



Internal Audit Department

O R A N G E C O U N T Y

AUDIT HIGHLIGHT

MARCH 26, 2010

INTERNAL AUDITOR'S REPORT TO THE BOARD OF SUPERVISORS

**Critical
Impact
Audit**

AUDIT OF COUNTYWIDE PENSION PRACTICES

Audit No. 2913

WHY IS THIS AUDIT CRITICALLY IMPORTANT?

The Orange County Grand Jury in their report titled *The Guardian of Last Resort on the Public Administrator/Public Guardian*, dated May 6, 2009 identified "questionable pension practices" where an employee received a promotion and salary increase of 57% within one year of retirement. The Grand Jury cited that the one year promotion is costing the taxpayers of Orange County an additional \$1,453,100 in lifetime pension benefits.

The Grand Jury recommended that the County Internal Audit Department conduct an in-depth review of Orange County Human Resources (OCHR) personnel records to determine if additional instances of "questionable pension practices" (pension spiking) exist. The Annual Audit Plan for fiscal year 2009-2010, including the Audit of Countywide Pension Practices, was approved by the Audit Oversight Committee on May 27, 2009.

In response to their recommendation, we audited retirees who received cumulative salary increases greater than 10% in total for the three years prior to their retirement in order to identify if "questionable personnel actions" took place that increased or spiked the employee's pension. These selection criteria resulted in a review of 36 retirees (4.6%) out of a total of 781 retirees.

WHAT THE AUDITORS FOUND?

We found 99.62% of the retirees, 778 of 781, did not receive questionable promotions and salary increases. These "End-of-Career" promotions and salary increases complied with County policies and procedures and were properly documented, approved and supported. However, we found two additional questionable instances similar to the one instance identified by the Grand Jury.