



Internal Audit Report

Plan Sponsor Contribution & Reporting Audit

San Diego County Regional Airport Authority

**Prepared by:
Lee Parravano, Internal Auditor**

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EXECUTIVE SUMMARY

The San Diego County Regional Airport Authority (Authority) has procedures in place for the census data reported to San Diego City Employees' Retirement System (SDCERS). Control strengths identified during the audit period from July 1, 2011 through June 30, 2013 include:

- Pay rates reported to SDCERS agreed to publicly available pay schedules for Public Employees' Pension Reform Act (PEPRA) members tested.
- The following elements were correctly reported to SDCERS for all tested employees; date of birth, date of hire, date of membership, classification of employee, gender, date of termination, employment status, plan code, service period and member entry age.
- Pensionable compensation cap for tested members was observed.
- Membership in the Amended and Restated San Diego County Regional Airport Authority Plan and Trust of 2008 (Plan) was correctly not established for temporary employees tested.
- Membership in the Plan was correctly not established for independent contractors tested.

However, the following issues were identified that should be addressed to further strengthen controls over the census data.

Base Compensation

Base Compensation as defined in Exhibit A to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008 is defined as compensation, identified by pay codes, as either included or excluded from pensionable earnings. The Plan approved by the Authority's Board on June 8, 2008, excluded from Base Compensation pay code Holiday Worked and YE Oth Leave. Management has included these pay codes in Base Compensation and reported these amounts to SDCERS as pensionable salary. The amount of salaries and wages reported as pay codes Holiday Worked and YE Oth Leave for the period June 23, 2011 through June 19, 2013 was \$362,307.70 and \$17,276.11 respectively.

Night Premium and Bilingual Shift Differential

The Authority is calculating employee compensation, for those eligible to receive both a night premium and a bilingual shift differential, equal to: (unadjusted salary + night shift premium) x bilingual shift differential. The night shift premium is not eligible for the bilingual shift differential. This results in an overpayment to the employee equal to the amount of the night shift premium multiplied by the bilingual shift differential. One employee was overpaid by \$3.45 for one pay period tested. The overpayment of \$3.45 was reported to SDCERS as Base Compensation.

Authority Paid Contributions in Excess of Offset Amounts

For two employees tested, the Authority paid the member contribution amounts in excess of their offset amounts. There was no written documentation authorizing the additional payment for one of the employees tested. The Authority paid member contributions in excess of the offset were reported inconsistent with current Plan documentation. In addition, the Authority has not provided direction to SDCERS on how to determine a member's benefit for Authority paid member contributions in excess of offset amounts.

EXECUTIVE SUMMARY (Continued)

Member Contributions

Actuarial rates for member contributions contain one amount for Base Compensation earned on the first \$400 a month and a different rate for Base Compensation earned over \$400 per month. The member contribution rate on the first \$400 per month is less than the member contribution rate on the amount over \$400 per month. If an employee receives a second paycheck in the same payroll period, the Authority subjects this paycheck to the under \$400 per month and over \$400 per month calculations. This has the effect of underpaying SDCERS by the difference in the two member contribution rates. One Member selected for testing had two paychecks in the same pay period. The amount of the underpayment to SDCERS for this member was \$5.97.

Member Contribution & Authority Offset

For one unrepresented employee tested, the member's required contribution amount was less than the employer offset amount. The Authority remitted to SDCERS the entire offset. The amount paid by the Authority to SDCERS in excess of the member's required contribution for the pay period tested was \$5.75.

Based on this audit, six recommendations have been made to improve internal controls related to the census data. The Authority's management agrees with five of the recommendations made. Details can be found in the Audit Results section of this report.

The information in this report is intended solely for the use of the Authority and SDCERS' Audit Committee, Board of Administration, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

AUDIT OBJECTIVES, SCOPE & METHODOLOGY

Audit Objectives

The objective of the audit was to evaluate the controls over member records and payroll data submitted by the Authority to SDCERS and to verify the accuracy and adequacy of that information.

Audit Scope & Methodology

This audit was performed for the period from July 1, 2011 through June 30, 2013 by using the following methods:

- Reviewed the Plan, Memorandum of Agreement's between the Authority and the employee Unions, and the San Diego City Employees' Retirement System Participation and Administration Agreement.
- Reviewed policies and procedures utilized by staff to process the Authority's retirement transmittal file to SDCERS.
- Interviewed staff responsible for processing payroll, member enrollment, and transmitting the retirement file to SDCERS to determine if there is appropriate segregation of duties.
- Randomly selected twenty-five employee records, covering two pay periods – December 16, 2011 to December 29, 2011 and May 3, 2013 to May 16, 2013. For each employee selected:
 - Traced pensionable salary (Base Compensation) from the transmittal file to the payroll register.
 - Traced pay rates from the payroll register to the personnel files.
 - Reviewed various documents as necessary to determine if the following elements were reported correctly; member date of birth, date of hire, eligible date of membership, class of employee, gender, date of termination, employment status, plan code, service period, member entry age, member contributions, employer offset contributions, code section 401(a)(17) limits, and pensionable compensation limits for PEPRA members.
- Reviewed the Authority's enrollment practices for temporary and part-time employees to determine if employees met the Authority's membership criteria and any applicable PEPRA requirements.
- Reviewed the Authority's enrollment practices pertaining to independent contractors to determine if individuals met the Authority's membership criteria.

This audit was planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions. Internal Audit believes the evidence obtained provides a reasonable basis for the findings and recommendations.

Internal Audit would like to thank SDCERS and San Diego County Regional Airport Authority management and staff for their cooperation with the performance of this audit.

INTRODUCTION

Background

SDCERS administers three separate defined benefit pension plans for the Authority, the City of San Diego, and the San Diego Unified Port District. SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants. On January 1, 2003 the Authority entered into an agreement with SDCERS to administer its defined benefit pension plan.

Each pay period the Authority provides SDCERS a transmittal file that contains information such as member name, pensionable salary, member contributions, class of employee, and member date of birth. The transmittal file is used by SDCERS to update each member's data contained within SDCERS' pension administration system. Member data is used by SDCERS to determine items such as service retirement eligibility, monthly base salary for benefits, benefit formula, and death benefits. Collectively, the underlying member data is referred to as census data. On a yearly basis SDCERS sends the census data to the Plan actuary, Cheiron, to provide an actuarial valuation. The actuarial valuation provides the financial condition of the Authority Plan, the past and expected trends in the financial condition of the Authority Plan, the Authority's employer and member contribution rates, and other information required by the Governmental Accounting Standards Board.

San Diego County Regional Airport Authority – Membership Total		
Valuation as of:	June 30, 2013	June 30, 2012
Active Counts	347	341
Terminated Vested	79	76
Disabled	2	1
Retirees	45	41
Beneficiaries	4	4
Total Authority Members	477	463
Active Member Payroll	\$ 26,380,323	\$ 24,839,570
Average Pay Per Active Member	\$ 76,024	\$ 72,843
Benefits in Pay Status	\$ 2,013,899	\$ 1,716,385
Average Benefit	\$ 39,488	\$ 37,313

Source: SDCERS – Airport Authority Actuarial Valuation as of June 30, 2013

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, medium, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Medium - Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for corrective action by management to mitigate risks with the process being audited.

AUDIT RESULTS

Based on detailed testing of twenty-five individuals from two pay periods, control strengths were identified, as well as issues that should be addressed to further strengthen controls.

Control Strengths Identified

Listed below are the control strengths identified:

- Pay rates reported to SDCERS agreed to publicly available pay schedules for PEPRAs members tested.
- The following elements were correctly reported to SDCERS for all tested members; date of birth, date of hire, date of membership, classification of employees, gender, date of termination, employment status, plan code, service period and member entry age.
- Pensionable compensation cap for tested members was observed.
- Membership in the Plan was correctly not established for temporary employees tested.
- Membership in the Plan was correctly not established for independent contractors tested.

Below are issues that were identified and should be addressed to further strengthen controls over the Authority's census data.

Finding #1: Pay codes that are excluded from "Base Compensation" as defined in the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008 are being reported to SDCERS as pensionable salary.

Priority Rating: High

Base Compensation as defined in Exhibit A to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008 is defined as compensation, identified by pay codes, as either included or excluded from pensionable earnings. All other compensation is specifically excluded from the definition of Base Compensation, unless the Airport Authority's Board, in its sole discretion, amends such definition to include any additional items, in which case such additional items shall be included in the definition of Base Compensation only on a prospective basis. The Airport Authority's Board, at its sole discretion, may delete any items from the definition of Base Compensation at any time. The Plan was effective July 1, 2007.

Finding #1 (Continued): Pay codes that are excluded from “Base Compensation” as defined in the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008 are being reported to SDCERS as pensionable salary.

Priority Rating: High

The Authority’s payroll system (E1) was implemented in 2006. At that time pay codes Holiday, Holiday Pay on Scheduled Day off, Holiday Premium Pay, and Unclassified Leave (Other Leave) were included in the definition of Base Compensation. The Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008, included in Base Compensation pay codes Holiday and Other Leave but excluded Holiday Worked and YE Oth Leave. As early as February 2008, Authority management identified that pay codes Holiday Worked and YE Oth Leave were excluded from the definition of Base Compensation. Management believed the Plan should have included the pay codes Holiday Worked and YE Oth Leave in Base Compensation. Management continued to include these pay codes in Base Compensation and reported these amounts to SDCERS as pensionable salary. The amount of salaries and wages reported as pay codes Holiday Worked and YE Oth Leave, and reported to SDCERS as Base Compensation, for the period from June 23, 2011 through June 19, 2013 is detailed below:

Pay Code	Total Reported
105- Holiday Worked	\$ 362,307.70
521-YE Oth Leave	17,276.11
Total	<u>\$ 379,583.81</u>

Employee and employer contributions are rates established by SDCERS, based on the advice of the Actuary, multiplied by the member’s Base Compensation. The Authority’s weighted contribution rates for June 30, 2012 and 2013 was 14.54% and 10.91% respectively. Member contribution rates vary by age at time of entrance into the Plan. A portion of member contributions may be offset by the Authority.

Recommendation #1: Airport Authority management should establish procedures to ensure all pay codes reported to SDCERS are consistent with Board adopted definitions of Base Compensation. In addition, the Airport Authority Board should determine if the amounts reported as Base Compensation to SDCERS are correct. If not, Airport Authority management should determine the number of individuals affected, for all Plan years, and communicate to SDCERS the Member accounts required to be corrected.

Finding #2: The Authority is incorrectly calculating compensation to employees that receive both a night shift premium and a bilingual shift differential.

Priority Rating: Low

The Authority's Memorandum of Agreement's include a provision for employees to receive a night shift premium in the amount of \$1.50 per hour when at least 50% of an employee's shift falls between the hours of 6:00 p.m. and 8:00 a.m.

The Authority's Memorandum of Agreement's state that, "Subject to the limitations and prerequisites for eligibility set forth below, any full-time qualifying employee, who has been determined by the Appointing Authority or designee to be eligible for bilingual compensation, shall receive compensation at the rate of 2.5% above the employee's unadjusted base salary". In addition, the Memorandum of Agreement's state, "Salary or compensation specified as biweekly, hourly, per diem, or per unit basis shall be paid biweekly. Cash payment for overtime, standby premium pay, and night premium pay is in addition to the basic salary for a position and shall be paid biweekly in the same manner as the base salary".

The Authority is calculating employee's compensation equal to: (unadjusted salary + night shift premium) x bilingual shift differential. The night shift premium is in addition to the unadjusted salary and is not eligible for the bilingual shift differential. This results in an overpayment to the employee equal to the amount of the night shift premium multiplied by the bilingual shift differential.

One employee was overpaid by \$3.45 for one pay period tested. The overpayment of \$3.45 was reported to SDCERS as Base Compensation.

Recommendation #2: Airport Authority management should establish procedures to ensure the calculation of compensation is consistent with the Memorandum of Agreement's. In addition, Airport Authority Board should determine if the overpayment to employees receiving both a night shift premium and bilingual shift differential will be repaid and if the overpayment is correctly included in Base Compensation. If the overpayment was incorrectly included in Base Compensation, Airport Authority management should determine the number of individuals affected, for all Plan years, and communicate to SDCERS the Member accounts required to be corrected.

Finding #3: Authority paid member contributions in excess of documented offset amounts are being reported inconsistent with current Plan documentation.

Finding #4: The Airport Authority has not provided direction to SDCERS on how to determine retirement benefits for Authority paid member contributions in excess of offset amounts.

Priority Rating: High

All full-time employees of the Authority must participate in the Plan. As a member of the Plan, employees are required to make contributions to SDCERS based on actuarial calculations. Some of the contributions may be “offset” by the Authority. Offset amounts are dependent on a member’s classification. The Authority has both represented and unrepresented employees. Memorandum of Agreement’s for represented employees establish compensation and any employer offset amounts. Unrepresented employees are not covered by Memorandum of Agreement’s. Therefore, any offset amounts paid by the Authority must be evidenced by contemporaneous written documentation and authorized by a person duly authorized to take such action.

Internal Revenue Service Revenue Ruling 2006-43 states “A contribution to a qualified plan established by a State government will not be treated as picked up by the employing unit under §414(h)(2) unless the employing unit:

- (1) Specifies that the contributions, although designated as employee contributions, are being paid by the employer. For this purpose, the employing unit must take formal action to provide that the contributions on behalf of a specific class of employees of the employing unit, although designated as employee contributions, will be paid by the employing unit in lieu of employee contributions. A person duly authorized to take such action with respect to the employing unit must take such action. The action must apply only prospectively and be evidenced by contemporaneous written documentation (e.g., minutes of a meeting, a resolution, or an ordinance).”

For any amounts paid by the Authority for member contributions, in excess of offset amounts, SDCERS must have Plan documentation to determine member benefits. Internal Revenue Service Code Section 1.401-(b)(1)(i) provides that a pension plan, “is a plan established and maintained by an employer primarily to provide systematically for the payment of definitely determinable benefits to employees over a period of years, usually for life, after retirement.”

Public Utilities Code Section 170084 provides that employees who transferred from the San Diego Unified Port District to the Authority shall not suffer any loss of wages, health and welfare, seniority, retirement benefits or contributions made to the retirement plans, or contributions made to the retirement plans, or any other term or condition of employment as a result of the enactment of this division.

Section 26 of the San Diego Unified Port District Salary Ordinance of 2002 – 2003, adopted by the San Diego Unified Port District Board on September 17, 2002, established offset rates of 7% for all members except for members in Group A1- Principal Administrators, unclassified, who receive an offset of 8.5%.

Resolution 03-003 approved the Authority to pay employee contributions for the President/CEO and Vice Presidents.

Finding #3 (Continued): Authority paid member contributions in excess of documented offset amounts are being reported inconsistent with current Plan documentation.

Finding #4 (Continued): The Airport Authority has not provided direction to SDCERS on how to determine retirement benefits for Authority paid member contributions in excess of offset amounts.

Priority Rating: High

Resolution 2004-0033 approved Policy Section No. 3.01, which states, “The Executive Director is responsible for administering salaries and benefits for individual officers and employees appointed by the Executive Director.” In addition, it authorizes the Executive Director to establish personnel policies and procedures governing all personnel and employment matters subject to the provisions set forth above, and administer such personnel policies and procedures and Board-approved salary and benefit plans.

One unrepresented employee hired after the establishment of the Authority was receiving an authorized offset of 8.5%. This employee is not appointed by the Executive Director. In addition to the 8.5% offset, the Authority paid, for this employee, all member contribution amounts in excess of the 8.5% offset. There was no written documentation authorizing this payment.

One unrepresented employee hired after the establishment of the Authority was receiving an authorized offset of 8.5%. In addition to the 8.5% offset, the Authority paid, for this employee, all member contribution amounts in excess of the 8.5% offset.

During the audit period, the Authority paid member contributions in excess of the offset amounts for the two employees tested was \$18,791.38. There were six employees the Authority paid all members contributions amounts in excess of the offset during the period under audit.

Member contributions paid by the Authority in excess of documented offset amounts are being reported by the Authority to SDCERS as member contributions. This is inconsistent with current Plan documentation which provide for all employee contributions paid and contributed by the Authority as an offset to be credited to the Authority’s account and not to the account of any employee. Amounts reported to SDCERS as member contributions are eligible to be refunded to the member. The Plan currently provides that member contributions paid by the employer and related accumulated interest are not credited to a member’s account and are not refunded to the members at termination; only a member’s actual contributions made, plus credited interest, are refunded to a member at termination of employment, upon the member’s request. The Authority has not provided Plan documentation to enable SDCERS to determine retirement benefits for the amounts paid in excess of the documented offset.

Recommendation #3: Authority paid member contributions in excess of documented offset amounts should be reported to SDCERS consistent with Plan documentation. Airport Authority management should determine the number of individuals affected, if any, for all Plan years, and communicate to SDCERS the member accounts required to be corrected.

Recommendation #4: The Airport Authority Board should provide SDCERS Plan documentation direction on determining member benefits for Authority paid member contributions in excess of offset amounts.

Finding #5: The Authority is incorrectly calculating member contributions for members that receive two pay checks in the same pay period.

Priority Rating: Medium

The Plan states, “The Administrator, based upon the advice of the Actuary, will periodically adopt by Board Rule the rate of contribution of each Member, according to such Member’s age at the time of entry into this Plan, in compliance with federal law.” The actuarial rates contain one amount for Base Compensation earned on the first \$400 a month and a different rate for Base Compensation earned over \$400 per month. The member contribution rate varies by age at time of entrance into the system. However, the member contribution rate on the first \$400 per month is always less than the member contribution rate on the amount over \$400 per month. The table below details the member contribution rates for fiscal years ending June 30, 2012, and 2013.

Member Contribution Rates			
2012		2013	
First \$400/Month	Over \$400/Month	First \$400/Month	Over \$400/Month
5.52% - 8.87%	8.28% - 13.31%	5.52% - 8.87%	8.28% - 13.31%

The Authority’s payroll software (E1) automatically calculates member contribution amounts due to SDCERS based on the actuarial amounts. If an employee receives a second paycheck in the same payroll period E1 automatically subjects this paycheck to the under \$400 per month and over \$400 per month calculations. This has the effect of underpaying SDCERS by the difference in the two member contribution rates.

One employee selected for testing had two paychecks in the same pay period. The amount of the underpayment to SDCERS for this Member was \$5.97.

Recommendation #5: Airport Authority management should consider making corrections to E1 to ensure any secondary paycheck, already subjected to the under \$400 per month calculation, uses the member contribution rate for over \$400 per month calculation. In addition, Authority management should determine the number of individuals affected, for all Plan years, and communicate to SDCERS the Member accounts required to be corrected.

Finding #6: The Authority is remitting the offset amount when a member’s required contribution is less than the Authority’s approved offset amounts.

Priority Rating: Low

All full-time employees must participate in the Plan. As a member of the Plan, employees are required to make contributions to SDCERS based on actuarial calculations. Some of the contributions may be “offset” by the Authority.

Member required contribution rates contain one amount for Base Compensation earned on the first \$400 a month and a different rate for Base Compensation earned over \$400 per month. The member contribution rate varies by age at time of entrance into the system. The table below details the member contribution rates for fiscal years ending June 30, 2012, and 2013.

Member Contribution Rates			
2012		2013	
First \$400/Month	Over \$400/Month	First \$400/Month	Over \$400/Month
5.52% - 8.87%	8.28% - 13.31%	5.52% - 8.87%	8.28% - 13.31%

One employee selected for testing was receiving an offset of 8.5%. The member’s contribution required to be paid to SDCERS was less than the offset amount. The Authority remitted to SDCERS the entire 8.5%. The amount paid by the Authority to SDCERS in excess of the member’s actuarial required contribution for the pay period tested was \$5.75. This amount does not get credited to the member’s account, but does get allocated as Authority contributions.

Recommendation #6: Authority management should establish procedures to ensure the Authority remit only the member required contributions when the member required contributions are less than the approved offset amounts.



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

August 27, 2014

Lee Parravano, Internal Auditor
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Mr. Parravano:

SDCERS has presented its audit report for the period July 1, 2011 through June 30, 2013 regarding the San Diego County Regional Airport Authority (SDCRAA) Amended and Restated Retirement Plan that SDCERS has administered since 2003. The report concluded that, in general, the San Diego County Regional Airport Authority (SDCRAA) has strong controls and reporting practices in place with regard to the plan. However, the audit did identify opportunities for improved controls in several areas. The report made six recommendations to improve controls and reporting and address potential issues. Enclosed please find the SDCRAA's comments in response to the recommendations contained in the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kurt Gering".

Kurt Gering
Director, Talent, Culture & Capability



SAN DIEGO
INTERNATIONAL
AIRPORT

Finding #1:

Pay codes that are excluded from “Base Compensation” as defined in the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008 are being reported to SDCERS as pensionable salary.

Recommendation #1:

Airport Authority management should establish procedures to ensure all pay codes reported to SDCERS as are consistent with Board adopted definitions of Base Compensation. In addition, the Airport Authority Board should determine if the amounts reported as Base Compensation to SDCERS are correct. If not, Airport Authority Management should determine the number of individuals affected, for all Plan years, and communicate to SDCERS the Member accounts required to be corrected.

Response:

SDCRAA management accepts this finding. From inception of the plan through to 2008, Exhibit A accurately reflected and memorialized the intent and actual practice. An administrative error during a 2008 revision to the plan incorrectly identified pay codes 105 – Holiday Worked and 521 – YE Other Leave as non-pensionable earnings. These types of pay, although listed using a different terminology, were accurately identified as pensionable in the previous version of Exhibit A. The proposed amendment of Exhibit A, being presented to SDCRAA Board on September 4, 2014 will be retroactive to the 2008 amendment (SDCRAA Board Resolution 2008-0078) to reflect pay codes 105 – Holiday Worked and 521 – YE Other Leave as pensionable earnings, consistent with the original Exhibit A, prior practice and intent of management.

Finding #2:

The Airport Authority is incorrectly calculating compensation to employees that receive both a night shift premium and a bilingual shift differential.

Recommendation #2:

Airport Authority management should establish procedures to ensure the calculation of compensation is consistent with the Memorandum of Agreement’s. In addition, the Airport Authority Board should determine if the overpayment to the employees receiving both a night shift premium and bilingual shift differential will be repaid and if the overpayment is correctly included in Base Compensation. If the overpayment was incorrectly included in Base Compensation, Airport Authority management should determine the number of individuals affected, for all plan years, and communicate to SDCERS the member accounts required to be corrected.

Response:

SDCRAA management agrees with this finding. The Memorandum of Agreement was not properly interpreted, which resulted in the miscalculation and over payment of wages when an employee was eligible for both bilingual differential and night shift pay. The approximate amount of the overpayment was \$31 to \$40 for eight or nine employees per year. Modifications to the system programming are



being made to correct the calculation and are expected to be implemented no later than September 30, 2014. Management will not seek repayment due to the negligible impact on retirement plan funding level; no change in employee retirement benefit calculation; the de minimus amount of the overpayments and the administrative costs to correct.

Finding #3 & #4:

Authority paid member contributions in excess of documented offset amounts are being reported inconsistent with current plan documentation.

The Airport Authority has not provided direction to SDCERS on how to determine retirement benefits for Authority paid member contributions in excess of offset amounts.

Recommendation #3 & #4:

Authority paid member contributions in excess of documented offset amounts should be reported to SDCERS consistent with plan documentation. Airport Authority management should determine the number of individuals affected, if any, for all Plan years, and communicate to SDCERS the member accounts required to be corrected.

The Airport Authority Board should provide SDCERS Plan documentation direction on determining member benefits for Authority paid member contributions in excess of offset amounts.

Response #3 & #4:

SDCRAA recognizes the contributions in excess of the offset amounts are being reported as member contributions, but does not agree that a correction to any member accounts is required. SDCRAA management has received advice from outside counsel that the practice and procedures in effect since inception of the plan are allowed provided the pick-up and offset procedures are more fully memorialized in plan documents and other written substantiation to eliminate any uncertainty regarding determining member benefits. SDCERS tax counsel, Ice Miller, is providing appropriate language to be used for a proposed amendment to the plan and/or resolution to be adopted by the SDCRAA Board to further substantiate the offset procedures.

Finding #5:

The Authority is incorrectly calculating member contributions for members that receive two paychecks in the same period.

Recommendation #5:

Airport Authority management should consider making corrections to E1 to ensure any secondary paycheck, already subjected to the under \$400 per month calculation, uses the member contribution rate for the over \$400 per month calculation. In addition, Authority management should determine the number of individuals affected, for all Plan years, and communicate to SDCERS the Member accounts required to be corrected.

Response:

SDCRAA management agrees with this finding. Corrective action has been implemented to ensure that only the appropriate rate is used when calculating members' contributions on second checks in the same pay period. Each pay period one or two second checks are processed on average, for a total of approximately 50 individuals per year. The average underpayment of the employee contribution in each second check is between \$6.00 and \$7.00, for an estimated total of less than \$400 underpayment per year total for all affected employees. Management does not intend to correct the past instances due to the de minimus amount of the underpayments; negligible impact on retirement plan funding level; and the administrative costs to correct.

Finding #6:

The Authority is remitting the offset amount when the member's required contribution is less than the Authority's approved offset amount.

Recommendation #6:

Authority management should establish procedures to ensure the Authority remit only the member required contributions when the member required contributions are less than the approved offset amounts.

Response:

SDCRAA management agrees with this finding and has corrected the formula for computing member contributions to ensure that only the member required contribution less the offset is remitted. The excess contribution of approximately \$150 per year does not require any adjustment because offset contributions are contributed to the employer's contribution. Any overpayments reduce SDCRAA's annual required contributions.





**SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
STAFF REPORT
AUDIT DIVISION**

DATE: August 27, 2014
TO: AUDIT COMMITTEE
FROM: Lee Parravano, Internal Auditor
SUBJECT: Plan Sponsor Contribution & Reporting Audit - San Diego County
Regional Airport Authority

Enclosed is the Plan Sponsor Contribution & Reporting Audit for the period July 1, 2011 through June 30, 2013. Overall, the San Diego County Regional Airport Authority (SDCRAA) has procedures in place for the census data and control strengths were identified during the audit. Opportunities for improvement were also identified that should be addressed to further strengthen controls.

Based on this review, six recommendations have been made to improve controls related to the census data, and SDCRAA management agrees with five of the recommendations. Management's written response can be found after page 11 of the audit report.

I would like to thank SDCRAA and SDCERS staff for all of the assistance and cooperation provided during this audit. Everyone involved was very helpful and willing to provide the information needed. Their valuable time and efforts spent on this audit is greatly appreciated.