

TAX SHELTERED ANNUITIES

SUMMARY

There may be a delay, up to 14 days, in depositing monthly funds into Tax Sheltered Annuities (TSA) ¹ accounts of employees of the Orange County Superintendent of Schools (OCSS) and school districts. Cursory examination concluded that there is indeed a delay. The Grand Jury found no delay of TSA paper vouchers ² within Orange County. However, mailing TSA vouchers to vendors ³ outside Orange County causes delays—normally 2 to 3 days, increasing to 4 to 6 days on weekends or holiday weekends. A delay of 2 to 6 days would cause annual interest loss from \$26,158 to \$78,474 @ 4.75%, the existing prime rate. The delays, and attendant losses, can be avoided by electronic-transfer.

PURPOSE OF THE STUDY

The purpose of the study is to determine if delays exist, to determine possible delay sources, and recommend possible corrections for any delay found.

BACKGROUND

The magnitude of the problem

An average of \$8,000,100 is deducted monthly from the salaries of 18,000 OCSS and school district employees for TSA accounts. Table 1 shows baseline interest losses for 2 to 6-day mail delays on \$8,000,100 @ 4.75% (the prime rate on 20 March 2002). These losses, occurring monthly, would accrue annually to the amounts shown in the right-hand column.

Table 1--Interest Loss Calculation

Formulae: Baseline interest loss (in \$) = 8,000,100 x (0.0475/365) x days delayed
Accrued interest loss per year (in \$) = (baseline loss) x 12 x 1.0475

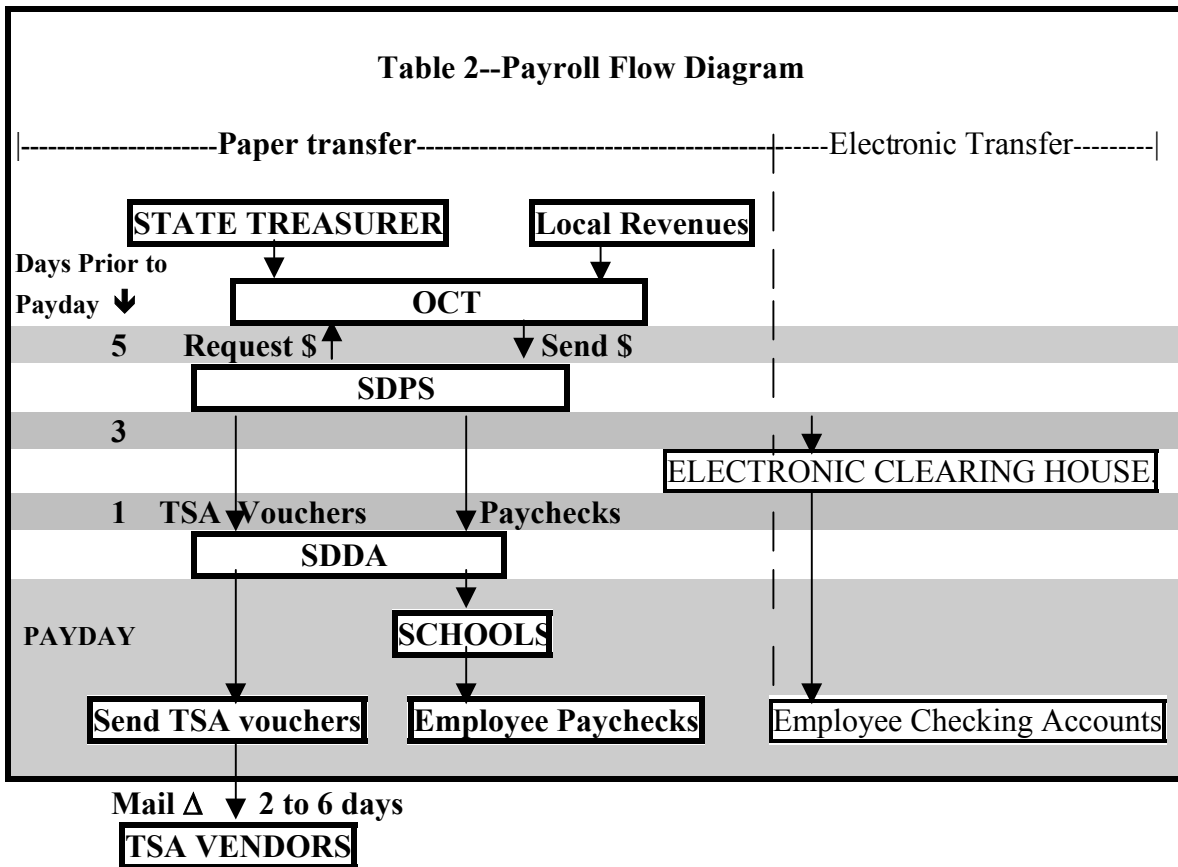
<u>Delay in Days</u>	<u>Baseline Interest Loss</u>	<u>Accrued Loss per Year</u>
2	\$2,081	\$26,158
3	\$3,121	\$39,237
4	\$4,162	\$52,316
5	\$5,202	\$65,395
6	\$6,243	\$78,474

1. A TSA is a retirement account similar to an IRA or 401 (k). The TSA is tax exempt until redeemed.
2. Paper vouchers are the present method of transmitting TSA data to vendors.
3. Vendor is the term commonly used for TSA providers.

Payroll Flow through Orange County Superintendent of Schools

Three Orange County entities are involved in school system payroll flow through Orange County. The entities are: OCSS School District Payroll Systems (SDPS); School Districts Designated Administrators (SDDA); and the Orange County Treasurer (OCT). Important “target days” for SDPS are: five days prior to payday; three days prior to payday; one day prior to payday; and payday. These terms are used in Table 2. State Treasury funds and local revenues arrive periodically, and are not covered in this report.

Table 2 below, encapsulates 6 pages of prose into one diagram and a one-paragraph description. The left-hand side (**BOLD**) represents paper transfer flow. The right-hand side (not bold) represents electronic transfer of checking account data. Presently, there is no electronic TSA data transfer. The shaded bars are the “target days”. The arrowhead connotes the day the action takes place.



Five days prior to payday, SDPS requests and receives funds from OCT. Three days prior to payday, SDPS electronically transfers checking account data to an Electronic-Clearing-House (ECH) for those employees opting for this service. One day prior to payday, SDPS sends paper paychecks and TSA vouchers by courier to an SDDA in each school district. On payday, the SDDA sends paychecks by courier to schools in the

district, and TSA vouchers to vendors by first class mail. Also on payday, the schools deliver the paychecks to employees and the ECH electronically transfers checking account data to employee's banks. Mail delay outside Orange County is 2 to 6 days.

The routine described above is repeated twice to enable paying classified employees on working days closest to the 10th and 25th, and once again for certificated employees paid on the last working day of the month.

METHOD OF STUDY

To gather data for the report, the Grand Jury first visited the SDPS. This department provided a listing of all Orange County school districts participating in the TSA investment program, including the total number of employees in each school district making contributions. From that list, the Grand Jury selected, and visited, a small, a medium, and a large school district, to discuss overall payroll procedures, and obtain printed data pertaining to TSA handling procedures.

CONCLUSIONS

There are inherent delays in mail transfer of TSA vouchers which electronic transfer would negate. The United States Postal Service, though immune from Orange County Grand Jury scrutiny, non-the-less graciously provided us with mail times.

FINDINGS

In accordance with *California Penal Code* §933 and §933.05, each finding must be responded to by the government entity to which it is addressed. These responses are submitted to the Presiding Judge of the Superior Court. The 2001-2002 Orange County Grand Jury finds that:

1. The SDPS is expeditiously handling TSA paper vouchers, inside Orange County. Refer to Recommendation 1.
2. The SDPS is working on a Payroll Upgrade System including a program for electronic transfer of TSA data. A 12—18 month completion time is predicted for this effort.

A response to Findings 1 and 2 is required of the **Orange County Superintendent of Schools**.

RECOMMENDATIONS

In accordance with *California Penal Code* §933 and §933.05, each recommendation must be responded to by the government entity to which it is addressed. These responses are submitted to the Presiding Judge of the Superior Court. Based on the findings, the 2001-2002 Orange County Grand Jury recommends that:

1. The SDPS should continue to expeditiously handle TSA paper vouchers until an electronic transfer program is in place. Refer to Finding 1.
2. The SDPS needs to expedite development of a TSA electronic transfer program, compatible with the payroll system upgrade, without waiting for the entire payroll system upgrade to be developed. Refer to Finding 2.

A response to Recommendations 1 and 2 is required of the **Orange County Superintendent of Schools**.

COMMENDATIONS

The Orange County 2001-2002 Grand Jury commends and thanks the following organizations for help in gathering data for this report: the Office of the Orange County Superintendent of Schools; School District Payroll Systems; the Huntington Beach Union High School District; the Santa Ana Unified School District; and the Brea-Olinda Unified School District.

APPENDIX—Data and Sources

Flow of Funds for Payroll Processing in Orange County—Orange County Superintendent of Schools.

TSA Providers list with total dollar amounts and number of employees; a 3.5" EXCEL disk for these data; and Payroll Handling Procedures—School District Payroll Systems.

Payroll Handling Data gathered by in-person interviews—Huntington Beach Union High School District.

Payroll Handling Data gathered by in-person interviews—Santa Ana Unified School District.

District Payroll Handling Procedures; and TSA Vendors for District—Brea-Olinda Unified School District.

First Class Mail Times from Orange County to various cities—United States Postal Service Information Center.