Post-Employment Benefit Changes

Audit Report

August 30, 2016

INTERNAL AUDIT DIVISION
SANTA BARBARA COUNTY AUDITOR-CONTROLLER

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Overview

Introduction

The Internal Audit Division of the County of Santa Barbara (County) Auditor-Controller's Office performed an audit of changes made to the County's post-employment benefit offerings. Our work was limited to the areas specified in the Objectives and Scope below. We believe the evidence we obtained provides a reasonable basis for the findings in this report.

Objectives and Scope

The purpose of our audit was to identify changes to the County's post-employment benefit offerings that could be difficult for the County to implement correctly. Our audit was made to determine whether these changes were implemented consistently for affected employees. The objectives of our audit were as follows:

1) Determine if employees hired by the County from June 25, 2012 to June 22, 2014 were enrolled in the appropriate retirement plan.

2) Determine if County employees at June 23, 2014 were paying the correct retirement contribution rates based on their plan and entry age.

3) Determine if the County correctly implemented the pensionable pay codes determined by the Santa Barbara County Employees' Retirement System (SBCERS) Board of Retirement pursuant to the Public Employees' Pension Reform Act (PEPRA).

For objectives 1 and 2 above, the scope of our audit was limited to employees in positions represented by the County's five largest employee organizations, which are as follows: Service Employees International Union Local 620; Service Employees International Union Local 721; Santa Barbara County Deputy Sheriffs Association; Santa Barbara County Probation Peace Officers Association; and Santa Barbara County Fire Fighters, Inc., Local 2046.

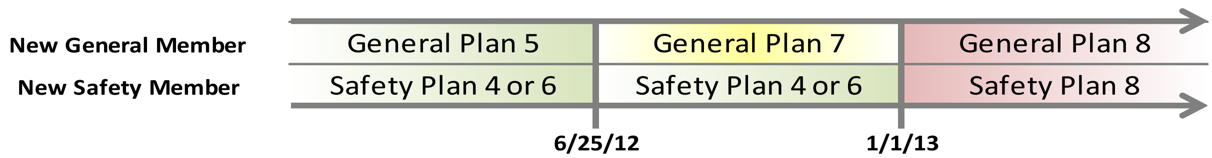
Background

In May 2012, the Board of Supervisors adopted a resolution establishing retirement Plan 7 for general employees hired on or after June 25, 2012. The purpose of this plan was to implement pension changes adopted by the Board for new employees. Shortly thereafter, the State enacted PEPRA, which mandated reforms to pension benefits for employees who became new members of a retirement system on or after January 1, 2013. As a result, in January 2013, the Board adopted a resolution establishing retirement Plan 8 for general and safety employees hired on or after January 1, 2013.

Overview

Post-Employment Benefit Changes

The following illustrates the initial plan placement based on the hire date for new general and safety employees:



Under certain circumstances, rehired employees with previous County service may be eligible for placement in the same plan they were enrolled in during their prior employment with the County. If the length of time before being rehired does not constitute a “break in service” as defined by retirement law, these employees may also maintain their original entry age into the retirement system. If there was a break in service, these employees remain in their original plan but receive a new entry age based on their age at the time of being rehired.

In addition, new employees who enter County service within 180 days of leaving employment with another reciprocal retirement system may elect to establish reciprocity. For new employees hired on or after January 1, 2013 who had eligible service with a reciprocal system before January 1, 2013, establishing reciprocity changes their plan placement from Plan 8 to Plan 7 (for general members) or to Plan 4 or Plan 6 (for safety members) and restores their entry age to the age at entry into the earliest reciprocal retirement system.

An employee’s retirement plan placement impacts both the benefits available to the employee in retirement and the contributions paid by the employee and the County during the employee’s service to the County. For employees enrolled in pre-PEPRA plans, the employee contributions are based on the employee’s plan and entry age into the retirement system, with contribution rates increasing with entry age. For employees enrolled in PEPRA plans, the employee contributions are the same for all plan members regardless of entry age. Total employee and County retirement contributions in fiscal year 2014-15 were as follows:

	Employee	County	Total
Fiscal Year 2014-15 Contributions	$ 15,061,991	$ 114,945,556	$ 130,007,547
Percentage of Total	12%	88%	100%

Conclusion

Based upon our sample, contribution rates appear to be properly charged. Additionally, with limited exceptions, the retirement plan enrollments we reviewed appeared appropriate. However, we identified certain areas for improvement which are discussed in the following findings and recommendations.

Findings and Recommendations

Finding 1 – Retirement Plan Placement

Improper plan placements, if undetected, could result in inequitable benefits for employees in retirement. This also causes the County and the employee to make contributions which differ from the amounts that would be payable under the appropriate plan. Changing an employee's retirement plan placement results in refunds due from or additional contributions payable to SBCERS. During our review of 131 new and rehired employees, we noted three instances where employees were not placed in the appropriate retirement plan.

> ***Recommendation 1:*** The Auditor-Controller's Payroll Division should work with SBCERS to ensure all new retirement plan enrollments are made correctly.

Finding 2 – Policy and Procedures for Adding New Pay Codes

PEPRA excludes certain types of payments to employees from their pensionable compensation. While the County establishes new pay codes for new forms of employee compensation (such as a new special allowance), the SBCERS Board of Retirement determines whether or not those payments may be included in pensionable compensation.

During our audit, we noted the Auditor-Controller's Office does not have a formal policy and procedure for adding new pay codes and requesting that SBCERS make a determination as to whether or not the new pay codes should be included in pensionable compensation.

> ***Recommendation 2:*** The Auditor-Controller's Office should develop a formal policy and procedure for adding new pay codes and requesting SBCERS make a determination as to whether or not the compensation attributable to new pay codes is pensionable.

Finding 3 – Pensionable Pay Code Determinations

To comply with PEPRA, the SBCERS Board of Retirement adopted a resolution listing its determinations as to which of the County's pay codes should be included in pensionable compensation. We noted eight of the County's pay codes were not included in the SBCERS Board of Retirement resolution.

> ***Recommendation 3:*** The Auditor-Controller's Office should ensure all pay codes in the County's payroll system are supported by a Board of Retirement resolution or other adequate documentation provided by SBCERS that supports determinations of pensionable compensation.

Acknowledgement

The responses from the Auditor-Controller's Office to the findings and recommendations in this report, as well as any planned corrective actions, are presented as attachments to this report. We have not evaluated the validity of these comments.

We appreciate the courtesy extended to us by the Auditor-Controller's Payroll and Applications Development divisions. If we can be of further assistance, please contact us at (805) 568-2100.

Respectfully Submitted,

Heather Fletcher

Heather Fletcher, CPA
Audit Manager

Post-Employment Benefit Changes 2016 Audit Response

Recommendation 1

Partially agree. The Auditor Controller's Payroll Division will work to ensure retirement plan enrollments are made correctly by means of AC Systems division programming of Pay+ using default enrollment values and assignments as determined by business rules provided by SBCERS. The County does not make plan placement determinations, SBCERS makes such determinations. Reciprocal placements cannot be accomplished until confirmation from the reciprocal agency is received and that can take several months.

Recommendation 2

Agree. The Auditor Controller's Payroll Division will develop a policy and procedure to request SBCERS determination of pay code pension attributes for all plans, with the expectation that Human Resources Employee Relations and SBCERS participate in the process, and the understanding of all parties that the timing of MOU negotiation approvals and their effectiveness create urgency under which it may not be feasible to attain Board of Retirement approval and determination before the MOU necessitates use of a new code.

Recommendation 3

Agree. The Auditor Controller's Payroll Division maintains explicit business rules to substantiate all pay codes. The Division will add to this substantiation document for each pay code support from SBCERS Board resolutions or other such determinations of each code's approved pension attributes.