



**SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
M E M O R A N D U M**

DATE: June 22, 2016

TO: SDCERS Audit Committee

CC: Mark Hovey, SDCERS Chief Executive Officer
Johnny Tran, SDCERS Chief Compliance Officer/General Counsel
Marcelle Rossman, SDCERS Chief Benefits Officer
Michelle Corbin, San Diego Unified Port District
Robert Monson, San Diego Unified Port District
Karen Porteous, San Diego Unified Port District

FROM: Lee Parravano, SDCERS Internal Auditor

SUBJECT: Plan Sponsor Contribution & Reporting Audit – San Diego Unified Port District for the period July 1, 2014 through June 30, 2015

Enclosed is the Plan Sponsor Contribution & Reporting Audit for the period July 1, 2014 through June 30, 2015. Overall, the San Diego Unified Port District (District) 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 audit, there were sixteen total recommendations. Thirteen recommendations pertained to the District, two pertained to SDCERS management, and one pertained to SDCERS Board of Administration. District management responses to the thirteen recommendations will be provided to the Audit Committee when received. SDCERS management agrees with both recommendation made. The recommendation to SDCERS Board of Administration did not require a written response to this report. Details can be found in the Audit Results section of this report. Management's written response can be found after page 23 of the audit report.

I would like to thank District 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.



Internal Audit Report

Plan Sponsor Contribution & Reporting Audit

**San Diego Unified Port District for the Period
July 1, 2014 through June 30, 2015**

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
AUDIT OBJECTIVES, SCOPE & METHODOLOGY	3
Audit Objectives	3
Audit Scope & Methodology	3
INTRODUCTION	4
Background.....	4
Priority Rating Process	4
AUDIT RESULTS	5
Finding #1: The District’s payroll system calculates a Member’s Base Compensation equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. The Plan however is ambiguous how to report Base Compensation to SDCERS when the hours used to calculate Base Compensation are less than the Member’s Standard Hours.	5
Finding #2: The District did not remit the correct amount due to SDCERS for the pay periods tested.....	7
Finding #3: The District is not adhering to California Government Code Section 7522.34 for pensionable compensation of a new member of a public retirement system.....	8
Finding #4: The District is incorrectly reporting Member information to SDCERS for Members that have FMLA time or unpaid absences.	11
Finding #5: The District is using two different regular rates of pay when calculating employee compensation.....	14
Finding #6: The Plan contains a provision for the District to pay COL and Surviving Spouse or Domestic Partner Contributions on behalf of a non-PEPRA Miscellaneous Member and to credit those payments to the individual Member’s contribution account. The COL and Surviving Spouse or Domestic Partner Contributions, however, are based on a Member’s Normal Contribution rate. Because non-PEPRA Members currently do not have a Normal Contribution rate there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.	16
Finding #7: The District incorrectly calculated compensation paid to one employee when the employee received a raise in the middle of the pay period.....	18
Finding #8: The District is incorrectly calculating compensation to employees that receive a night premium differential or out of class differential and a bilingual shift differential on the same pay period.....	19
INHERENT LIMITATIONS	21
CONCLUSION	21
APPENDIX I	22

EXECUTIVE SUMMARY

The San Diego Unified Port District (District) 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, 2014 through June 30, 2015 include:

- The following elements were correctly reported to SDCERS for all randomly tested members; date of birth, date of hire, date of membership, classification of employees, gender, date of termination, plan code, service period and member entry age.
- Pensionable compensation cap for tested members was observed.
- Membership in the Amended and Restated San Diego Unified Port District Retirement Plan and Trust (Plan) was correctly established or not established for all tested employees.

Census data was correctly transmitted to SDCERS with 97.1% accuracy¹.

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

Base Compensation

The District's payroll system calculates a Member's pensionable pay (Base Compensation) equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. The Plan however is ambiguous how to report Base Compensation to SDCERS when the hours used to calculate Base Compensation are less than the Member's Standard Hours.

Payment to SDCERS

During two pay periods selected for testing the amount remitted to SDCERS did not match the amount due. The District overpaid SDCERS \$3,814.32 for the two pay periods.

Public Employees' Pension Reform Act (PEPRA)

The District is violating certain terms of the California Public Employees' Pension Reform Act of 2013 (PEPRA) by including premium pay items into the calculation of Base Compensation for PEPRA Members. Additionally the District is reporting Base Compensation at a rate that exceeds a publicly available pay schedule as required in California Government Code 7522.34 for PEPRA Members.

Leave

The District is incorrectly reporting Member information to SDCERS for Members that have Family and Medical Leave Act (FMLA) time, unpaid absences, or a combination of compensation for services rendered and unpaid leave. During one Member's Leave without Pay, that took place for approximately 27 of 34 months, the District incorrectly reported Base Compensation for this Member equal to Standard Hours multiplied by Standard Rate. This resulted in SDCERS incorrectly granting Service Credit for all 27 months.

¹ Percentage based on the randomly selected twenty-five employee records, covering the two pay periods – December 26, 2014 to January 8, 2015 and March 6, 2015 to March 19, 2015.

EXECUTIVE SUMMARY (Continued)

Regular Rate of Pay

The District is using two different “regular rates” of pay when calculating employee compensation. Regular rate is not a defined term in the Memorandum of Understandings (MOUs), Salary Ordinance, or Personnel Rules and Regulations; however, the overtime rate is different than the rate used for Holiday Pay and Call Back, even though the MOU states they are all paid at one and one-half times an employee’s regular rate.

Cost of Living and Surviving Spouse or Domestic Partner Contributions

The Plan contains a provision for the District to pay Cost of Living (COL) and Surviving Spouse or Domestic Partner Contributions on behalf of a non-PEPRA Miscellaneous Member and to credit those payments to the individual Member’s contribution account. The COL and Surviving Spouse or Domestic Partner Contributions, however, are based on a Member’s Normal Contribution rate. Non-PEPRA Members currently do not have a Normal Contribution rate therefore there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.

Raise Mid Pay Period

For one Member tested, the employee received a pay raise in the middle of a pay period. This employee, however, was compensated at the new rate for all hours worked in the pay period. This resulted in the employee incorrectly being overpaid by \$106.80. The \$106.80 was reported to SDCERS as Base Compensation and retirement contributions were made on this amount.

Night Premium or Out of Class Differential and Bilingual Shift Premium

District employees are eligible to receive a night shift premium in the amount of \$1.50 per hour for non-sworn employees and \$1.60 per hour for sworn officers when assigned to a night shift. District employees are also eligible to receive out-of-class premium calculated at five percent (5%) higher than the rate for which the employee is regularly assigned. Qualifying bilingual employees receive two and one-half percent (2.5%) above the employee base pay. The District is incorrectly subjecting the night shift premium and out-of-class assignment pay to the bilingual pay calculation. The night shift premium and out-of-class premium are not eligible for the bilingual shift differential.

Based on this audit, there were sixteen total recommendations. Thirteen recommendations pertained to the District, two pertained to SDCERS management, and one pertained to SDCERS Board of Administration. A District response to the thirteen recommendations is anticipated by the end of June 2016. SDCERS management agrees with both recommendation made. The recommendation to SDCERS Board of Administration did not require a written response to this report. 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 District 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 District 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, 2014 through June 30, 2015 by using the following methods:

- Reviewed the Plan, Memorandum of Understandings (MOUs) between the District and the employee Unions, Salary Ordinance, Personnel Rules & Regulations and the SDCERS Participation and Administration Agreement.
- Reviewed policies and procedures utilized by staff to process the District'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 26, 2014 to January 8, 2015 and March 6, 2015 to March 19, 2015. For each employee selected:
 - Traced Base Compensation from the transmittal file to the payroll register.
 - Traced pay rates from the payroll register to employee 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 publically available pay rates and pensionable compensation limits for PEPPRA Members.
- For payroll periods December 26, 2014 to January 8, 2015 and March 6, 2015 to March 19, 2015 determine if FMLA or leave pay codes have been utilized and if reporting to SDCERS is consistent with the Plan.
- For payroll periods December 26, 2014 to January 8, 2015 and March 6, 2015 to March 19, 2015 determine if Base Compensation for PEPPRA Members has been reported to SDCERS consistent with the Plan.
- For non-PEPPRA Miscellaneous Members determine if COL and Surviving Spouse or Domestic Partner Contributions are reported to SDCERS consistent with the Plan.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. 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 Unified Port District management and staff for their assistance and numerous courtesies extended during the completion of this audit.

INTRODUCTION

BACKGROUND

SDCERS administers three separate defined benefit pension plans for the District, the City of San Diego, and the San Diego County Regional Airport Authority. SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants. The District has contracted with SDCERS to administer retirement benefits for District employees and beneficiaries since 1963.

Each pay period the District 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, IRIS. 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 Plan, the past and expected trends in the financial condition of the Plan, the District's employer and member contribution rates, and other information required by the Governmental Accounting Standards Board.

San Diego County Unified Port District – Membership Total		
Valuation as of:	June 30, 2015	June 30, 2014
Active Counts	377	385
Terminated Vested	284	285
Disabled	62	64
Retirees	392	375
Beneficiaries	82	79
Total District Members	1,197	1,188
Active Member Payroll	\$ 33,512,411	\$ 33,272,693
Average Pay Per Active Member	\$ 88,892	\$ 86,423
Benefits in Pay Status	\$ 22,743,044	\$ 21,033,504
Average Benefit	\$ 42,431	\$ 40,605

Source: SDCERS – Unified Port District Actuarial Valuation as of June 30, 2015

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, 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:

- The following elements were correctly reported to SDCERS for all randomly tested members; date of birth, date of hire, date of membership, classification of employees, gender, date of termination, plan code, service period and member entry age.
- Pensionable compensation cap for tested members was observed.
- Membership in the District's Plan was correctly established or not established for all tested employees.

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

Finding #1: The District's payroll system calculates a Member's Base Compensation equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. The Plan however is ambiguous how to report Base Compensation to SDCERS when the hours used to calculate Base Compensation are less than the Member's Standard Hours.

Priority Rating: High

Base Compensation as defined in the Plan includes pay, plus certain premium pay items and differentials².

Amendment Number 5³ grants 80 hours of Service Credit if full contributions are made to SDCERS. The term "full contribution" is not defined in the Plan; however, full contributions has been interpreted as contributions that would have been made to SDCERS had the employee worked 80 hours⁴ (Standard Hours) multiplied by the employee's rate of pay (Standard Rate).

The District's payroll system (SAP) has been configured to calculate Base Compensation based on pensionable and non-pensionable wage types. During a pay period when a Member has a combination of compensation for services rendered and unpaid leave SAP will calculate a Member's Base Compensation equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. Standard Hours are configured in SAP as 80 hours⁵ per pay period. The Standard Rate is configured in SAP to include unadjusted pay plus certain premium pay items and differentials.

² See Appendix I for the complete definition of Base Compensation.

³ See Appendix I for additional information on Amendment Number 5.

⁴ For a full-time employee.

⁵ For a full-time employee.

Finding #1 (Continued): The District's payroll system calculates a Member's Base Compensation equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. The Plan however is ambiguous how to report Base Compensation to SDCERS when the hours used to calculate Base Compensation are less than the Member's Standard Hours.

Priority Rating: High

For three employees selected for testing, the Base Compensation actually received was in excess of their Standard Hours x Standard Rate. The hours used to calculate their respective Base Compensation amounts, however, were less than their Standard Hours. The example below illustrates this situation.

Wage Type	Hours	Hours Reported as Base Compensation	Extended Pay	Dollar Amount Reported as Base Compensation	Standard Hours (80) x Standard Rate (\$47.83)
Regular Time	49	49	\$2,344.00	\$2,344.00	
Overtime	14		1,165.00		
Holiday Premium	20	20	1,435.00	1,435.00	
Holiday Pay	8	8	383.00	383.00	
Educational Incentive			173.00	173.00	
Call Back	3		215.00		
Total	94	77	\$5,715.00	\$4,335.00	\$3,827.00

The employee, in the example above was granted 80 hours of Service Credit; however, his Base Compensation and related retirement contributions to SDCERS were only calculated on 77 hours. The Plan is ambiguous as to handle this situation.

Recommendation #1: The District should clarify how to calculate Base Compensation for a Member when the hours used to calculate Base Compensation are less than the Member's Standard Hours.

Finding #2: The District did not remit the correct amount due to SDCERS for the pay periods tested.

Priority Rating: High

Each pay period the District provides SDCERS a transmittal file that contains census data on District Members. The transmittal file currently is processed in IRIS by SDCERS staff. Based on information contained in the transmittal file, IRIS generates an amount that should be paid by the District. Processing transmittal files will ultimately become a responsibility of District staff; however, SDCERS must implement necessary adjustments to the process prior to transferring this responsibility.

During the two pay periods selected for testing the District remitted an amount that was different than the amount calculated by IRIS. The table below contains the details for the pay periods tested.

Pay Period Ending	Amount Due	Amount paid by the District	Overpaid / (Underpaid)
January 8, 2015	\$ 150,623.46	\$ 151,981.97	\$ 1,358.51
March 19, 2015	\$ 144,474.51	\$ 146,930.32	\$ 2,455.81
Totals	\$ 295,097.97	\$ 298,912.29	\$ 3,814.32

Currently, the District remits payments based on spreadsheets maintained and completed by District staff because processing the transmittal files in IRIS is still a responsibility of SDCERS staff as noted above. The spreadsheets for the pay periods above contained information that did not match information in the transmittal file. Variances between the amount due and paid by District staff are tracked by SDCERS' Finance Division.

Recommendation #2: The District should remit to SDCERS the amounts required to be paid as calculated by IRIS.

Finding #3: The District is not adhering to California Government Code Section 7522.34 for pensionable compensation of a new member of a public retirement system.

Priority Rating: High

On January 1, 2013 PEPRA became effective which impacts all District Members. PEPRA also created a new tier of membership. Members of this new tier are commonly referred to as PEPRA Members. In general, a PEPRA Member is a Member who first became a Member of SDCERS or a reciprocal system on or after January 1, 2013. PEPRA limits what wage types can be considered when calculating a PEPRA Member's Base Compensation. In order for a wage type to be included in Base Compensation it must meet the following four criteria as provided in Government Code Section 7522.34(a):

- Pay is part of the normal monthly rate of pay or base pay.
- Pay is paid in cash to similarly situated members of the same group or class of employment.
- Pay is for services rendered during normal working hours.
- Pay is paid pursuant to publicly available pay schedules.

California Government Code Section 7522.34(c) provides what cannot be included in Base Compensation for PEPRA Members. For example, Base Compensation cannot include monies paid to PEPRA Members for bonuses, uniform allowance, overtime, reimbursement for housing and vehicles, any ad hoc or one-time payments, payment made for additional services outside of normal working hours and any other form of compensation a public retirement board determines should not be pensionable compensation.

One PEPRA Member tested received the following pay types:

Wage Type	Hours	Pay	Pay Per Hour	Reported as Base Compensation
Regular	63.75	\$2,166.86	\$33.99	\$2,166.86
Overtime	3	167.94	55.98	-
Holiday Premium	13.25	675.62	50.99	675.62
Court Time Off Duty	3	152.97	50.99	152.97
Total	83	\$3,163.39		\$2,995.45

For Holiday Premium the Salary Ordinance states, "Any full-time non-exempt employee shall, in addition to the employee's regular compensation for hours actually worked on a holiday, be entitled to compensation at one and one-half (1 ½) times their regular rate of pay for the number of hours actually worked." For Court Time Off Duty the MOU states, "The District agrees to compensate employees at time and one half the regular rate for all off duty time spent in court, time spent with District Attorney in preparation for court, and time spent transporting evidence to and from court." Further, for Court Time Off Duty, the MOU states, "The District agrees to compensate each employee a minimum of three (3) hours at one and one-half times the regular rate for off-duty court time for each court appearance requested by the court in the same day."

Finding #3 (Continued): The District is not adhering to California Government Code Section 7522.34 for pensionable compensation of a new member of a public retirement system.

Priority Rating: High

Base Compensation as defined in the Plan includes pay, plus certain premium pay items and differentials.⁶ Currently the District's Salary Ordinance does not include a complete listing of wage types that are included / excluded from Base Compensation. On January 18, 2013 an action item to Adopt New Board Rule 5.60 (Pensionable Compensation for Contracting Public Agencies) was brought before SDCERS Board of Administration. The determination of what is included as Base Compensation under PEPRAs is a Board determination and is not subject to plan sponsor discretion. The Board's determination must be applied consistently to all plan sponsors covered by PEPRAs.⁷ The Board of Administration made a motion to continue the January 18, 2013 action item to Adopt New Board Rule 5.60 to a later date; however, no subsequent action has been taken.

The District is violating terms PEPRAs by including premium pay items into the calculation of Base Compensation. Both Holiday Premium and Court Duty Time Off Duty are paid one and one-half times the employee's normal rate of pay and therefore is not part of the "normal monthly rate of pay or base pay" as prescribed in California Government Code Section 7522.34. Court Time Off Duty is pay for services rendered outside of normal working hours and is prohibited from inclusion in Base Compensation under California Government Code Section 7522.34. Additionally, Holiday Premium and Court Duty Time Off are paid at a rate that exceeds a publicly available pay schedule as required in California Government Code Section 7522.34.

It is also SDCERS General Counsel's opinion that inclusion of both Holiday Premium and Court Duty Time Off Duty as Base Compensation appears to violate California Government Code Section 7522.34. Additionally, SDCERS General Counsel will be recommending the Board review all wage types for the Plan Sponsors that are subject to PEPRAs.

For the Member selected for testing, \$2,995.45 was reported to SDCERS as Base Compensation and retirement contributions were made on this amount. Under PEPRAs, the Member's Base Compensation should have been calculated at the employee's base pay of \$33.99 multiplied by the 80 hours worked totaling \$2,719.20. The difference of \$276.25 was incorrectly included in Base Compensation and retirement contributions were made on this amount.

As of February 2, 2016 there were fourteen Members, in IRIS, that were identified as District PEPRAs Members, three of which are no longer employed by the District.

⁶ See Appendix I for the complete definition of Base Compensation.

⁷ PEPRAs does not apply to the City of San Diego.

Finding #3 (Continued): The District is not adhering to California Government Code Section 7522.34 for pensionable compensation of a new member of a public retirement system.

Priority Rating: High

Recommendation 3a: The District should include in the Salary Ordinance a schedule of Wage Types that are included in the calculation of Base Compensation for both PEPRAs and non-PEPRA Members. This schedule should be provided to SDCERS on an annual, or other regular basis.

Recommendation 3b: SDCERS Board of Administration should annually, or on another periodic basis, review for compliance the wage types that are included in the calculation of Base Compensation for PEPRAs Members.

Recommendation 3c: District Management should ensure all PEPRAs Members are correctly reported to SDCERS in accordance with terms of the California Public Employees' Pension Reform Act of 2013.

Recommendation 3d: District Management should determine if any additional PEPRAs Member census data was incorrectly reported to SDCERS and communicate to SDCERS the Member accounts required to be corrected.

Recommendation 3e: The District's Salary Ordinance and MOUs should be updated to include the terms of the California Public Employees' Pension Reform Act of 2013.

Finding #4: The District is incorrectly reporting Member information to SDCERS for Members that have FMLA time or unpaid absences.

Priority Rating: High

Base Compensation as defined in the Plan includes pay, plus certain premium pay items and differentials.⁸

Amendment Number 5⁹ grants 80 hours of Service Credit if full contributions are made to SDCERS. The term “full contribution” is not defined in the Plan. Full contributions however, has been interpreted as contributions that would have been made to SDCERS had the employee worked 80 hours (Standard Hours)¹⁰ multiplied by the employee’s rate of pay (Standard Rate).

The District’s payroll system (SAP) has been configured to calculate Base Compensation based on pensionable and non-pensionable wage types. During a pay period when a Member has a combination of compensation for services rendered and unpaid leave SAP will calculate a Member’s Base Compensation equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. Standard Hours are configured in SAP as 80 hours per pay period. The Standard Rate is configured in SAP to include pay, certain premium pay items and differentials.

IRIS requires the District to classify the status of all employees on each pay period. The classifications and descriptions are listed below:

Classification	Description
Active	Member is actively working or on leave with pay and making contributions to SDCERS.
Purchasable Leave Without Pay	Member is on a Leave of Absence under FMLA. Member can purchase this time.
Non-Purchasable Leave Without Pay	Member is on a Leave of Absence that is other than FMLA or USERRA. Member cannot purchase this time.
Military	Member is on USERRA Military Leave. Member can purchase this time.

One Harbor Police Member selected for testing was on leave of absence for approximately 27¹¹ months in a 34 month period. The Member’s status during the leave of absence was reported to SDCERS as Purchasable Leave without Pay in the transmittal file.

The District’s Personnel Rules and Regulations Rule 10 titled General Provisions for leaves of absences determine when a Member is on Leave with Pay or Leave without Pay.

⁸ See Appendix I for the complete definition of Base Compensation.

⁹ See Appendix I for additional information on Amendment Number 5.

¹⁰ For a full-time employee.

¹¹ Member was paid a total of \$1,040.46 of Sick and Catastrophic Leave during this time period.

Finding #4 (Continued): The District is incorrectly reporting Member information to SDCERS for Members that have FMLA time or unpaid absences.

Priority Rating: High

During the Member's Leave without Pay the District paid this employee a \$375¹² per month educational incentive for obtaining an advanced P.O.S.T. Certificate, an annual uniform allowance of \$1,500¹³, and a one-time lump sum stipend of \$2,577.75. There is no provision in the Salary Ordinance, MOUs or Rules and Personnel Rules and Regulations to continue paying the P.O.S.T. Certificate, the uniform allowance or the stipend when an employee is on Leave without Pay. Absent a provision in the Salary Ordinance, MOUs, or Personnel Rules and Regulations, paying these items, during a time when an employee's status is classified as Leave without Pay, is contradictory to the term "Leave without Pay."

During this Member's entire Leave of Absence period the District reported Base Compensation to SDCERS for this Member equal to Standard Hours x Standard Rate plus the educational incentive, stipend, and uniform allowance when received. Retirement contributions were calculated and remitted to SDCERS based on that Base Compensation.

Amendment Number 5 grants service credit to a Member or Miscellaneous Member when service is rendered for compensation or when "some service was rendered for compensation." Because no service was rendered for approximately 27¹⁴ of 34 months, Base Compensation should not have been reported, and no retirement contributions should have been remitted to SDCERS during those periods.

During a pay period when a Member has a combination of compensation for services rendered and unpaid leave the Member should be reported to SDCERS as Active if full contributions are made to SDCERS.

One General Member selected for testing was paid a total of 80 hours in a pay period. The Member coded 17 hours as FMLA time. The District correctly reported to SDCERS the Member's Base Compensation and retirement contributions. However, because 17 hours were coded as FLMA time this Member's status was incorrectly reported to SDCERS as Purchasable Leave without Pay. This Member should have been transmitted to SDCERS with a status of Active because full contributions were made to SDCERS. IRIS generates a warning if retirement contributions are made by a Member and their status is coded as Purchasable Leave without Pay. SDCERS' staff must manually adjust this in IRIS. Additionally, IRIS indicates this member has Purchasable Leave without Pay in the Members employment history. For retirement purposes, this time should be recorded and displayed as Active.

¹² See Appendix I for additional information regarding Educational Incentives.

¹³ See Appendix I for additional information regarding Uniform Allowance.

¹⁴ ¹⁴ Member was paid a total of \$1,040.46 of Sick and Catastrophic Leave during this time period.

Finding #4 (Continued): The District is incorrectly reporting Member information to SDCERS for Members that have FMLA time or unpaid absences.

Priority Rating: High

Recommendation #4a: District Management should review the identified Harbor Police Member's personnel file and correct the information reported to SDCERS. Additionally, District management should determine if any additional Member census data was incorrectly reported to SDCERS and communicate to SDCERS the Member accounts required to be corrected for all Plan years.

Recommendation 4b: SDCERS management should correct all periods reported to SDCERS as Purchasable Leave without Pay to Active when a Member has Base Compensation and full retirement contributions.

Finding #5: The District is using two different regular rates of pay when calculating employee compensation.

Priority Rating: Medium

District employees document on their timecards the wage types worked during a pay period. The District's Salary Ordinance, MOUs, and Personnel Rules and Regulations contain information that is used to calculate employee compensation for each wage type.

When calculating employee compensation subject to overtime the MOU states, "Employees will be paid the overtime rate of one and one half times the regular rate of pay as provided for in the Salary Ordinance."

The Salary Ordinance states, "Eligibility for extra overtime is established and shall be allowed only in accordance with the Fair Labor Standards Act (FLSA) status unless otherwise required by law."

The Personnel Rules and Regulations state, "All time paid for annual leave, injury leave, court leave, military leave, and holidays shall be considered as pay status time. All pay status time shall count as time worked, except as further provided in the Salary Ordinance. Non-pay status shall not be considered for the purpose of overtime compensation."

FLSA requires that covered, nonexempt workers be paid not less than time and one-half the employee's regular rate for time worked over 40 hours in a workweek. FLSA defines what is included in an employee's regular rate for computing overtime pay and may differ from an employee's unadjusted pay. Overtime pay is not included in Base Compensation; therefore the calculation of overtime pay is outside of the scope of this audit.

There were four employees tested that received wage type Holiday Premium. For wage type Holiday Premium, the Salary Ordinance states, "Any full-time non-exempt employee shall, in addition to the employee's regular compensation for hours actually worked on a holiday, be entitled to compensation at one and one-half (1 ½) times their regular rate of pay for the number of hours actually worked." Holiday Premium is included in the definition of Base Compensation.

Two employees received wage type Call Back. The MOUs state Call Back time is paid at, "time and one-half his or her regular rate of pay." Call Back is not considered part of Base Compensation.

One employee received wage type WC Appt-Off Duty. The MOUs state, "Any employee on full pay status receiving medical treatment authorized by the DISTRICT for job related injuries/illness shall be compensated at his/her regular rate for any and all time spent for such treatment including travel to and from the medical facility." WC Appt-Off Duty is not considered part of Base Compensation.

Regular rate is not a defined term in the MOUs, Salary Ordinance, or Personnel Rules and Regulations; however, the overtime rate is different than the rate used for Holiday Pay, and Call Back, even though the MOUs state they are all paid at one and one-half times an employee's regular rate. Additionally, the overtime rate used is also not equal to one and one half times the WC Appt-Off Duty rate even though the MOU states WC Appt-Off Duty is paid at the regular rate. As stated above, the calculation of overtime pay calculated under FLSA may differ from an employee's unadjusted pay; however, the Salary Ordinance, MOUs and Personnel Rules and Regulations do not make this distinction.

Finding #5 (Continued): The District is using two different regular rates of pay when calculating employee compensation.

Priority Rating: Medium

Recommendation #5: The District should clarify in the MOUs, Salary Ordinance, and Personnel Rules and Regulations how employee compensation is calculated. The District should determine if Base Compensation for any Member has been incorrectly reported to SDCERS and communicate to SDCERS the Member accounts required to be corrected.

Finding #6: The Plan contains a provision for the District to pay COL and Surviving Spouse or Domestic Partner Contributions on behalf of a non-PEPRA Miscellaneous Member and to credit those payments to the individual Member's contribution account. The COL and Surviving Spouse or Domestic Partner Contributions, however, are based on a Member's Normal Contribution rate. Because non-PEPRA Members currently do not have a Normal Contribution rate there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.

Priority Rating: Medium

A Miscellaneous Member as defined in the Plan means "a full-time UPD employee hired after December 31, 2008, who is not a Safety Member. A Miscellaneous Member shall also mean a rehired employee returning to service with UPD on or after January 1, 2009." Amendment 5 to the Plan states, "A Miscellaneous Member who is not subject to the provisions of PEPRA shall not be required to pay employee contributions and shall have no normal cost employee contributions standing to his or her account. The UPD will make COL Annuity and Surviving Spouse or Domestic Partner Contributions on behalf of a Miscellaneous Member who is not subject to PEPRA which will be credited to the individual Miscellaneous Member's contribution account."

COL Contributions as defined in the Plan means, "contributions by a Member or Miscellaneous Member pursuant to a salary ordinance enacted by the Port Commissioners from time to time, over and above the Normal Contributions and Surviving Spouse or Domestic Partner Contributions, which are used to fund the Member's or Miscellaneous Member's share of the COLA Program."

The Cost of Living Adjustment (COLA) refers to an increase to a Member's Monthly Retirement Allowance based on changes in the consumer price index. COL Contributions are used to fund the Cost of Living Annuity (COL Annuity). The COL Annuity is a lifetime payment derived from the Member's COL Contributions, which is added to the Member's Basic Allowance. The phrase in the Plan stating that COL Contributions "are used to fund the Member's or Miscellaneous Member's share of the COLA Program" is incorrect. The COLA is not funded with COL Contributions.

The Plan states that COL Contributions are pursuant to a salary ordinance enacted by the Port Commissioners. The 2014 - 2015 Salary Ordinance does not contain any information pertaining to COL Contributions.

The San Diego Municipal Code, beginning in 1985, when all District Members were City Members, set the COL Contributions at 20% of the sum of the Member's Normal Contributions plus the Members Surviving Spouse Contributions. These are the COL Contribution rates used currently for District General and Safety Members. A Member's Surviving Spouse Contributions are a percentage of the Normal Cost.

Finding #6 (Continued): The Plan contains a provision for the District to pay COL and Surviving Spouse or Domestic Partner Contributions on behalf of a non-PEPRA Miscellaneous Member and to credit those payments to the individual Member's contribution account. The COL and Surviving Spouse or Domestic Partner Contributions, however, are based on a Member's Normal Contribution rate. Because non-PEPRA Members currently do not have a Normal Contribution rate there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.

Priority Rating: Medium

Non-PEPRA Miscellaneous Members currently do not have a Member contribution rate because the Plan states a non-PEPRA Miscellaneous Member "shall not be required to pay employee contributions." Because COL Contributions¹⁵ and Surviving Spouse or Domestic Partner Contributions¹⁶ are based on a percentage of a Member's Normal Contribution, COL and Surviving Spouse or Domestic Partner Contributions would not be made by a non-PEPRA Miscellaneous Member. Therefore there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.

District management represents the intention was for the District to fund non-PEPRA Miscellaneous Members COL and Surviving Spouse or Domestic Partner Contribution accounts. In order to accomplish this, the Plan actuary needs to calculate a Member contribution rate, the Plan needs to be amended, and IRIS needs to be reprogrammed.

A non-PEPRA Miscellaneous Member does not earn service credit until his or her sixth year of employment with the District. The first non-PEPRA Miscellaneous Member would be eligible to start earning service credit on January 1, 2014. As of January 2, 2016 there were fourteen non-PEPRA Miscellaneous Members that have earned service credit.

Recommendation #6a: The District should amend the Plan to enable the funding of non-PEPRA Miscellaneous Members COL and Surviving Spouse or Domestic Partner Contribution accounts. COL and Surviving Spouse or Domestic Partner Contributions, based on the Plan's actuarial tables, should be remitted to SDCERS for non-PEPRA Miscellaneous Members impacted.

Recommendation #6b: SDCERS should make programming changes to IRIS relating to District funded non-PEPRA Miscellaneous Member COL and Surviving Spouse or Domestic Partner Contributions.

Recommendation #6c: The District should remove the phrase in the Plan regarding the COL Contributions that states, "which are used to fund the Member's or Miscellaneous Member's share of the COLA Program."

Recommendation #6d: The District should either incorporate into the Plan or annually define in the salary ordinance COL Contribution amounts. If the District defines COL Contribution amounts in the Salary Ordinance, the District should provide SDCERS with an annual copy of the Salary Ordinance enacted.

¹⁵ COL Contributions are 20% of the sum of the Member's Normal Contributions plus Surviving Spouse or Domestic Partner Contributions.

¹⁶ Surviving Spouse or Domestic Partner Contributions are 9.98% of a Member's Normal Contributions.

Finding #7: The District incorrectly calculated compensation paid to one employee when the employee received a raise in the middle of the pay period.

Priority Rating: Low

For one Member tested, the employee received a pay raise in the middle of a pay period. This employee was compensated at the new rate for all hours worked in the pay period. This resulted in the employee incorrectly being overpaid by \$106.80. The \$106.80 was reported to SDCERS as Base Compensation and retirement contributions were made on this amount.

Recommendation #7: The District should ensure compensation is correctly calculated for all employees that receive a pay raise in the middle of a pay period. District management should also determine if the overpayment was incorrectly included in Base Compensation and communicate this to SDCERS.

Finding #8: The District is incorrectly calculating compensation to employees that receive a night premium differential or out of class differential and a bilingual shift differential on the same pay period.

Priority Rating: Low

The District's MOUs include a provision for employees to receive a night shift premium in the amount of \$1.50 per hour for non-sworn employees and \$1.60 per hour for sworn officers when at least 50% of an employee's shift falls between the hours of 6:00 p.m. and 8:00 a.m. Effective October 1, 2014, sworn officers are eligible for a night shift premium of \$1.75 per hour when at least 50% of an employee's shift hours are after 11:00 p.m.

The District's Salary Ordinance includes a provision for an employee who is temporarily assigned to a classification in a higher Standard Range or Band to receive out-of-class compensation. Out-of-class compensation is calculated at five percent (5%) higher than the rate for which the employee is regularly assigned commencing from the date of such out-of-class assignment.

The District's MOUs state that, "Subject to the limitations and prerequisites for eligibility set forth in Administrative Procedure 128-202, any full-time qualifying employee in any classification within the unit represented by the UNION, who has been determined by the Appointing Authority, with Human Resources concurrence, to be eligible for bilingual compensation, shall receive compensation at the rate of 2.5% above the employee's unadjusted base salary."

The District's Salary Ordinance 2779¹⁷ grants any full-time employee in Harbor Police additional compensation at the rate of two and one-half percent (2.5%) higher than the regular rate while assigned to perform bilingual services. In addition to the sworn officer classification any full-time qualifying employee performing bilingual services shall receive additional compensation at the rate of two and one-half percent (2.5%) above the employee base pay.

The District was calculating employee compensation, for employees receiving a night shift premium and a bilingual shift differential, 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 safety employee was overpaid by \$3.79 for one pay period tested. The overpayment of \$3.79 was reported to SDCERS as Base Compensation.

As of February 20, 2015 the District correctly changed the calculation for an employee receiving both a night shift premium and a bilingual differential. The District is now correctly calculating employee compensation equal to: (unadjusted salary x bilingual shift differential) + night shift premium.

¹⁷ See Appendix I for additional information regarding Bilingual Ability.

Finding #8 (Continued): The District is incorrectly calculating compensation to employees that receive a night premium differential or out of class differential and a bilingual shift differential on the same pay period.

Priority Rating: Low

The District is calculating employee compensation, for employees receiving an out-of-class differential and a bilingual shift differential, equal to: (unadjusted salary x out-of-class differential) x bilingual shift differential. There is no definition of “rate for which the employee is regularly assigned” as outlined in the MOU. The out-of-class differential, however, is in addition to the rate the employee is regularly assigned and is not eligible for the bilingual shift differential. This results in an overpayment to the employee equal to the amount of the out-of-class differential multiplied by the bilingual shift differential.

One non-safety employee was overpaid by \$2.20 for one pay period tested. The overpayment of \$2.20 was reported to SDCERS as Base Compensation.

Recommendation #8: District management should establish procedures to ensure the calculation of compensation is consistent with the MOUs. In addition, the District should determine if the overpayment to employees receiving both a night premium differential or out of class differential and a bilingual shift differential on the same pay period will be repaid and if the overpayment is correctly included in Base Compensation. If the overpayment was incorrectly included in Base Compensation, District management should determine the number of individuals affected, for all Plan years, and communicate to SDCERS the Member accounts required to be corrected.

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls and because samples were selected, errors or irregularities may occur and may not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

I have concluded work on the audit objectives of the Plan Sponsor Contribution & Reporting Audit. Based on the audit work performed, I have determined the following:

The District is meeting the objectives in the following areas:

- Census data was correctly transmitted to SDCERS with 97.1% accuracy¹⁸.

The District is not meeting the objectives in the following area:

- The District overpaid SDCERS for the pay periods tested.
- Reporting Base Compensation for PEPRA Members tested.
- Reporting of Member status for Members that have FMLA or unpaid absences.

Implementation of the recommendations contained in this Audit Report should assist the District in improving the retirement census information sent to SDCERS.

The District Plan Sponsor Contribution & Reporting Audit for the period July 1, 2011 through June 30, 2013 was issued October 27, 2014. That report contained findings and recommendations that would be relevant to the District Plan Sponsor Contribution & Reporting Audit for the period July 1, 2014 through June 30, 2015. All of the findings and related recommendations from the Plan Sponsor Contribution & Reporting Audit for the period July 1, 2011 through June 30, 2013, however, have been implemented as of May 2016. Those findings and recommendations are not repeated in this report. That report is available on SDCERS website at www.sdcers.org or can be obtained by contacting SDCERS, Internal Audit Department, 401 West A Street, Suite 400, San Diego, CA, 92101.

¹⁸ Percentage based on the randomly selected twenty-five employee records, covering the two pay periods – December 26, 2014 to January 8, 2015 and March 6, 2015 to March 19, 2015.

APPENDIX I

Base Compensation

Base Compensation per the Plan means the wages the UPD pays its employees, which are used to calculate the Participants' Normal, COL and Surviving Spouse or Domestic Partner Contributions. Base Compensation is defined in the salary ordinance enacted by the Port Commissioners from time to time. The UPD will provide to the Administrator a copy of any resolution or ordinance approved by the Port Commissioners that amends the definition of "Base Compensation."

Salary Ordinance 2779, effective for the fiscal year October 1, 2014 to October 1, 2015, states retirement benefits will be based upon compensation subject to retirement contributions, otherwise known as pensionable. Compensation subject to retirement contributions includes pay, plus the following premium pay items and differentials: educational incentive pay; bilingual pay; Narcotics Task Force Officer Pay; dive team pay; Field Officer Training pay; canine pay; court witness pay; floating holiday; paycheck correction adjustments; Watch Commander differential; stipends; standby pay; car allowance; holiday pay; acting out of class pay; temporary assignment differentials; fuel truck driver; back flow repair; oversight of county fair work fair crew; pesticide applicator; railroad repair worker; Lead Plumber; Lead Electrician; Lead Maintenance Mechanic; Lead Equipment Mechanic; Lead Equipment Operator; Lead Equipment Operator I; Lead Equipment Operator II; Lead Maintenance Worker II; Lead Maintenance Worker III; Lead Gardner II; Lead Custodian; Lead Diver; Lead Boat Operator; night shift; Lead night shift; Lead regular shift; Lead Traffic Enforcement Officer. (These compensations subject to retirement contribution are documented as a result of the "Andrecht Settlement"). The Salary Ordinance also states, any new or additional premium pay items or differentials will be subject to retirement contributions, unless specifically excluded in the MOU or Salary Ordinance establishing the additional items.

Amendment 5

The definition of Service Credit was modified to the following:

"Service Credit means the years or partial years of service: (1) purchased by a Member under Division 11 of this Plan, (2) earned by a Member while employed by the City, the UPD or the Airport Authority and contributing to the Plan or to SDCERS (before January 1, 2003), and (3) earned by a Miscellaneous Member beginning in his or her sixth year of employment with the UPD. Service credit is earned by a Member or Miscellaneous Member by service rendered for compensation as an employee or officer of the UPD and shall include all periods for which compensation is paid and the Member or Miscellaneous Member makes contributions to the Plan. For those Members or Miscellaneous Members who make contributions to the plan, pay periods during which some service is rendered for compensation as an employee or officer may be included in computing Service Credit if sufficient compensation is received to allow full contributions or that pay period to have been deducted from the payroll check for that pay period and transferred to the Retirement System for crediting to the individual Member or Miscellaneous Member's account. Notwithstanding any other provision of the Plan, pay periods during which some compensation as an employee or officer will not be included in computing Service Credit if insufficient compensation was received for that pay period to allow full contributions for that entire period to have been deducted from the payroll check for that pay period and transferred to the Retirement System for crediting to their individual Member or Miscellaneous Member's account. Notwithstanding anything to the contrary in this Plan, a Miscellaneous Member who is not required to pay contributions pursuant to the terms of the Plan earns service credit beginning with his or her sixth year of employment with the UPD during all periods in which the Miscellaneous Member renders service for compensation as an employee or officer of the UPD."

APPENDIX I (Continued)

Educational Incentives

The MOU for the San Diego Harbor Police Officers Association contains a provision to provide additional compensation to sworn Employees who obtain an Intermediate or Advanced P.O.S.T. Certificate. The MOU states the following will be awarded for P.O.S.T. certificates, "Effective October 1, 2011 two hundred seventy-five dollars (\$275) per month for an Intermediate P.O.S.T. Certificate and three hundred seventy-five dollars (\$375) per month for an advanced P.O.S.T."

Uniform Allowance

The MOU for the San Diego Harbor Police Officers Association contains a provision to provide additional compensation for uniforms. It states, "The District agrees to provide all Employees an annual uniform and equipment allowance (for any items required and authorized by the District) for replacement of uniforms and equipment caused by normal usage." Additionally it states, "The annual allowance of \$1,500 shall be payable in one lump sum on the second paycheck in October each year."

Bilingual Ability

The District's Salary Ordinance 2779 states, "Any full-time employee in Harbor Police classes E515-CNR03 (Harbor Police Officer), E505-CNR03 (Harbor Police Corporal), E510-CNR03 (Harbor Police Sergeant), and E520-CNR03 (Harbor Police Lieutenant) whose qualifications for bilingual ability have been determined by the Executive Director, shall receive said compensation at the rate of two and one-half percent (2.5%) higher than the regular rate while assigned to perform bilingual services in any language where need has been demonstrated and such additional language is recommended by the Vice President, Public Safety/Chief of the Harbor Police and approved by the Executive Director. In addition to the sworn officer classifications listed above, and subject to the limitations and prerequisites for eligibility as set forth in a District Administrative Procedure, any full-time qualifying employee shall receive two and one-half percent (2.5%) above the employee base pay".



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

MEMORANDUM

DATE: June 10, 2016

TO: Lee Parravano, Internal Auditor

FROM: Marcelle Voorhies Rossman, Chief Benefits Officer

CC: Mark Hovey, CEO

SUBJECT: Management's responses to the findings and recommendations in the SDCERS Internal Report – Plan Sponsor Contribution & Reporting Audit – San Diego Unified Port District for the Period July 1, 2014 through June 30, 2015

Finding #4: The District is incorrectly reporting Member information to SDCERS for Members that have FMLA time or unpaid absences.

Recommendation #4b: SDCERS management should correct all periods reported to SDCERS as Purchasable Leave without Pay to Active when a Member has Base Compensation and full retirement contributions.

Response: Management agrees with the finding and recommendation. This is included in the SDCERS Fiscal Year 2017 action plan.

Estimated Completion Date: June 30, 2017

Finding #6: The Plan contains a provision for the District to pay COL and Surviving Spouse or Domestic Partner Contributions on behalf of a non-PEPRA Miscellaneous Member and to credit those payments to the individual Member's contribution account. The COL and Surviving Spouse or Domestic Partner Contributions, however, are based on a Member's Normal Contribution rate. Because non-PEPRA Members currently do not have a Normal Contribution rate there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.

Recommendation #6b: SDCERS should make programming changes to IRIS relating to District funded non-PEPRA Miscellaneous Member COL and Surviving Spouse or Domestic Partner Contributions.

Response: Management agrees with the finding and recommendation. SDCERS will make necessary programming changes to IRIS after the Plan is amended allowing the District to fund non-PEPRA Miscellaneous Member COL and Surviving Spouse or Domestic Partner Contributions.

Estimated Completion Date: 6/30/17



Marcelle Voorhies Rossman
Chief Benefits Officer

Cc: Mark Hovey, CEO

August 23, 2016

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

Dear Mr. Parravano,

The San Diego Unified Port District ("District") is in receipt of the Plan Sponsor Contribution and Reporting Audit for the period July 1, 2014 through June 30, 2015.

The Executive Leadership Group of the District, as well as appropriate Human Resources staff, have reviewed the audit findings and recommendations. Additionally, the District has recently hired a Chief Technology Officer who has been apprised of the audit findings and will be working closely with the team to address the multitude of configuration issues. Attached please find the District's response.

Thank you for your efforts in ensuring our plan compliance. It was a pleasure meeting you and working with you through the process. Please let us know if you have any additional questions or concerns.

Regards,



Michelle A. Corbin
Director, Human Resources

cc: Robert Monson, Port Auditor
Karen Porteous, Chief Administrative Officer

Attachment

San Diego Unified Port District - Response

Finding #1: The District's payroll system calculates a Member's Base Compensation equal to the greater of Standard Hours x Standard Rate or actual Base Compensation received. The Plan however is ambiguous how to report Base Compensation to SDCERS when the hours used to calculate Base Compensation are less than the Member's Standard Hours.

Response #1: The District agrees with this finding. As a result of this audit finding, the District's Plan document was amended to reflect the current practice of crediting 80 hours if the employee has enough wages to cover the cost of the retirement contribution. It is the District's intent to stop this practice with the upcoming re-write of the Plan document.

Finding #2: The District did not remit the correct amount due to SDCERS for the pay periods tested.

Response #2: The District acknowledges this finding. SDCERS has implemented the IRIS system. As a result of this implementation, the District was asked to change the retirement file and information provided to SDCERS, which was accomplished through a spreadsheet and manual file. This file is currently provided to SDCERS and uploaded into the IRIS system by SDCERS staff; any discrepancies are noted and provided to District staff to reconcile. The IRIS system is designed that the plan sponsor be able to upload and balance the contributions file, however currently plan sponsors do not have this ability. This item will be corrected once this ability is available.

Finding #3: The District is not adhering to California Government Code 7522.34 for pensionable compensation of a new member of a public retirement system.

Response #3: The District agrees with this finding. This has been determined to be a configuration and timekeeping issue and the District is working to correct it.

Finding #4: The District is incorrectly reporting Member information to SDCERS Members that have FMLA time or unpaid absences.

Response #4: The District agrees with this finding. This has been determined to be a configuration issue and the District is working to correct it.

Finding #5: The District is using two different regular rates of pay when calculating employee compensation.

Response #5: The District agrees with this finding. This has been determined to be a configuration and timekeeping issue and the District is working to correct it. By definition, both Callback pay and Workers' Compensation Appointments (off duty) are outside the employee's 80 hours of regularly scheduled work.

Finding #6: The Plan contains a provision for the District to pay COL and Surviving Spouse or Domestic Partner Contributions on behalf of a non-PEPRA Miscellaneous Member and to credit those payments to the individual Member's contribution account. The COL and Surviving Spouse or Domestic Partner Contributions, however, are based on a Member's Normal Contribution rate. Because non-PEPRA members currently do not have a Normal Contribution rate there is no COL or Surviving Spouse or Domestic Partner Contributions the District can make on behalf of a non-PEPRA Miscellaneous Member.

Response #6: The District acknowledges this finding. The District implemented the Hybrid Retirement Plan January 1, 2009. The District met with SDCERS staff prior to implementation of the plan and understood that each of the agreed-to provisions would be costed by the system actuary and included in the annual valuation. District staff will work with SDCERS staff to make any necessary changes or corrections to ensure that these plan provisions are documented and paid for.

Finding #7: The District incorrectly calculated compensation to one employee when the employee received a raise in the middle of a pay period.

Response #7: The District agrees with this finding. This has been determined to be a configuration issue and the District is working to correct it.

Finding #8: The District is incorrectly calculating compensation to employees that receive a night premium differential or out of class differential and a bilingual shift differential on the pay period.

Response #8:

The District agrees with this finding. This was determined to be a configuration issue and the District corrected this issue as of February 20, 2015.