



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

MEMORANDUM

DATE: October 22, 2018

TO: SDCERS Audit Committee

FROM: Sarah Dickson, SDCERS Chief Internal Auditor

SUBJECT: Plan Sponsor Contribution & Reporting – San Diego County Regional Airport Authority for the period July 1, 2016 through June 30, 2017

Enclosed is the Plan Sponsor Contribution & Reporting Audit for the period July 1, 2016 through June 30, 2017. Overall, the San Diego County Regional Airport Authority (APA) has procedures in place for the census data and control strengths were identified during the audit. Opportunities for improvement were also identified.

Based on this audit, there were five total recommendations: three recommendations pertained to the APA, one pertained to the APA and SDCERS' management, and one pertained to SDCERS' Board of Administration. APA and SDCERS management agree with all recommendations made. Responses from APA and SDCERS are attached to the report.

I would like to thank APA management, SDCERS management and Lee Parravano, the former SDCERS Internal Auditor, for all of their assistance and cooperation provided. Everyone involved was very helpful and valuable time and efforts spent on this audit are greatly appreciated.

Attachment: Plan Sponsor Contribution & Reporting Audit Report – San Diego County Regional Airport Authority for the period from July 1, 2016 through June 30, 2017

cc: SDCERS Board of Administration
Gregg Rademacher, SDCERS Chief Executive Officer
Marcelle Voorhies Rossman, SDCERS Deputy Chief Executive Officer
Johnny Tran, SDCERS Chief Compliance Officer/General Counsel
Kimberly Becker, SDCRAA President/Chief Executive Officer

Scott Brickner, SDCRAA Vice President, Finance & Asset Management/Treasurer
Kurt Gering, SDCRAA Director, Talent, Culture & Capability
Amy Gonzalez, SDCRAA General Counsel
Elizabeth Stewart, SDCRAA Sr. Manager, Accounting
Stephanie Alexander, SDCRAA Senior Manager, Talent & OD
Joy Freeman, SDCRAA Manager, Employee Safety & Wellness
Lee Parravano, SDCRAA Chief Auditor



Internal Audit Report

Plan Sponsor Contribution & Reporting Audit

San Diego County Regional Airport Authority

For the Period

July 1, 2016 through June 30, 2017

Prepared by:
Sarah Dickson, Chief Internal Auditor

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EXECUTIVE SUMMARY

Every two weeks the San Diego County Regional Airport Authority (APA) sends the San Diego City Employees' Retirement System (SDCERS) a transmittal file that contains over 5,500 pieces of information on approximately 400 Members. The information includes, among other things, 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. The objective of the audit was to evaluate the accuracy and completeness of the census data submitted by the APA and to verify the accuracy and adequacy of that information.¹

The APA has procedures in place for the census data reported to SDCERS. Strengths identified during the audit period from July 1, 2016 through June 30, 2017 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, service period, and Member entry age.
- Pensionable compensation cap for tested Members was in place.
- SDCERS Membership was correctly established for all tested employees.

However, the following issues were identified and should be addressed.

The Amended and Restated San Diego County Regional Airport Authority Retirement Plan is silent on how to report Base Compensation when a Full-Time Employee Works Less than his/her Standard Hours or has a Portion of his/her Standard Hours as Overtime

During a period when a Member has pay for hours worked and unpaid leave or overtime, the APA is reporting to SDCERS the number of hours worked and the Member's Base Compensation equal to the pensionable pay the Member received. SDCERS, however, is granting these Members 80 hours of Service Credit. The APA's Plan is silent on how to report Base Compensation to SDCERS when the hours used to calculate Base Compensation are less than the Member's standard hours. In addition, the APA's Plan is silent on how to report Base Compensation to SDCERS when a portion of the employee's standard hours worked is overtime.

Forms of compensation allowed to be included in a PEPRA Member's Base Compensation per the APA Plan have not been reviewed by the SDCERS Board to ensure PEPRA does not prohibit their inclusion

PEPRA specifically excludes 13 forms of compensation that cannot be counted towards Base Compensation, such as severance payments, payments for unused vacation or any other form of compensation a public retirement board determines should not be pensionable. Exhibit A of the APA's

¹ See Appendix A for complete Audit Objectives, Scope and Methodology

Plan details the forms of compensation the APA considers includable or excludable from Base Compensation for PEPRA Members; however, this Exhibit has not been reviewed by the SDCERS Board to ensure forms of compensation allowed to be included are not prohibited by PEPRA.

Contributions to PEPRA Members' Defined Contribution Accounts Exceeded Government Code Section §7522.10(g) Limits

Government Code §7522.10(g) limits the amount the APA can contribute to an employee's defined contribution account. The amount depends on the salary of each employee, the defined benefit limit, and the APA's contribution percentage. Four PEPRA Member's defined contribution accounts exceeded this limit in 2017. The APA remediated this issue.

Incorrectly Reported Information for One Member Tested

One Member selected for testing was incorrectly reported to SDCERS as a General Member on one pay period when the Member is actually a PEPRA Member. The APA remediated this issue.

Internal Auditor Independence

The predecessor Internal Auditor left SDCERS on April 3, 2018 and began working at the APA (the auditee). Although the predecessor auditor accepted a job in an independent department at the APA, the APA Internal Audit Department, and is not responsible for the audited tasks, there may be a perception of non-independence. To address perception concerns, the successor SDCERS Chief Internal Auditor performed additional procedures and ultimately issued the audit report.

Based on this audit, there were five total recommendations: three recommendations pertained to the APA, one pertained to the APA and SDCERS' management, and one pertained to SDCERS' Board of Administration. APA and SDCERS management agree with all recommendations made. Responses from APA and SDCERS are attached to the report.

Internal Audit would like to thank APA Staff for their assistance and numerous courtesies extended during the completion of this audit.

The information in this report is intended solely for the use of the APA 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.

INTRODUCTION

BACKGROUND

SDCERS administers three separate defined benefit pension plans for the City of San Diego, the San Diego Unified Port District, and the APA. SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants.

Each pay period, the APA 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 APA's employer and Member contribution rates, and other information required for the Comprehensive Annual Financial Report.

APA – Membership Total		
Valuation as of:	June 30, 2017	June 30, 2016
Active Counts	394	385
Terminated Vested	119	112
Disabled	2	2
Retirees	100	83
Beneficiaries	5	5
Total APA Members	620	587
Active Member Payroll	\$ 31,628,301	\$ 31,131,795
Average Pay Per Active Member	\$ 80,275	\$ 80,862
Benefits in Pay Status	\$ 4,717,764	\$ 3,719,054
Average Annual Benefit	\$ 44,091	\$ 41,323

Source: SDCERS – San Diego County Regional Airport Authority Actuarial Valuation as of June 30, 2017

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.
- Informational – Represents a finding to educate the Board or management.

INTERNAL AUDITOR INDEPENDENCE

The predecessor Internal Auditor left SDCERS on April 3, 2018 and began working at the APA (the auditee). Although the predecessor auditor accepted a job in an independent department at the APA, the APA Internal Audit Department, and is not responsible for the audited tasks, there may be a perception of non-independence. To address perception concerns, the successor SDCERS Chief Internal Auditor interviewed the predecessor SDCERS Internal Auditor regarding this audit, reviewed the audit workpapers, re-performed certain audit activities (on a sample basis), and ultimately issued the audit report. To the Chief Internal Auditor's knowledge, there were no other instances of perceived non-independence during the audit.

AUDIT RESULTS

Based on detailed testing, strengths were identified, as well as issues that should be addressed.

Strengths Identified

Listed below are the 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,
 - service period, and
 - Member entry age.
- Pensionable compensation cap for tested Members was in place.
- SDCERS Membership was correctly established for all tested employees.

On the following pages are issues that were identified and should be addressed.

Finding #1: The APA Plan is silent on how to report Base Compensation when a Full-Time employee works less than his/her standard hours or has a portion of his/her standard hours as overtime.

Priority Rating: Medium

The Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013 (Plan) requires Full-Time employees² to participate in the Plan as a condition of employment. Those employees are granted Service Credit³ for their time worked or purchased and for making contributions to SDCERS. Contributions to SDCERS are based upon the employee’s pensionable compensation, otherwise known as Base Compensation. The definition of Base Compensation per the Plan, by member-tier is as follows:

Member-Tier	Definition of Base Compensation per the Plan
Classic	Means the wages the APA pays its employees, which are used to calculate the Members’ Normal Cost Contributions, COL Annuity Contributions and Surviving Spouse or Domestic Partner Contributions.
PEPRA	Means the same as Pensionable Compensation as defined in the Government Code §7522.34 ⁴ and are used to calculate the Member’s Normal Cost Contributions, COL Annuity Contributions and Surviving Spouse or Domestic Partner Contributions. For PEPRA Members, Base Compensation will include only the normal monthly rate of pay or base pay of the PEPRA Member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules.

During a period when a Member has pay for hours worked and unpaid leave (e.g. excess time off), the APA is reporting to SDCERS the number of hours worked and the Member’s Base Compensation equal to the pensionable pay the Member received. SDCERS, however, is granting these Members 80 hours of Service Credit. The Plan is silent on how to handle this situation. The example below illustrates how one Member tested was granted 80 hours of Service Credit by SDCERS; however, the Base Compensation and related retirement contributions to SDCERS were only calculated on 74 hours.⁵

Wage Type	SDCERS Hours Granted	Hours Reported	Extended Pay	Amount Reported as Base Compensation	Standard Hours (80) x Standard Rate (\$57.00)
Regular	54	54	\$3,078.00	\$3,078.00	\$3,078.00
Other Leave	12	12	684.00	684.00	684.00
Holiday	8	8	456.00	456.00	456.00
Excess Time Off	6				342.00
Total	80	74	\$4,218.00	\$4,218.00	\$4,560.00

Similar to the example above (the Member below received full Service Credit when contributions were calculated and made based on 78 hours), but slightly different is the example below which includes an

² A Full-Time employee is an employee who works at least 20 hours per week and is not hired on a temporary basis.

³ Service Credit Means, the years or partial years of service either purchased by a Member under Division 11 of this Plan or earned by a Member while the Member is employed by the City, the UPD, or the APA and contributing to this Plan or SDCERS as applicable.

⁴ See Finding #2 for a description of Government Code §7522.34.

⁵ There were seven Members tested that received full pensionable Service Credit when contributions were calculated and made based on less than 80 hours of work.

overtime component.⁶ The employee below worked a full 80 hour week, if the employee’s overtime hours were included. The Plan is silent on whether to include the overtime hours worked at the Member’s standard rate of pay in Base Compensation. In this particular example, if overtime hours were included at the employee’s standard rate, Base Compensation would be \$2,350.88 versus the reported amount of \$2,292.11.

Wage Type	SDCERS Hours Granted	Hours Worked	Hours Reported as Base Compensation	Extended Pay	Amount Reported as Base Compensation	Standard Hours (80) x Standard Rate (\$29.386)
Regular		58	58	\$1,704.39	\$1,704.39	
Paid Time Off		20	20	587.72	587.72	
Overtime		2.75		126.06		
Total	80	80.75	78	\$2,418.17	\$2,292.11	\$2,350.88

Preliminary investigations into SDCERS data for the period from May of 2014 through February 2018 indicated there are approximately 700 Member records reported to SDCERS with less than 80 hours, but SDCERS granted 80 hours of Service Credit. The total number of Members impacted was approximately 165 Members. As of October 2017, SDCERS began a process to manually pro-rate Member accounts when hours reported were less than 80. In addition, SDCERS began to manually pro-rate accounts as a Member retires or submits a purchase of service requisition.

Recommendation 1a: The APA should either revise its plan to address this matter or request the SDCERS’ Board to adopt a rule addressing the matter. Revisions should specifically address how to calculate Base Compensation when the hours used to calculate Base Compensation are less than the Member’s standard hours, including when a portion of the Member’s standard hours are overtime hours.

Recommendation 1b: The APA and SDCERS should work together to determine whether Members who received 80 hours of Service Credit with less than 80 hours reported require adjustments.

⁶ There was only one Member tested that had a portion of his/her standard hours as overtime; this Member is also included in the count of seven Members correlating with the first example.

Finding #2: The SDCERS Board has not reviewed the APA PEPRA forms of compensation to ensure the APA has not included items prohibited by PEPRA.

Priority Rating: Medium

The APA Plan states “Base Compensation for PEPRA Members means the same as Pensionable Compensation defined in Government Code §7522.34 and are those paid by the APA to its employees that are used to calculate the PEPRA Members’ Normal Cost Contributions, COL Contributions, and Surviving Spouse or Domestic Partner Contributions.” Exhibit A of the Plan details the forms of compensation the APA considers includable in or excludable from Base Compensation for PEPRA Members.

California Government Code §7522.34(a) states, “Pensionable Compensation of a new member of any retirement system means the normal rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publically available pay schedules, subject to the limitation of subdivision (c).”

PEPRA specifically excludes 13 forms of compensation that cannot be counted towards Base Compensation, such as:

- Any one-time or ad hoc payments,
- Severance payments,
- Payments for unused vacation,
- Uniform allowances,
- Overtime,
- Bonuses,
- Any other form of compensation a public retirement board determines is inconsistent with PEPRA requirements, or
- Any other form of compensation a public retirement board determines should not be pensionable.⁷ (emphasis added)

PEPRA does not expressly provide retirement boards with the authority to determine what type of compensation is pensionable.

The SDCERS Board has not reviewed APA forms of compensation allowed to be included in PEPRA Members Base Compensation to ensure they are not prohibited by PEPRA.

Recommendation 2: The SDCERS Board should review APA forms of compensation allowed to be included in PEPRA Members Base Compensation and confirm the APA has not included items that are prohibited by PEPRA.

⁷ California Government Code §7522.34

Finding #3: The APA is making contributions to PEPRAs Members' defined contribution accounts that exceed the limits in Government Code Section §7522.10(g).

Priority Rating: Medium

California Government Code §7522.10(g) states, "Any employer contributions to any employee defined contribution plan above the pensionable compensation limits in subdivision (c) shall not exceed the employer's contribution rate, as a percentage of pay, required to fund the defined benefit plan for income subject to limitation in subdivision (c) of Section 7522.42."

As such, Government Code §7522.10(g) limits the amount the APA can contribute to an employee's defined contribution account. The amount depends on the salary of each employee, the defined benefit limit, and the APA's contribution percentage. In 2017 the APA Contribution rate for PEPRAs employees was 8.16% and the defined benefit limit was \$118,775. Only the salary in excess of the defined benefit limit can be used to calculate the APA's maximum defined contribution amount. The example below shows the maximum amount the APA can contribute to an employee's defined contribution account for different salary amounts.

Member #	Salary	Defined Benefit Limit	Amount in Excess of Defined Benefit Limit (Salary – Defined Benefit Limit)	APA Contribution %	Maximum APA Defined Contribution Amount
Member 1	\$125,000	\$118,775	\$6,225	8.16%	\$508
Member 2	\$185,000	\$118,775	\$66,225	8.16%	\$5,404

The APA has made contributions to four PEPRAs Members' defined contribution accounts that exceeded the limit in 2017.

Recommendation 3: The APA should discontinue contributing funds to PEPRAs Member's defined contribution accounts in excess of governmental limits. In addition, the APA should determine if any other member accounts are impacted and evaluate potential resolutions.

Recommendation 3 has been completed. On July 1, 2018, the APA paid PEPRAs Members a compensation award instead of contributing to the Member's defined contribution account.⁸ In addition, the APA is researching and identifying a resolution for member accounts affected.

⁸ The APA made contributions to Member's defined contribution accounts once per year, with the last one being on July 1, 2017.

Finding #4: The APA incorrectly reported a PEPRA Member as a General Member.

Priority Rating: Low

There are three different types of Members within the APA Plan. The three different types of Members are commonly referred to as General, Executive, and PEPRA Members. Different benefits are provided to the different types of Members. Additionally, a PEPRA Member's retirement contribution percentage is different from a General or Executive Member.

One Member selected for testing was incorrectly reported to SDCERS as a General Member on one pay period, when in fact the Member is actually a PEPRA Member. The Member's Base Compensation and related retirement contributions were correctly calculated. On the previous and subsequent pay periods tested, the Member was correctly reported to SDCERS as a PEPRA Member. There were three other Members, on this same pay period, that were incorrectly reported as General Members. Management believes the error occurred due to an issue within the APA payroll system.⁹ SDCERS' staff identified these errors when processing the transmittal file and coordinated the necessary corrections with the APA.¹⁰

Recommendation 4: The APA should ensure Members are correctly classified as General, Executive, or PEPRA Members.

Recommendation 4 has been completed. The APA modified settings in their payroll system to correct this error.

⁹ Management represents this error has been corrected.

¹⁰ Beginning in FY 2018, the transmittal file is processed by APA staff. IRIS alerts staff processing the transmittal file to any Plan discrepancies from one period to the next.

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

The objective of this audit was to evaluate the accuracy and completeness of Member records and payroll data submitted by the APA and to verify the accuracy and adequacy of that information. Based on the audit work performed, I have concluded the following:

The APA has census procedures in place and the following census data for the Members on the pay periods selected were accurately reported to SDCERS: date of birth, date of hire, date of membership, classification of employees, gender, date of termination, service period, and Member entry age.

However, the APA should clarify how to calculate Base Compensation for Members when the hours used to calculate Base Compensation are less than the Member's standard hours.

The SDCERS Board should review and confirm the APA PEPRA forms of compensation allowed to be included in Base Compensation to ensure they are not prohibited by PEPRA.

APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY

AUDIT OBJECTIVES

The objective of the audit was to evaluate the accuracy and completeness of Member records and payroll data submitted by the APA and to verify the accuracy and adequacy of that information.

AUDIT SCOPE & METHODOLOGY

This audit was performed for the period from July 1, 2016 through June 30, 2017 by using the following methods:

- Reviewed the Plan, Memorandum of Agreements (MOAs) between the APA and the employee Unions, and the SDCERS Participation and Administration Agreement.
- Reviewed policies and procedures utilized by staff to process the APA's retirement transmittal file to SDCERS.
- Interviewed staff responsible for processing payroll, Member enrollment, and transmitting the retirement file to SDCERS.
- Randomly selected 25 employee records, covering two pay periods – December 23, 2016 to January 5, 2017 and March 3, 2017 to March 16, 2017. 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 contributions for offsets, code section 401(a)(17) limits, and Base Compensation limits for PEPRA Members.
 - Reviewed PEPRA Members to determine if the APA complied with the Publically Available Pay Schedules requirement according to California Government Code §7522.34(a).
 - Review employment agreements or other documents to determine if PEPRA Members are receiving contributions to a defined contribution accounts, made by the APA, that exceed the limits allowed according to California Government Code §7255.10(f)(1).
- Selected 25 employees on the payroll December 23, 2016 to January 5, 2017 and March 3, 2017 to March 16, 2017 and determine whether those employees correctly established Membership with SDCERS.
- Determine if any Members on the payroll December 23, 2016 to January 5, 2017 and March 3, 2017 to March 16, 2017 had Retro Pay work codes and determine if those work codes were correctly included or excluded from Base Compensation.
- For the pay periods December 23, 2016 to January 5, 2017 and March 3, 2017 to March 16, 2017 determine if Members reported with partial hours reported (i.e., hours are less than 80), and were not hired or terminated during the pay period, to determine if the Member's census data is being reported consistent with the Plan.
- Reviewed felony forfeiture controls.

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.



October 18, 2018

Sarah A. Dickson
Chief Internal Auditor
San Diego City Employees' Retirement System
401 West A Street, STE 400
San Diego, CA 92101

RE: SDCRAA Response to SDCERS Internal Audit Report

Dear Sarah,

The Airport Authority has reviewed the Plan Sponsor Contribution & Reporting Audit for the period 7/1/16 to 6/30/17. Our response to the Audit Findings and Recommendations are as follows:

Audit Finding #1: The Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013 ("Plan") is silent on how to report Base Compensation when a Full-Time employee works less than his/her standard hours or has a portion of his/her standard hours as overtime.

Recommendation 1a: The APA should either revise its plan to address this matter or request the SDCERS' Board to adopt a rule addressing the matter. Revisions should specifically address how to calculate Base Compensation when the hours used to calculate Base Compensation are less than the Member's standard hours, including when a portion of the Member's standard hours are overtime hours.

Recommendation 1b: The APA and SDCERS should work together to determine whether Members who received 80 hours of Service Credit with less than 80 hours reported require adjustments.

Airport Authority Response: The Airport Authority agrees that the APA Plan is silent on how to report Base Compensation when a Full-Time employee works less than his/her standard hours or has a portion of his/her standard hours as overtime. The Airport Authority is following Recommendation 1(a) and will be seeking Airport Authority Board approval to amend the Plan to clarify how to report Base Compensation for Members under the noted circumstances. The Airport Authority will also work with SDCERS in response to Recommendation 1(b) to review Member accounts reported to SDCERS with less than 80 hours and make any necessary adjustments.

Target Implementation Date: February 7, 2019

Audit Finding #2: The SDCERS Board has not reviewed the APA PEPRAs forms of compensation to ensure the APA has not included items prohibited by PEPRAs.

Airport Authority Response: Exhibit A to the Plan outlines both pensionable and non-pensionable compensation for Classic and PEPRAs Members. The Airport Authority reviewed Exhibit A with former SDCERS General Counsel, Elaine Reagan, prior to amending the Plan on September 17, 2013. The Airport Authority, in consultation with SDCERS' General Counsel, took a narrow view to assure compliance with PEPRAs.

Target Implementation Date: Not Applicable for the Airport Authority. This finding and recommendation are directed to SDCERS Board, not the Airport Authority.

Audit Finding #3: The APA should discontinue contributing funds to PEPRAs Members' defined contribution accounts in excess of governmental limits. In addition, the APA should determine if any other Member accounts are impacted and evaluate potential resolutions.

Airport Authority Response: As noted, as of July 1, 2017, the Authority no longer makes contributions to PEPRAs Members defined contribution accounts. As recommended, the Airport Authority is researching and identifying a resolution to any other Member accounts impacted.

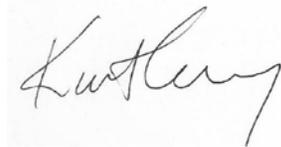
Target Implementation Date: Not Applicable. The Airport Authority already has addressed the audit finding and related recommendation.

Audit Finding #4: The APA incorrectly reported a PEPRAs Member as a General Member.

Airport Authority Response: The Airport Authority agrees with the finding. The Airport Authority identified a software setting error in the reporting program that occurred during a system upgrade. The software setting was reset to ensure Members are correctly reported as General, Executive, or PEPRAs Members.

Target Implementation Date: Not Applicable. The Airport Authority already has addressed the audit finding and related recommendation.

Sincerely,



Kurt Gering
Director Talent, Culture & Capability

CC: Kimberly Becker, President & CEO
Amy Gonzalez, General Counsel
Lee Parravano, Chief Auditor



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

DATE: October 12, 2018
TO: Sarah Dickson, Chief Internal Auditor
FROM: Marcelle Voorhies Rossman, Deputy Chief Executive Officer *Marcelle Vor*
SUBJECT: Management's responses to the Findings and Recommendations in the SDCERS Internal Audit Report – Plan Sponsor Contribution & Reporting Audit, San Diego County Regional Airport Authority (APA)

Finding #1: The APA Plan is silent on how to report Base Compensation when a Full-Time employee works less than his/her standard hours or has a portion of his/her standard hours as overtime.

Recommendation 1a: The APA has responded that they intend to amend the Plan to clarify how to report Base Compensation in these situations. Based on this response, SDCERS does not plan to take action.

Recommendation 1b: The APA and SDCERS should work together to determine whether Members who received 80 hours of Service Credit with less than 80 hours reported require adjustments.

Response: SDCERS will work with APA to review these members and determine what adjustments, if any, are needed.

Targeted Implementation Date: June 30, 2019

Finding #2: The SDCERS Board has not reviewed the APA PEPRA forms of compensation to ensure the APA has not included items prohibited by PEPRA.

Recommendation 2: The SDCERS Board should review APA forms of compensation allowed to be included in PEPRA Members Base Compensation and confirm the APA has not included items that are prohibited by PEPRA

Response: APA PEPPRA pensionable pay codes will be considered by the SDCERS Business and Governance Committee at a future meeting.

Targeted Implementation Date: June 30, 2019

Findings 3 and 4 are not applicable to SDCERS; the findings and recommendations are directed to the APA.

* * *