DATE:       June 23, 2021

TO:         SDCERS Audit Committee

FROM:       Sarah Dickson, SDCERS Chief Internal Auditor

SUBJECT:    San Diego County Regional Airport Authority Payroll Audit for the period July 1, 2019 through June 30, 2020

Enclosed is the San Diego County Regional Airport Authority (Airport) Payroll Audit for the period July 1, 2019 through June 30, 2020. Overall, the Airport has procedures in place for the transmittal of census data and many control strengths were identified during the audit.

I would like to thank Airport 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 are greatly appreciated.

CC:         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/Chief Financial Officer
            Monty Bell, SDCRAA Director, Talent, Culture & Capability
            Amy Gonzalez, SDCRAA General Counsel
            Elizabeth Stewart, SDCRAA Interim Director, Accounting
            Joy Freeman, SDCRAA Manager, Safety & Wellness
            Lee Parravano, SDCRAA Chief Auditor
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>Background</td>
<td>1</td>
</tr>
<tr>
<td>Priority Rating Process</td>
<td>1</td>
</tr>
<tr>
<td>AUDIT RESULTS</td>
<td>2</td>
</tr>
<tr>
<td>Finding #1: Families First Coronavirus Response Act (FFCRA)</td>
<td>2</td>
</tr>
<tr>
<td>Finding #2: DROP Participants</td>
<td>6</td>
</tr>
<tr>
<td>Finding #3: Publicly Available Pay Schedules</td>
<td>8</td>
</tr>
<tr>
<td>INHERENT LIMITATIONS</td>
<td>10</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>10</td>
</tr>
<tr>
<td>APPENDIX A - AUDIT OBJECTIVES, SCOPE &amp; METHODOLOGY</td>
<td>1</td>
</tr>
<tr>
<td>Audit Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Audit Scope &amp; Methodology</td>
<td>1</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Every two weeks, the San Diego County Regional Airport Authority (Airport) transmits to the San Diego City Employees’ Retirement System (SDCERS) a file that contains over 10,000 pieces of information on approximately 400 Members. The information includes Member name, pensionable salary, Member contributions, class of employee, and Member date of birth. The transmittal file updates 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 determine whether the Airport complied with applicable sections of their Plan Document, Public Employees' Pension Reform Act (PEPRA), and SDCERS’ Board Policies, and to validate completeness and accuracy of census data.

The Airport has procedures in place to ensure complete and accurate census data reporting to SDCERS. Strengths identified during the audit period from July 1, 2019 through June 30, 2020 include:

- Accurately and completely reporting all elements to SDCERS for all randomly tested Members. Census data was correctly transmitted to SDCERS with 100% accuracy.¹
- Correctly establishing Membership for all tested employees.
- Correctly applying the pensionable compensation cap for tested Members.

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

Families First Coronavirus Response Act (FFCRA) – High Ranking
The Airport’s Board authorized FFCRA to be prospectively pensionable via Amendment 7 for all classes of membership, effective November 5, 2020. The Airport’s Plan Document does not allow for purchasing missed FFCRA-related contributions for the period from April 1, 2020, FFCRA’s effective date, to November 5, 2020, which exposes the Airport to risk. In addition, due to delayed payroll system changes, certain employees continued to have FFCRA-related wages excluded from pensionable compensation after Amendment 7.

DROP participants – Low Ranking
The Airport’s Plan Document does not clearly address how to calculate DROP contributions when a DROP participant works less than 80 hours during a pay period and is paid less than normal Base Compensation. The Airport’s practice of reducing DROP contributions in these cases appears reasonable.

¹ Percentage based on 25 randomly selected employee records covering the two pay periods – September 27, 2019 through October 10, 2019 and May 22, 2020 through June 4, 2020.
**Publicly Available Pay Schedules – Low Ranking**
SDCERS has not defined or provided guidance on what “publicly available pay schedule” means. Because “publicly available pay schedule” is not defined, there is no criteria to evaluate the Airport’s compliance.

********

Based on this audit, there were four total recommendations: three recommendations pertained to the Airport and one pertained to SDCERS. The Airport and SDCERS management agree with all recommendations. Their responses, including anticipated completion dates, are included within each of the findings.

Internal Audit would like to thank the Airport and SDCERS 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 Airport 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 San Diego Unified Port District, the City of San Diego, and the San Diego County Regional Airport Authority (Airport). SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants.

Each pay period, the Airport transmits to SDCERS information such as Member name, pensionable salary, Member contributions, class of employee, and Member date of birth. The transmittal file updates 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 determine whether the Airport complied with applicable sections of their Plan Document, Public Employees' Pension Reform Act (PEPRA), and SDCERS’ Board Policies, and to validate completeness and accuracy of census data.

San Diego County Regional Airport Authority – Membership Total

<table>
<thead>
<tr>
<th>Valuation as of:</th>
<th>June 30, 2020</th>
<th>June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Counts</td>
<td>389</td>
<td>383</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>149</td>
<td>143</td>
</tr>
<tr>
<td>Disabled</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Retired²</td>
<td>146</td>
<td>131</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Total Members</td>
<td>695</td>
<td>667</td>
</tr>
<tr>
<td>Active Member Payroll</td>
<td>$33,328,788</td>
<td>$32,828,449</td>
</tr>
<tr>
<td>Average Pay Per Active</td>
<td>$85,678</td>
<td>$85,714</td>
</tr>
<tr>
<td>Benefits in Pay Status</td>
<td>$7,361,817</td>
<td>$6,462,264</td>
</tr>
<tr>
<td>Average Benefit</td>
<td>$46,891</td>
<td>$45,832</td>
</tr>
</tbody>
</table>

Source: SDCERS – San Diego County Regional Airport Authority Actuarial Valuation as of June 30, 2020

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.

² Includes DROP participants.
- Low - Represents a finding for corrective action by management to mitigate risks with the process being audited.
- Informational – Represents a finding to educate/inform the Audit Committee or management.

**AUDIT RESULTS**

Based on detailed testing, strengths were identified as well as observations that should be addressed below and on the following pages.

**Finding #1: Families First Coronavirus Response Act (FFCRA)**

The Airport’s Board authorized FFCRA to be prospectively pensionable via Amendment 7 for all classes of membership, effective November 5, 2020. The Airport’s Plan Document does not allow for purchasing missed FFCRA-related contributions for the period from April 1, 2020, FFCRA’s effective date, to November 5, 2020, which exposes the Airport to reputational and litigation risk. In addition, due to delayed payroll system changes, certain employees continued to have FFCRA-related wages excluded from pensionable compensation *after* Amendment 7.

**Priority Rating:** High

**BACKGROUND:**

**Families First Coronavirus Response Act (FFCRA)**

FFCRA requires certain employers to provide their employees with paid sick leave or expanded sick leave for specified reasons related to COVID-19. FFCRA is silent on whether FFCRA paid sick leave or expanded sick leave is pensionable. Generally, FFCRA provides that all employers must provide employees:

A. Two weeks of paid sick leave at the employee’s regular rate of pay for time spent quarantining or while experiencing COVID-19 symptoms and seeking a medical diagnosis

B. Two weeks of paid sick leave at two-thirds the employee’s regular rate of pay because the employee is unable to work because of a bona fide need to care for an individual subject to quarantine, or care for a child (under 18 years of age) whose school or child care provider is closed or unavailable for reasons related to COVID-19

C. Up to an additional 10 weeks of paid expanded family and medical leave at two-thirds the employee’s regular rate of pay where an employee is unable to work due to a bona fide need for leave to care for a child whose school or child care provider is closed or unavailable for reasons related to COVID-19

The FFCRA paid sick leave was initially effective April 1, 2020 through December 31, 2020. The use of components B and C were extended through 2021; component A was renewed for calendar year 2021 providing an additional two weeks of paid leave.

**Regulations and Documents Regarding Pensionable and Non-Pensionable Compensation**

“Pensionable compensation” is defined by Government Code section 7522.34(a) or PEPRA. Subsections (c)(11) and (c)(12) directs the SDCERS Board to determine what types of pay are not pensionable compensation.
The Airport’s Plan Document, Exhibit A, says: The term ‘Base Compensation’ means the compensation identified by the pay codes set forth below. All other compensation is specifically excluded from the definition of “Base Compensation” unless the Airport Authority’s Board, in its sole discretion, amends such definition to include any additional items, in which case such additional item shall be included in the definition of ‘Base Compensation’ only on a prospective basis.

Other Pertinent Information

The Airport’s Board designated FFCRA as pensionable as of the effective date of Amendment 7, or November 5, 2020.

Section 1100, Purchase of Service Credit for Periods of Missed Contributions, of the Airport’s Plan Document indicates an Active Member may purchase Service Credit, provided that it is not nonqualified service credit, for any prior period during which the Member was:

(a) on an unpaid leave of absence and receiving long term disability benefits under a program sponsored by the UPD, the City or the Airport Authority, but only if the Member left the Member's contributions with this Plan or another SDCERS-administered plan;
(b) on an unpaid leave of absence approved by the UPD, the City or the Airport Authority based on the Family Medical Leave Act ("FMLA");
(c) on an unpaid leave of absence approved by the Airport Authority while performing military service or while on military leave covered by the Uniformed Services Employment and Re-employment Rights Act of 1994 ("USERRA"); or
(d) on an unpaid leave of absence approved by the UPD, the City or the Airport Authority not covered by the FMLA or USERRA, but only if the leave began before January 2, 1997.

Section 1100 does not provide for the purchase of FFCRA time.

FINDINGS & RISK STATEMENTS:

A. As is the case with other acts, FFCRA is silent on whether FFCRA-related wages are pensionable. The Airport’s Plan Document indicates the Airport’s Board has the authority to classify wage types as pensionable or not pensionable. PEPRA directs the SDCERS Board to determine what types of pay are not pensionable compensation for PEPRA members. All of this said, the Airport’s Board authorized FFCRA to be prospectively pensionable via Amendment 7 for all classes of membership, effective November 5, 2020.\(^3\) The Airport’s Plan Document does not allow for purchasing missed FFCRA-related contributions for the period from April 1, 2020, FFCRA’s effective date, to November 5, 2020, which exposes the Airport to risk as shown in the hypothetical example below. The following types of Members were impacted:

- Active Members who charged the entire pay period to FFCRA
- DROP participants who either charged the entire period to FFCRA or part of the pay period to FFCRA.

\(^3\) Although Amendment 7 is outside the scope period for this audit, FFCRA impacted Members during the scope period.
The hypothetical example below highlights how the same employee would be impacted if he/she used FFCRA time prior to versus after Amendment 7 (e.g. from April 1, 2020 through November 4th versus November 5th forward):

<table>
<thead>
<tr>
<th>#</th>
<th>Pay Period Ending</th>
<th>Hours Charged to FFCRA</th>
<th>Hours Reported</th>
<th>Pensionable Compensation Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prior to Amendment 7</td>
<td>80</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Subsequent to Amendment 7</td>
<td>80</td>
<td>80</td>
<td>*$1,600</td>
</tr>
<tr>
<td></td>
<td><strong>Difference</strong></td>
<td><strong>-80</strong></td>
<td></td>
<td><strong>-$1,600</strong></td>
</tr>
</tbody>
</table>

*Assuming regular rate of pay was $20 per hour

Use of FFCRA time after Amendment 7 versus prior, without allowing purchase of the missed FFCRA-related contributions, results in inconsistencies for similarly situated employees and therefore increases the risk of litigation and reputational damage.

B. Although outside the scope of this audit, it appears after Amendment 7 some employees utilizing FFCRA continued to have FFCRA-related wages excluded from pensionable compensation and contributions. See below for two examples:

<table>
<thead>
<tr>
<th>#</th>
<th>Pay Period Ending</th>
<th>Hours Reported</th>
<th>% of Regular Hours (Calculated)</th>
<th>Regular Pensionable Compensation</th>
<th>Pensionable Compensation Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1/14/21</td>
<td>32*</td>
<td>32/80 = 40%</td>
<td>$2,446</td>
<td>$2,446*40% = $978</td>
</tr>
<tr>
<td>2</td>
<td>12/17/20</td>
<td>64*</td>
<td>64/80 = 80%</td>
<td>$2,472</td>
<td>$2,472*80% = $1,978</td>
</tr>
</tbody>
</table>

* Hours NOT reported, or 48 and 16, respectively, were FFCRA-related wages.

Management asserted a lag in payroll system changes subsequent to Amendment 7 caused these errors. They also asserted identifying these employees is already in process.

**RECOMMENDATIONS:**

A. The Airport should determine if allowing purchase of missed FFCRA-related contributions for Active and DROP members is appropriate and then amend their Plan Document. The Airport should then determine which Member data was incorrectly reported to SDCERS before Amendment 7 and communicate to SDCERS the Member accounts requiring correction.

B. The Airport should determine which employee data was incorrectly reported to SDCERS after Amendment 7, including other potential FFCRA errors outside of the lag in payroll system changes, and communicate to SDCERS the Member accounts requiring correction.

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4 While estimating how many Airport employees may be impacted by FFCRA decisions, we noted these examples.
5 For example, transactions where an employee was paid two-thirds of his/her regular rate of pay under FFCRA after Amendment 7, yet 100% of the employee’s regular rate of pay was reported to SDCERS rather than two-thirds actually paid.
MANAGEMENT OWNER: Authority Management

MANAGEMENT’S RESPONSE: There is no legal requirement for the Authority to make Families First Coronavirus Response Act (FFCRA) pay pensionable. The reasons are: (1) PEPRA addresses the type of pay that is not pensionable and does not require that any certain type of pay be pensionable; (b) the Authority’s plan specifically states that the Board has absolute authority to determine what is and is not pensionable under its Plan. The Authority is taking steps to allow FFCRA-related wages earned between April 1, 2020 and November 5, 2020 to be purchasable; this will require Authority Board approval of an amendment to the Plan.

Amendment 7 required modifications to the payroll system which caused a delay in FFCRA related wages being included as pensionable immediately after it was approved. The Authority has determined what corrections are necessary, is working to make the corrections, and will communicate them to SDCERS as soon as they are resolved.

In addition, we will thoroughly review all FFCRA-related payroll transactions, both before and after Amendment 7, and communicate to SDCERS the member accounts requiring corrections.

MANAGEMENT’S ESTIMATED COMPLETION DATE: October 31, 2021
**Finding #2: DROP Participants**

The Airport’s Plan Document does not clearly address how to calculate DROP contributions when a DROP participant works less than 80 hours during a pay period resulting in less than the DROP participant’s normal Base Compensation. The Airport’s practice of reducing DROP contributions in these cases appears reasonable.

**Priority Rating:** Low

**BACKGROUND:**

Generally speaking, the Deferred Retirement Option Plan, or DROP, is a voluntary program that allows Members to continue working for his or her plan sponsor for up to five years while simultaneously earning a monthly pension benefit. As long as the Member is still working for his or her plan sponsor, his or her monthly pension benefit will accumulate in a separate DROP account and earn interest. Once the Member actually retires and exits DROP, the money that has accrued in his or her DROP account will be paid to the Member, including interest, on top of his or her monthly pension benefit.

The Airport’s Plan Document within section 1203, DROP Benefits and Accounts, sub-sections (c)(3) and (c)(4), respectively say:

(3) A Member’s DROP account will be credited with an amount equal to 3.05% of the Member's Base Compensation, credited biweekly at the end of each pay period, which is paid by the Airport Authority.

(4) A Member’s DROP account will be credited with an amount equal to 3.05% of the Member's Base Compensation, which is deducted from the Member's salary on a pre-tax basis pursuant to Internal Revenue Code §414(h)(2).

The Airport’s Plan Document defines

- “Base Compensation” for Classic Members as: The wages and benefits the Airport Authority pays its employees, which are used to calculate the Members' Normal Cost Contributions, COL Annuity Contributions and Surviving Spouse or Domestic Partner Contributions. The items included in Base Compensation are listed in Exhibit A attached hereto, subject to any amendments the Airport Authority Board may approve by resolution or ordinance from time to time. The Airport Authority will provide to the Administrator a copy of any resolution or ordinance approved by the Airport Authority Board that amends the definition of "Base Compensation" for Classic Members.

- “Employee Contributions” as: the contributions made to the Trust Fund by each Member, equivalent to the Employee contribution rate established in §0200 multiplied by the Member's Base Compensation.

**FINDINGS & RISK STATEMENT:**

Testing Airport employees who reported less than 80 hours worked during the two pay periods selected found one employee participating in DROP whose pensionable contributions were remitted
based on 70.4 hours rather than 80 hours. SDCERS’ Legal Counsel concluded the Airport’s Plan Document does not clearly address how to calculate DROP contributions when a DROP participant works less than 80 hours during a pay period resulting in less than the DROP participant’s normal Base Compensation. The Airport’s practice of reducing DROP contributions in these cases appears reasonable.

An unclear Plan Document increases the risk of inconsistencies or errors.

**RECOMMENDATION:**
The Airport should clarify the Plan Document to address how to calculate DROP contributions when a DROP participant works less than 80 hours during a pay period resulting in less than the DROP participant’s normal Base Compensation.

**MANAGEMENT OWNER:** Authority Management

**MANAGEMENT’S RESPONSE:** The Authority intends to seek Authority Board approval to amend the Plan to reflect the current practice of calculating DROP contributions when a DROP participant works less than 80 hours during a pay period.

**MANAGEMENT’S ESTIMATED COMPLETION DATE:** October 31, 2021

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6Amendment 6 to the Airport’s Plan Document clarifies how to calculate contributions for *Active Members* in similar circumstances.
**Finding #3: Publicly Available Pay Schedules**

SDCERS has not defined or provided guidance on what “publicly available pay schedule” means. Because “publicly available pay schedule” is not defined, there is no criteria to evaluate the Airport’s compliance.

**Priority Rating:** Low

**BACKGROUND:**
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 publicly available pay schedules, subject to the limitation of subdivision (c).”

The Airport’s Plan Document refers to a “publicly available pay schedules” within the definition of Base Compensation for PEPRA Members.

Other public pension plans, such as California Public Employees’ Retirement System (CalPERS) and OCERS, define a “publicly available pay schedule” within Circular Letters and Orange County Employees Retirement System (OCERS) Pensionable Compensation Policy, respectively, as follows:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>CalPERS, OCERS or Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Has been duly approved and adopted by the employer’s governing body in accordance with requirements of applicable public meeting laws</td>
<td>Both</td>
</tr>
<tr>
<td>B. Identified the position title for every employee position</td>
<td>Both</td>
</tr>
<tr>
<td>C. Shows the pay rate as a single amount or multiple amounts within a range for each identified position</td>
<td>Both</td>
</tr>
<tr>
<td>D. Indicates the time base, including, but not limited to, whether the time base is hourly, daily, bi-weekly, monthly, bi-monthly, or annually</td>
<td>CalPERS</td>
</tr>
<tr>
<td>E. Is posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer’s internet website</td>
<td>CalPERS</td>
</tr>
<tr>
<td>F. Is posted on the employer’s internet website. If not on the website it shall be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours</td>
<td>OCERS</td>
</tr>
<tr>
<td>G. Indicates the effective date and date of any revisions</td>
<td>CalPERS</td>
</tr>
<tr>
<td>H. Is retained by the employer and available for public inspection for not less than five years</td>
<td>CalPERS</td>
</tr>
<tr>
<td>I. Does not reference another document in lieu of disclosing the payrate</td>
<td>CalPERS</td>
</tr>
<tr>
<td>J. Does not reference a document which is not available in accordance with (F), above in lieu of disclosing the payrate</td>
<td>OCERS</td>
</tr>
</tbody>
</table>
CalPERS Circular letter even discusses “special compensation” and how it should be reported separately from pay rates.

**FINDING & RISK STATEMENT:**
SDCERS has not defined or provided guidance on what “publicly available pay schedule” means. Because “publicly available pay schedule” is not defined, there is no criteria to evaluate the Airport’s compliance. The Airport did provide Memorandums of Agreement, which included pay schedules, and a separate pay schedule for all unclassified employees with the exception of three; however, it is unclear if these are to be considered “publicly available pay schedules.”

Lack of guidance increases the risk of inconsistencies or errors.

**RECOMMENDATIONS:**
The SDCERS Board should assist Plan Sponsors by issuing guidance on what it considers to be “publicly available pay schedules” and should communicate this to the Plan Sponsors. SDCERS should consider using requirements used by CalPERS and/or OCERS.

**MANAGEMENT OWNER:** SDCERS Administration

**MANAGEMENT’S RESPONSE:** Management agrees with the recommendations. Currently all three plan sponsors, the San Diego County Regional Airport Authority (Airport), City of San Diego (City), and San Diego Unified Port District (Port), have their pay schedules immediately accessible and available for public review from the employer during normal business hours. The City and Port also post their annual salary ordinances online. SDCERS will provide a recommendation to the Airport that their salary ordinance be easily discoverable on their external website.7

SDCERS’ General Counsel will provide written guidance to plan sponsors regarding “publicly available pay schedules”.

**MANAGEMENT’S ESTIMATED COMPLETION DATE:** June 30, 2021

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7 Authority Management in their response to this audit report indicated the Authority Board adopted Resolution No. 2021-0063 on June 3, 2021 approving the Authority’s current Salary Schedule and that the Salary Schedule is publicly available on the Authority’s website.
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 Airport Payroll Audit. Based on the audit work performed, I have determined the following:

The Airport is meeting objectives in the following areas:
- Census data
- Membership status
- Correctly applying the pensionable compensation cap for tested Members

Implementation of the four recommendations contained in this Audit Report, including those that are FFCRA-related, should assist SDCERS and the Airport in improving the pension payroll process.
APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY

AUDIT OBJECTIVES

The objective of the audit was to determine whether the Airport complied with applicable sections of their Plan Document, Public Employees' Pension Reform Act (PEPRA) and SDCERS’ Board Policies, and to validate completeness and accuracy of census data.

AUDIT SCOPE & METHODOLOGY

This audit was performed for the period from July 1, 2019 through June 30, 2020 by using the following methods:

➢ Obtained general background information (number of documents handled, dollars and source of funding, number of employees, etc.) regarding the process being audited.

➢ Obtained Board Policies/Plan Documents/Trust Documents over the process being audited.

➢ Obtained any written policies and procedures utilized by staff to process transactions in the area being audited. If available, reviewed the policies and procedures to determine if they were adequate and to determine if they accurately reflected the current procedures used to process transactions.

➢ Obtained other documentation, such as brochures, financial statements, Actuary Reports, that were helpful in gaining a better understanding of the processes.

➢ Walked through transactions subject to auditing. This included interviewing staff responsible for processing transactions within scope to ascertain what job duties they perform, records they have access to, and authorization they have in order to determine if there are any issues that should be addressed.

➢ Randomly selected 25 transmittal records covering pay periods that include: pay-raises and at least one holiday during the audit period July 1, 2019 through June 30, 2020. For each selection:

➢ Reviewed records to determine if the following payroll elements were reported correctly: Member date of birth, gender, date of hire, eligible date of membership, class of employee, plan code, date of termination, employment status, service period, Member entry age, Member contributions, employer contributions (for Member offset only), and Code section 401(a)(17) limits (2019=$280K and 2020=$285K), and PEPRA caps (2019 = $124,120 and 2020= $126,291).

➢ Compared the plan sponsor’s payroll records to SDCERS’ records to ensure pensionable compensation reported to SDCERS is correct.
Reviewed pay rates reported to SDCERS and reconciled to plan sponsor salary records

Reviewed pay rates reported to SDCERS and determined if they agreed to publicly available pay schedules (applicable for PEPRA Members only – California Government Code 7522.34(a))

For the pay periods selected, selected all Members from each pay period that had partial hours reported (i.e., hours are less than 80) that were not hired or terminated during the pay-period and determined if the Member’s pensionable compensation was appropriate.

Reviewed the October 10, 2019 Payroll Register's cumulative pay-types and selected higher dollar amounts (risk-based) and determined whether appropriately included or excluded from pensionable compensation.

Determined if SDCERS is receiving adequate information to determine a Member’s status (e.g. active or on leave) and whether the time was appropriately categorized as purchasable or non-purchasable, where applicable.

Reviewed the payroll register to determine which employees did not have SDCERS-related deductions (and therefore were not Members). Investigated those employees to determine why they did not have SDCERS-related deductions and whether they were appropriately NOT Members.

Obtained a list of new-hires and inquired as to whether any contractors were used during the fiscal year. Sub-selected to ensure new-hires were not also receiving retirement benefits from SDCERS. If they were receiving retirement benefits, tested to ensure compliance with IRS regulations and SDCERS policies. Sub-selected a retiree to ensure the employee separated from the Airport prior to exiting DROP/Retiring.

For the two pay-periods selected, determined how much was owed by the Plan Sponsor versus how much was paid and determined if there were any differences.

Reviewed the October 10, 2019 transmittal file and filtered to determine which employees, if any, would likely surpass the limit or cap during CYE 2019. Then determined if the Member did in fact surpass the Code section 401(a)(17) limit or PEPRA cap. If so, ensured contributions ceased appropriately.

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.