contracts to County Counsel and the Board of Supervisors for approval before the service begins or Plan becomes effective. If circumstances occur, which delay the execution of agreements, consideration should be given to postponing the effective start date of the contract.

**Management's Reply** Concur. To be completed by August 2004.

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**Finding 2** Although an informal bidding and selection process was performed in choosing the law firm that reviewed the PEP contracts, the process was not documented. In addition, Human Resources did not submit the agreement with outside legal counsel to the County Purchasing Agent to process and execute nor did they submit the agreement to the Board of Supervisors as required since it appeared to be a sole source contract.

**Management's Actions** In March 2004, Human Resources and County Purchasing developed the Department Policy/Procedures to Purchase Products and Services Exempt from Standard Purchasing policies that included provisions for retirement and benefit issues. The policy also includes procedures for the bidding process to be performed internally, which does not require Purchasing to review the contract/agreement.

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**Finding 3** Although OASIS and Payroll were included in the initial discussions of the PEP, evidence revealed a lack of sufficient and expert staff capable of executing and communicating the impacts of the Plan's implementation on the various departments during the development life-cycle that resulted in the following issues:

- OASIS was unable to capture the necessary PEP data utilized for processing and distributing final payouts. Prior to the PeopleSoft 8.3 upgrade, the County utilized People Soft 7.5, which did not provide a limit table to its users.
- Funds to elected Plans and to payees were not distributed in a timely manner. Since the system was not adequately equipped to calculate and report participants' leave accruals, including current data, Payroll had to issue separate manually calculated checks.

- Vital procedures were not in place to accurately substantiate the correct amount of the accrued benefit that could be remitted to the elected Plans.

According to OASIS management, the staffing level was insufficient to satisfy all work requests in a timely manner. Specifically, Human Resources' request to automate the PEP could not be accommodated while the development team was performing open enrollment and year end processing.

**Recommendation 3.1** For future program developments, departments required to program, process, use, and audit a system should be included throughout the implementation, maintenance and monitoring process by Human Resources system development management for future programs, plans, etc. In addition, a standard procedure in any new system development should include the evaluation of resources, codes, legal and other issues that affect the new system implementation.

**Management's Reply** Concur. Human Resources initiates many programs as a result of negotiations with various bargaining units and recommendations from the Board of Supervisors. Human Resources will involve other departments as required to implement these programs. It is imperative that the involved departments have adequate resources to participate fully in the implementation, maintenance and monitoring processes. To be completed by August 2004.

**Recommendation 3.2** Human Resources obtain an independent legal opinion to determine the appropriateness of assigning or alienating accrued benefits as part of the PEP.

**Management's Reply** Concur. Human Resources obtained an independent legal opinion from Gamble, Resenberger and Joswick LLP on June 28, 2004. This was ratified by County Counsel on August 4, 2004. Completed in August 2004.

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**Finding 4** Prior to February 2004, other than a pay warrant stuffer, retiring employees in some cases may not have been given timely information regarding investment of their final accrued benefit payout. It was the practice of Human Resources to individually counsel eligible employees about the PEP process when their department sent Human Resources the Employee Transfer Form (ETF) notification of retirement date.

**Management's Actions** Per the Human Resources Benefit Unit, management is now presenting retirement seminars and the information presented gives alternatives to investment strategies commonly used before the mandatory distribution to Special Pay and Health Savings Plans. Now many scenarios are presented, which allow retirees to choose the best method of investment to maximize their funds and avoid paying excessive taxes.

Although, in the past, the departmental representatives were not directly informed, Human Resources held the first class on May 20, 2004. Per

the Human Resources Benefits Unit, as new representatives are identified future classes will be added.

**Recommendation 4**

Links to the Workforce Exchange.net website should be established to the Human Resources web page to facilitate easy location.

**Management's Reply**

Concur. Human Resources is in the process of developing links between the Human Resources/Benefits Division webpage, the County's Intranet, and Workforce Exchange.net. We agree that having easier access to our benefit information will be beneficial to employees, retirees and other interested individuals. To be completed by September 15, 2004.

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**Finding 5**

Salary estimates were not consistently calculated correctly. Specifically, Human Resources projected employee's final accrual based on the most current paycheck. The incorrect calculation resulted in a decrease in the maximum allowable investment amount in the Special Pay Plan and an increase in the amount of taxes paid.

**Management's Actions**

According to Human Resources' Benefit Unit, the process has changed. The unit is now waiting until all the accruals have been recorded before completing the election forms. In addition, every attempt is being made to contact the employee so that they can complete their own forms. In the event the employee cannot be located, a form letter is sent describing the distribution of the accrued benefit payout distribution.

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**Finding 6**

In some instances, the Employee Transfer Forms (ETF) were not completed in a timely manner. As a result, Payroll held distributions until the forms were completed, causing delays in the submission of fund distributions to the Plan trustee by as much as two weeks.

**Recommendation 6**

Human Resources should develop procedures indicating specific timeframes for completion of ETF documents and distribute to each County department.

**Management's Reply**

Concur. Human Resources already does so. We distribute an ETF Deadline Schedule to all departments every year.