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May 10, 2011

ASSOCIATE VICE PRESIDENT AND SYSTEMWIDE CONTROLLER ARRIVAS

**Subject: Final Report of Audit Services Project No. 11A010
UCOP Other Post Retirement Benefits/Health Insurance Name**

Attached please find the final report for: Audit No. 11A010 – UCOP Other Post Retirement Benefits/Health Insurance. With the issuance of this final report, please destroy any previous draft versions.

We very much appreciate the assistance provided to us by you and your staff during our review. If you should have any questions, please feel free to contact me at 510-987-0482 (e-mail: Susana.Atwood@ucop.edu), or Benjamin Wong at 510-287-3318 (e-mail: Benjamin.Wong@ucop.edu).


Susana Atwood
Audit Director

Attachment

cc: SVP Vacca
Chief Financial Officer Taylor
Director Olson
Coordinator Zhou
Accountant Lam
Principal Auditor Wong

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

OTHER POST RETIREMENT BENEFITS/HEALTH INSURANCE
Audit No. 11A010
May 2011

Work Performed by:
Benjamin Wong, Principal Auditor

Executive Summary

Introduction

As part of the 2010-2011 annual audit plan, Internal Audit Services conducted an audit of University of California Health and Welfare Program (UC H&WP) for eligible retirees and their families and survivors only. The UC Health and Welfare Department administers the UC H&WP. Effective July 1, 2007, The Regents established the University of California Retiree Health Benefit Trust (UCRHBT). The UCRHBT is used to administer the health and welfare benefits for eligible retirees of the University and its affiliates, such as the Hasting College of the Law. All UC locations contribute to UCRHBT except for Lawrence Berkeley National Laboratory (LBNL).

LBNL contributions to UC H&WP and corresponding payments to the providers are recorded on the UCLA general ledger (M ledger¹). All other UC location contributions to UC H&WP and corresponding payments to providers are recorded on the Endowment Investment Accounting System (E ledger¹). Except for LBNL, contributions and payments pertained to UC H&WP are transferred monthly to and from the UCRHBT between plan participants and insurance/HMO providers.

There are three funds on the E ledger to account for UCRHBT transactions: UC Other Post Employee Benefit (OPEB) Trust Fund, UC OPEB Collection Fund and UC OPEB Payment Fund. State Street Bank is the custodian of UCRHBT. LBNL transactions are accounted in the current fund on the M ledger throughout the year, and balances at year-end are closed out to the Benefit-Insurance Fund. There are multiple accounts used on both ledgers largely for the purpose of differentiating location, plan, and provider.

Collections and payments are contributed by employers and employees; employees' contributions are further differentiated by UC Retirement System (UCRS), Public Employee Retirement System (PERS) and other retirement systems such as Orange County Employees Retirement System (F-members²).

Health and Welfare Department annual expense is about \$1.6 billion; of which, about \$257 million pertained to retirees. Retirees total premiums due to providers in January 2011 were approximately \$26 million; of which, \$25 million pertained to OPEB Trust and \$1 million pertained to LBNL. The Stabilization Fund reserve for the UC H&WP, as of June 2010 year-end was approximately \$126 million. This amount largely resulted from provider refund and rebates.

Objectives and Scope

The audit objectives were to determine the effectiveness of controls in place on:

- the recording of collections from employers and employees
- the recording of payments to providers
- the annual rate assessment reset
- the stabilization fund balance reasonableness
- account reconciliation process

¹ 'M' Ledger and the 'E' ledger are sub-ledgers to the General Ledger. 'M' represents UCLA location code - UCOP is a user of UCLA ledger. 'E' is the first letter of EIAS - Endowment and Investment Accounting System.

² UCRP has agreements with certain public retirement systems (the Public Employees Retirement System, the State Teachers' Retirement System, the San Diego County Employees' Retirement System, the Sacramento County Employees' Retirement System, or the Orange County Employees' Retirement System) to provide continuity of benefits for members who work for more than one public system during their careers.

We reviewed January 2011 UC H&WP M ledger and E ledger account reconciliations. We judgmentally selected 12 M ledger transactions and 14 E ledger transactions processed in December 2010 and January 2011; traced amounts to their corresponding backup documents and verified accuracy. We reviewed FY2010-2011 rate assessment documents and verified that the UC Chief Financial Officer's approval was obtained. Additionally, we reviewed The University of California Retiree Health Benefit Trust agreement and assessed if sampled transactions for testing complied with the Trust terms. Field work was performed between February and April 2011.

Overall Conclusion

Based on our audit work, it appears controls are in place and effective over the recording of retiree collections and payments between UC H&W participants and providers. The annual rate assessment reset process includes consideration of all relevant factors and ensures approval is obtained from authorized individuals. The stabilization fund balance is within the target rate of 8%.

We did note two large debit balances on the M ledger of \$157k and \$231k that were carried forward from prior to the establishment of UCRHBT July 1, 2007. These two amounts should not have been included in June closing entries and re-opened in July. Benefit Plan Accounting took immediate actions to transfer these amounts to fund 69909, part of the Health and Insurance Stabilization Reserve Fund. There was no impact to financial statement reporting due to these amounts as M ledger balances are closed out to the Health and Insurance Fund at year end.
