COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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March 4, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **CHIEF ADMINISTRATIVE OFFICE – AUDIT OF COUNTY-OWNED ANNUITIES**

At the request of the Chief Administrative Office (CAO) Risk Management Operations (RMO) Division, we engaged Vargas, Lopez and Company (VL&C) to review the 39 open or active County-owned annuities to determine if they were being administered in accordance with the terms of the settlement or annuity agreement; to evaluate the RMO's oversight of the annuities; and to recommend appropriate changes in County policies and procedures.

BACKGROUND

A structured settlement is the payment of money to a claimant, in which all or part of the settlement calls for future periodic payments. The County has typically funded the structured payments by electing to purchase an annuity from a major life insurance company. Prior to January 1983, when the County decided to purchase an annuity, the County also retained ownership of the annuity. In 1983, a change in the Internal Revenue Code permitted the County (and other defendants) to assign its ownership of annuities, and the obligation to guarantee future payments, to another third party (the insurance company).

REVIEW SUMMARY

VL&C determined that 35 (90%) of the 39 County-owned annuities were administered in accordance with the terms of the settlement. The remaining annuities were not in compliance with payment provisions contained in the terms of the settlement, as subsequently revised by the Court. Additionally, although VL&C found the RMO Division's oversight of the annuities was adequate, VL&C provided several recommendations to strengthen administrative procedures. For example, for those policies where the County is named as the beneficiary, VL&C recommends that the

County request the mortality status of annuitants from the annuity issuer on at least an annual basis. The CAO concurs with the findings and recommendations contained in the report and is taking the necessary corrective actions.

Due to the volume of the final report, we are forwarding copies at this time solely to the CAO. If you have any questions, please contact me or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:JK

c: David E. Janssen, Chief Administrative Officer
Delta Uyenoyama, Assistant Division Chief, Chief Administrative Office
Lloyd W. Pellman, County Counsel
Violet Varona-Lukens, Executive Officer
Audit Committee
Public Information Office