



# County of Orange

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County Executive Office

June 6, 2018

Honorable Judge Margines  
Presiding Judge of the Superior Court of California  
700 Civic Center Drive West  
Santa Ana, CA 92701

Subject: Response to Status Inquiry Regarding Grand Jury Report, "Orange County Sheriff Medical Insurance: County Failures in Negotiation, Documentation, Oversight, and Transparency"

Dear Judge Margines:

This letter is in response to the May 14, 2018, letter from Mr. Bob Niccum addressed to Frank Kim, Chief Executive Officer, County of Orange. The letter requested an update on the five recommendations made in the June 30, 2015, Grand Jury Report entitled, "Orange County Sheriff Medical Insurance: County Failures in Negotiation, Documentation, Oversight, and Transparency." Below is the update.

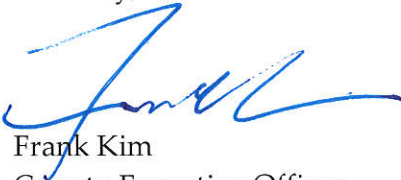
The County of Orange (County) has implemented Recommendations 3, 5, 7, and 8. The language is attached to this letter. Additionally, under Recommendation 5, the new Memorandum of Understanding (MOU) language will require an annual audit of the Trust's financial statements to present additional detailed information (separate line items) about the amount of contributions and premiums paid for employees versus retirees, providing greater transparency to the County for use in cost analysis and future negotiations. Recommendation 8's Fee Assessments and Reserve Studies are now required to be performed every three years. Furthermore, the allocation of administrative costs will be reviewed by the auditor during the annual trust audit.

Finally, in regards to Recommendation 10, the County did consider the recommendation but it is the proper subject of negotiations and it was determined during that process that it was not feasible for the current contract term.

RE: April 20, 2016: OC Sheriff Medical Insurance: County Failures in Negotiation, Documentation, Oversight, and  
Transparency  
June 6, 2018  
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If you have any questions, please contact Lilly Simmering of the County Executive Office at 714-  
834-6748.

Sincerely,



Frank Kim  
County Executive Officer

Enclosed:

Attachment A – MOU Language for Recommendations 3, 5, 7, 8

cc: Bob Niccum, FY 2017-2018 Orange County Grand Jury Foreperson  
Brenda Diederichs, Chief Human Resources Officer, County of Orange  
Lilly Simmering, Deputy Chief Operating Officer, County Executive Officer

**Recommendation 3**

The below language was negotiated by the County and included in the 2016 -2019 AOCDS MOU.

**Article XIII, Section 4.B.7 on page PO-87:**

6. The Trust shall operate with adequate internal controls and accounting practices, and shall have written policies and procedures. This includes a documented anti-fraud program and disaster recovery program.

**Article XIII, Section 4.C.2 & 3 on page PO-88 - Annual Trust Audit provisions:**

2. The CPA shall communicate in writing to the Trust and the County any significant matters which come to their attention during the audit of the Trust, such as material weaknesses and significant deficiencies in design or operation of internal controls, illegal acts, or significant fraud risks.
3. For any significant matters and internal control deficiencies identified by the CPA, the Trust should provide the County with a status of the corrective actions taken to address the findings every six months until the findings have been fully addressed by the Trust.

**Recommendation 5**

The below language was negotiated by the County and included in the 2016 -2019 AOCDS MOU.

**Article XIII, Section 4.C.1, starting on page PO – 88:**

1. The audited Statement of Changes in Net Assets Available for Benefits shall contain separate line items for each of the following items:
  - a. County Contributions for Active Participants;
  - b. County Contributions for Retiree Grants;
  - c. Participant Contributions made by County employees;
  - d. Participant Contributions made by County retirees;
  - e. Participant Contributions made by County COBRA participants;
  - f. Total Contributions Made By AOCDS for AOCDS Active Participants, AOCDS COBRA Participants, and AOCDS Retirees;
  - g. Group Insurance Premiums Paid for County Active Participants;
  - h. Group Insurance Premiums Paid for County Retiree Participants;
  - i. Group Insurance Premiums Paid for County COBRA Participants, and
  - j. Group Insurance Premiums Paid by AOCDS for AOCDS Active Participants, AOCDS COBRA Participants, and AOCDS Retirees.



**Recommendation 7**

The below language was negotiated by the County and included in the 2016 -2019 AOCDS MOU:

**Article XIII, Section 4.B.7 on page PO-87:**

6. The Trust shall operate with adequate internal controls and accounting practices, and shall have written policies and procedures. This includes a documented anti-fraud program and disaster recovery program.

**Article XIII, Section 4.C.2 and 3 on page PO-88 - Annual Trust Audit provisions:**

2. The CPA shall communicate in writing to the Trust and the County any significant matters which come to their attention during the audit of the Trust, such as material weaknesses and significant deficiencies in design or operation of internal controls, illegal acts, or significant fraud risks.
3. For any significant matters and internal control deficiencies identified by the CPA, the Trust should provide the County with a status of the corrective actions taken to address the findings every six months until the findings have been fully addressed by the Trust.

**Recommendation 8**

The below language was negotiated by the County and included in the 2016 -2019 AOCDS MOU.

**Article XIII, Section 4.F.7 on page PO-90:**

- F. The Trust shall every three years beginning with the Trust plan year ending June 30, 2017 have a report prepared by an independent certified public accountant selected by the Trust and who shall not be the same auditor performing the joint audit under section 4(C) outlining the methods used to calculate the amount of administrative fees and expenses paid by the Trust to AOCDS and to third party administrators. The Trust shall provide a copy of the report to the County.

**Article XIII, Section 4.D.4 starting on page PO-88 added additional testing to be performed by the auditor during the annual Trust audit.**

4. Confirm that direct and indirect costs incurred during the plan year by AOCDS are allocated in a reasonable manner to the Trust.

**Article XIII, Section 4.E starting on page PO-89:**

E. The parties understand that the trust reserves are assets, inclusive of the balance in any PSR, and may act as a Stabilization Reserve for trust participants. The trust reserves are an accumulation of money participants have contributed to the Trust for the purpose of but not limited to paying toward costs of premiums, administrative costs, and trust reserves. It serves as a hedge against unfavorable claim fluctuations and helps smooth higher than anticipated premium cost increases for trust participants. It may also be used to assist with payment toward premiums for trust participants in the periods between increases in County contributions, to make modifications to the health plan that are in the interests of trust participants or unexpected cost increases due to ACA mandatory changes that may increase premiums in a contract year, and to enable consideration of new health care delivery formats. Trust reserves are necessary to enable the Trust to pay off any deficit of any premium stabilization fund with an insurer, when the Trustees consider it beneficial to change insurers.

The Trust shall no less frequently than three years and not more than every five years, at the discretion of the Board of Trustees, beginning with the Trust plan year ending June 30, 2017, have an actuarial study prepared to determine the appropriate level of trust reserves and provide a copy of the report to the County.