



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

MEMORANDUM

DATE: May 26, 2023
TO: SDCERS Audit Committee
FROM: Sarah Dickson, SDCERS Chief Internal Auditor
SUBJECT: Proposition B Unwinding Audit – Newhires, Active Employees, and Rehires After July 8, 2022

Enclosed is the Proposition B Unwinding Audit Report over Newhires, Active Employees and Rehires After July 8, 2022.

I would like to thank City 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: Matt Vespi, City of San Diego Chief Financial Officer
Angela Colton, City of San Diego Risk Management Director
Quennelle Allen, City of San Diego Risk Management Deputy Director
Rolando Charvel, City of San Diego Director of Finance & City Comptroller
Sally Rubi, City of San Diego Financial Operations Manager
Douglas Edwards, City of San Diego Personnel Director
Julie Rasco, City of San Diego Human Resources Director
James McNeill, City of San Diego Assistant City Attorney
Thomas J. Brady, City of San Diego Deputy City Attorney
Andy Hanau, City of San Diego Auditor
Gregg Rademacher, SDCERS Chief Executive Officer
Marcelle Voorhies-Rossman, SDCERS Deputy Chief Executive Officer
Johnny Tran, SDCERS Chief Legal Counsel



Internal Audit Report

Proposition B Unwinding Audit – Newhires, Active Employees, and Rehires After July 8, 2022

**for the Period July 20, 2012 through
October 18, 2022**

**Prepared by:
Sarah Dickson, Chief Internal Auditor**

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background.....	1
Priority Rating Process	5
AUDIT RESULTS	6
Finding #1: Non-Compliance with the Municipal Code (MC)	6
Finding #2: Misstatement of Contributions.....	11
Finding #3: Process Documentation.....	14
Finding #4: Reasonableness of Leave Time in IRIS	16
INHERENT LIMITATIONS	17
CONCLUSION	17
APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY	1
Audit Objectives	1
Audit Scope & Methodology	1

EXECUTIVE SUMMARY

Proposition B Background

In June 2012 Proposition B (Prop B) was passed by the citizens of San Diego. This closed the City's pension plan to all new hires except sworn police officers. Legal challenges started in February 2012, before the proposition was even voted on. On February 5, 2021, the trial court entered its final judgment in the *quo warranto* lawsuit. The trial court ordered the City Council to strike all Prop B provisions from the City Charter and to conform the Municipal Code accordingly. No appeals were filed and the order became final on April 9, 2021.

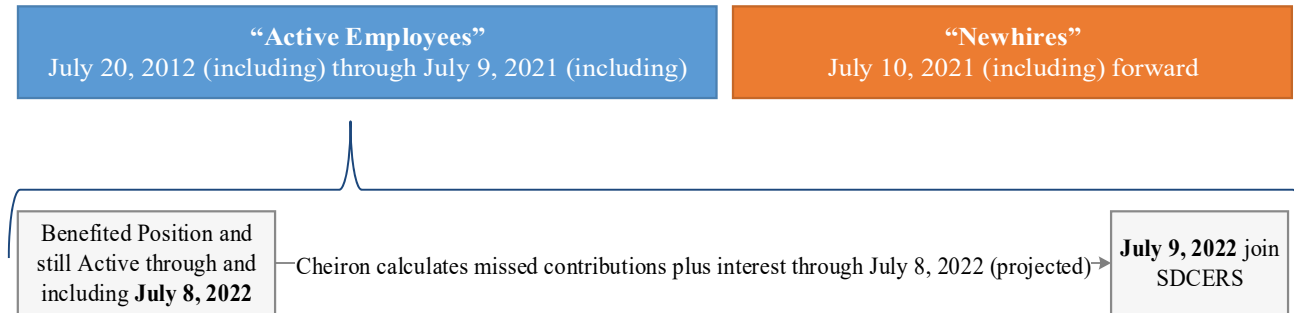
On June 22, 2021 an ordinance was approved by the City Council opening the pension plan to employees initially hired on or after July 10, 2021. Approximately 60-70 newhires are added to SDCERS each pay period.

January 31, 2022 the City Council approved MOUs with the Municipal Employees Association (MEA) and Local 127 regarding terms to open the pension plan to current employees initially hired July 20, 2012 through July 9, 2021 (Prop B Employees). These employees had a one-time, irrevocable option to either join the pension system or remain in the City's deferred compensation plan, Supplemental Pension Savings Plan (SPSP-H). Those that chose to join SDCERS made-up the employee contributions they would have made had they been in the plan, plus interest.

June 14, 2022 the City Council approved MOUs with the Deputy City Attorneys Association (DCAA), California Teamsters Local 911 (Local 911), and the International Association of Firefighters, Local 145 (Local 145). These employees will join SDCERS on July 9, 2022 and will make-up the contributions they would have made had they been in the plan. Updates to The San Diego Municipal Code (MC), SPSP-H Plan document, 401(a) Plan document, and the 401(k) Plan document were approved at the same meeting to allow for the unwinding of Prop B.

On July 9, 2022, approximately 3,200 City employees joined SDCERS.

Key Prop B Dates (Simplified)



City Transmittal File Process Background

Each pay period, the City 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.” On a yearly basis SDCERS sends the census data to the Plan actuary, Cheiron, to provide an actuarial valuation.

Audit Objectives and Scope

The objectives of the audit were to evaluate controls used to unwind certain aspects of Prop B and to verify the completeness and accuracy of associated transactions. “Certain” is used deliberately to clarify this audit is *not* all encompassing. See the **Scope Exclusions** section below.

The scope of the audit will include payroll reporting, other reporting and member enrollment of Prop B Employees for varying periods. See the table below for specific periods by employee-type.

Employee-Type	Scope Period
Newhires	July 10, 2021 through October 15, 2021
Active Employees	July 20, 2012 through September 30, 2022
Employees Rehired after July 8, 2022	July 9, 2022 through October 18, 2022

Scope Exclusions

- Inactive employees
- Current Police Officers
- SPSP-H account completeness and accuracy
- SPSP-H Plan accuracy
- The City’s calculation and payment of shortages, if any, in Prop B Employee’s SPSP-H accounts (either the employee or employer amounts)
- Penalty Payments
- Completeness of long-term disability (LTD) population around January 2022 through September 2022
- Cheiron’s calculation of actuarial liability, by Prop B Employee

Internal Audit Results

Many strengths were identified during the audit despite the complexity of unwinding Proposition B. Some strengths identified include:

- Carefully crafting the MC language to include multiple scenarios applicable to Prop B Employees.
- Creating an election module familiar to City employees and with the ability to easily track election decisions, by Prop B Employee.
- Working together across multiple City Divisions, including Risk Management, Payroll and City Attorney.
- Successfully identifying and enrolling approximately 3,200 Prop B Employees into SDCERS.

However, the following observations were identified and should be addressed. These observations represent uncommon transactions and are inherently small in count in comparison to the ~3,200 Prop B Employees successfully enrolled into SDCERS. That said, the risk rankings are low.

Non-Compliance with the Municipal Code (MC) – Low Ranking

The MC indicates certain employees must elect to remain in SPSP-H instead of join SDCERS during a 60-day election period. This election period was missed for a small portion of Prop B Employees. The MC also indicates rehires after July 8, 2022 (who have not made the irrevocable decision to stay in SPSP-H), must join SDCERS upon rehire. This did not occur for 12 rehires from July 9, 2022 through October 18, 2022.

Misstatement of Contributions – Low Ranking

Prop B Employees tested missed contributions either because transfers from Principal have not yet occurred and should have and/or contributions via the bi-weekly transmittal files have not yet begun but should have. Two employees tested began contributing via the bi-weekly transmittal files too early (e.g. contributions were overstated).

Process Documentation – Low Ranking

Those Prop B Employees who were offered a choice to either remain in SPSP-H or enter SDCERS who chose to stay in SPSP-H have made an irrevocable decision to remain in SPSP-H. If these Prop B Employees terminate and are rehired, they must remain in SPSP-H, yet there is not documented process or warning within SAP to identify these employees to ensure they are not inappropriately added to SDCERS.

Reasonableness of Leave Time in IRIS – Low Ranking

One (1) of the four (4) Prop B employees selected for testing had an incorrect service credit amount for leave time in IRIS and the transaction was already independently reviewed. The Prop B Mandatory service credit amount was correctly calculated by Cheiron and correctly reflected within IRIS.

Based on this audit, there were eight total recommendations seven of which pertained to the City and one of which pertained to SDCERS. The City and SDCERS agree with all of the respective recommendations. Their responses, including anticipated completion dates, are included within each of the findings.

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

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

Proposition B Background

In June 2012 Proposition B (Prop B) was passed by the citizens of San Diego. This closed the City's pension plan to all new hires except sworn police officers. Legal challenges started in February 2012, before the proposition was even voted on. On February 5, 2021, the trial court entered its final judgment in the *quo warranto* lawsuit. The trial court ordered the City Council to strike all Prop B provisions from the City Charter and to conform the Municipal Code accordingly. No appeals were filed and the order became final on April 9, 2021.

On June 22, 2021 an ordinance was approved by the City Council opening the pension plan to employees initially hired on or after July 10, 2021. Approximately 60-70 new hires are added to SDCERS each pay period.

January 31, 2022 the City Council approved MOUs with the Municipal Employees Association (MEA) and Local 127 regarding terms to open the pension plan to current employees initially hired July 20, 2012 through July 9, 2021 (Prop B Employees). These employees had a one-time, irrevocable option to either join the pension system or remain in the City's deferred compensation plan, Supplemental Pension Savings Plan (SPSP-H). Those that chose to join SDCERS made-up the employee contributions they would have made had they been in the plan, plus interest.

June 14, 2022 the City Council approved MOUs with the Deputy City Attorneys Association (DCAA), California Teamsters Local 911 (Local 911), and the International Association of Firefighters, Local 145 (Local 145). These employees will join SDCERS on July 9, 2022 and will make-up the contributions they would have made had they been in the plan. Updates to The San Diego Municipal Code (MC), SPSP-H Plan document, 401(a) Plan document, and the 401(k) Plan document were approved at the same meeting to allow for the unwinding of Prop B.

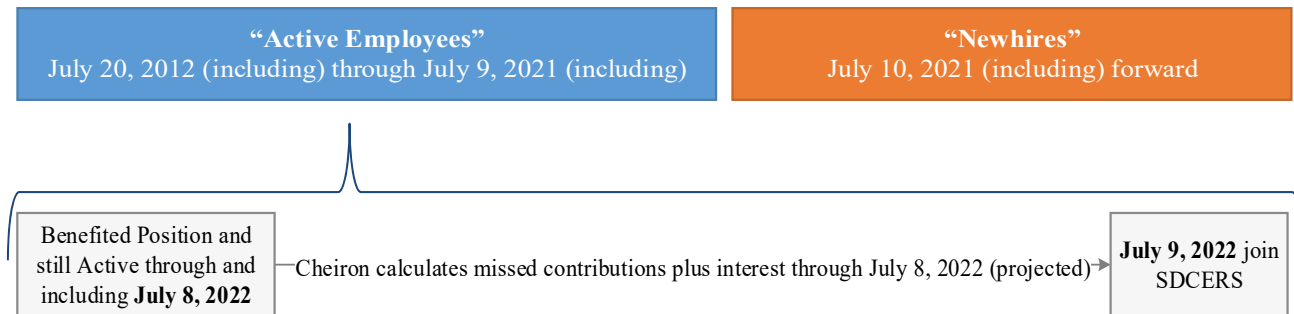
On July 9, 2022, approximately 3,200 City employees joined SDCERS.

Major milestones in the unwinding of Prop B are below:

- February 15, 2022, City milestone: City provided SDCERS with a file detailing the employment history of the Prop B Employees.
- March – June 2022, City milestone: City educational period for Prop B Employees.
- April 28, 2022, SDCERS milestone: Based on the data provided by the City, Cheiron calculated, for each Prop B Employee identified by the City:
 - The actuarial liability assuming the employee joins SDCERS,
 - The contributions and interest the employee would have paid into SDCERS had they been a member, and
 - The service credit the employee would have accrued.

- May 2, 2022, City milestone: The City provided a letter to each Prop B Employee outlining their options as applicable.
- June 30, 2022, City milestone: Deadline for MEA, L127, and unrepresented Prop B employees to either opt into SDCERS or stay in SPSP-H.
- July 9, 2022, City milestone: Prop B Employees represented by DCAA, L911, L145, and those who opt in join SDCERS.
- August 1, 2022, City/SDCERS milestone: Transfer of funds from individual Prop B Employee SPSP-H accounts to SDCERS.
- August 2022, SDCERS milestone: August 3, 2022 the City uploaded the transmittal file that includes all new Prop B members and completed their review on August 16, 2022.
- August 17, 2022, SDCERS milestone: SDCERS completed their review of the transmittal file and the file was posted to SDCERS pension system.
- September 2022, SDCERS milestone: Provide City reconciliation of monies still owed SDCERS for Prop B Employees.
- November 4, 2022, SDCERS milestone: SDCERS Board discussion on funding options for outstanding amounts owed for Prop B Employees.
- January 13, 2023, SDCERS milestone: SDCERS Board decides how the City is to fund outstanding amounts owed for Prop B Employees.

Key Prop B Dates (Simplified)



City Transmittal File Process Background

Each pay period, the City 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”. On a yearly basis SDCERS sends the census data to the Plan actuary, Cheiron, to provide an actuarial valuation

City of San Diego – Membership Total		
Valuation as of:	June 30, 2022*	June 30, 2021
Active Counts	5,555	5,068
Terminated Vested	2,935	2,847
Disabled	1,053	1,076

City of San Diego – Membership Total		
Valuation as of:	June 30, 2022*	June 30, 2021
Retirees	8,420	8,265
Beneficiaries	1,556	1,517
Total City Members	<u>19,519</u>	<u>18,773</u>
Active Member Payroll	\$ 525,994,656	\$ 466,863,508
Average Pay Per Active	\$ 94,689	\$ 92,120
Benefits in Pay Status	\$ 595,762,444	\$ 574,870,826
Average Benefit	\$ 54,018	\$ 52,944
*June 30, 2022 figures include Prop B Newhires (e.g. newhires hired on or after July 10, 2021), but excludes Prop B Active Employees since the majority of them joined on July 9, 2022.		

Source: SDCERS – City of San Diego Actuarial Valuation as of June 30, 2022

Although not available from Cheiron yet, to provide context Member information as of January 31, 2023 is as follows:

City of San Diego – Membership Total	
	January 31, 2023*
Active	9,251
Inactive	3,042
Active DROP	773
Retired	9,903
Total City Members	<u>22,969</u>
*January 31, 2023 figures include Prop B Newhires (e.g. newhires hired on or after July 10, 2021) as well as Prop B Active Employees who joined SDCERS on July 9, 2022 (~3,200).	

Source: Member Services Division Report at the March 2023 SDCERS Board Meeting

Audit Objectives and Scope

The objectives of the audit were to evaluate controls used to unwind certain aspects of Prop B and to verify the completeness and accuracy of associated transactions. “Certain” is used deliberately to clarify this audit is *not* all encompassing. See the **Scope Exclusions** section below.

The scope of the audit will include payroll reporting, other reporting and member enrollment of Prop B Employees for varying periods. See the table below for specific periods by employee-type.

Employee-Type	Scope Period
Newhires	July 10, 2021 through October 15, 2021
Active Employees	July 20, 2012 through September 30, 2022
Employees Rehired after July 8, 2022	July 9, 2022 through October 18, 2022

Scope Exclusions

- Inactive employees (e.g. Prop B Employees who terminated City employment on or after July 21, 2012 but before July 9, 2021)
- Current Police officers, including those that had non-Police, benefited time but ended up as a Police officer
- SPSP-H account completeness and accuracy
- SPSP-H Plan accuracy
- The City's calculation and payment of shortages, if any, in Prop B Employee's SPSP-H accounts (either the employee or employer amounts)
- Penalty Payments
- Completeness of long-term disability (LTD) population around January 2022 through September 2022
- Cheiron's calculation of actuarial liability, by Prop B Employee

Internal Audit Results

Many strengths were identified during the audit despite the complexity of unwinding Proposition B. Some strengths identified include:

- Carefully crafting the MC language to include multiple scenarios applicable to Prop B Employees.
- Creating an election module familiar to City employees and with the ability to easily track election decisions, by Prop B Employee.
- Working together across multiple City Divisions, including Risk Management, Payroll and City Attorney.
- Successfully identifying and enrolling approximately 3,200 Prop B Employees into SDCERS.

However, the following observations were identified and should be addressed. These observations represent uncommon transactions and are inherently small in count in comparison to the ~3,200 Prop B Employees successfully enrolled into SDCERS. That said, the risk rankings are low.

Non-Compliance with the Municipal Code (MC) – Low Ranking

The MC indicates certain employees must elect to remain in SPSP-H instead of join SDCERS during a 60-day election period. This election period was missed for a small portion of Prop B Employees. The MC also indicates rehires after July 8, 2022 (who have not made the irrevocable decision to stay in SPSP-H), must join SDCERS upon rehire. This did not occur for 12 rehires from July 9, 2022 through October 18, 2022.

Misstatement of Contributions – Low Ranking

Prop B Employees tested missed contributions either because transfers from Principal have not yet occurred and should have and/or contributions via the bi-weekly transmittal files have not yet begun but should have. Two employees tested began contributing via the bi-weekly transmittal files too early (e.g. contributions were overstated).

Process Documentation – Low Ranking

Those Prop B Employees who were offered a choice to either remain in SPSP-H or enter SDCERS who chose to stay in SPSP-H have made an irrevocable decision to remain in SPSP-H. If these Prop B employees terminate and are rehired, they must remain in SPSP-H, yet there is not documented process or warning within SAP to identify these employees to ensure they are not inappropriately added to SDCERS.

Reasonableness of Leave Time in IRIS – Low Ranking

One (1) of the four (4) Prop B employees selected for testing had an incorrect service credit amount for leave time in IRIS and the transaction was already independently reviewed. The Prop B Mandatory service credit amount was correctly calculated by Cheiron and correctly reflected within IRIS.

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/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: Non-Compliance with the Municipal Code (MC)

- A. The MC indicates certain Prop B Employees must elect to remain in SPSP-H instead of join SDCERS during a 60-day election period. As discovered through different tests, certain employees should have been offered a choice but were not within the 60-day time-frame (~140¹ out of ~3,200 Prop B Employees with the option to choose). At least one (1) was not offered a choice timely and the employee has since terminated employment with the City. At least one (1) was not offered a choice, yet funds were transferred from Principal.
- B. Similar to “A” directly above, the MC indicates employees who are inactive as of July 8, 2022, must join the System when they return to the City’s active payroll (subject to the 60-day election period for certain Prop B Employees). As discovered through testing reasonableness of the July 22, 2022 transmittal file for 25 selections:
 - i. Two (2) Prop B Employees on leave as of July 8, 2022 have since returned to active payroll and should have been offered a choice, but were not within the 60-day time-frame.
 - ii. Two (2) Prop B Employees opted in to SDCERS with the first group of Prop B Employees, but were on leave as of July 8, 2022 and therefore the 60-day election period resets to the first date after July 8, 2022 in which the employee is on the City’s active payroll in a standard hour position. One (1) of these two erroneously had funds transferred from Principal in August 2022 when the employee was still inactive.
- C. The MC indicates general salaried, classified and unclassified employees who are rehired after July 8, 2022, and work in a standard hour position, unless the employee opted to not join SDCERS, must join SDCERS. Based on the Internal Auditor’s analysis of City data after July 8, 2022 through October 18, 2022, twelve (12) Prop B Employees rehired after July 8, 2022 who did not opt-out of SDCERS, have not yet joined SDCERS.

Priority Rating: Low

BACKGROUND

MC §24.0104(a)(2) indicates:

Membership in the *System* is compulsory and a condition of employment for all: (2) general salaried, classified and unclassified employees who are rehired after July 8, 2022, and work in a standard hour position, unless the employee opted to not join the *System* under subsection (1).

MC §24.0104(j) indicates the following:

Except as provided in subsection (k), or a police recruit, or a sworn officer in the *City’s* Police Department, each salaried, classified and unclassified employee initially hired by the *City* on or

¹ Figure overstated by those who were inactive as of July 8, 2022. The Chief Internal Auditor does not have a defined population of those who were inactive as of July 8, 2022.

after July 20, 2012, but before July 10, 2021, who is employed by the *City*, **but is either not on the *City's* active payroll or is working in a non-standard hour position on July 8, 2022, must join the *System* when they return to the *City's* active payroll in a standard hour position** [emphasis added]. As provided in section 24.1313, upon joining the *System* the *Member* must purchase *Service Credit* by way of a trustee-to-trustee transfer. In addition, as provided in section 24.1314, the *Member* may purchase *Service Credit* for periods not purchased under section 24.1313.

MC §24.0104(k) indicates the following:

Each salaried, classified and unclassified employee initially hired by the *City* on or after July 20, 2012, but before July 10, 2021, who is employed by the *City* on July 8, 2022, and who is represented by the San Diego Municipal Employees' Association or the Local 127, American Federation of State, County and Municipal Employees, AFL-CIO, or is a non-safety employee unrepresented by any of the *City's* recognized employee organizations, **must be given the option to irrevocably elect to remain an active participant in the SPSP-H instead of joining the *System*** [emphasis added] and purchasing *Service Credit* as described in sections 24.1313 and 24.1314.

MC §24.0104(l) indicates the following:

For each employee identified in subsection (k):

(1) The employee must irrevocably elect in writing on a form provided by the *City* to remain an active participant in the SPSP-H instead of joining the *System* and purchasing *Service Credit*, **and file such election with the *City* during the 60-day election period** [emphasis added].

(A) For each employee identified in subsection (g), the 60-day election period begins on May 2, 2022, and ends on June 30, 2022.

(B) For each employee identified in subsection (h), the 60-day election period begins on July 9, 2022, and ends on September 6, 2022.

(C) For all other employees identified in subsections (k), the 60-day election period begins on the first date after July 8, 2022, the employee is on the *City's* active payroll in a standard hour position.

The trustee-to-trustee transfers referred to in the MC above represent a transfer from the employee's SPSP-H account (their defined contribution account administered by the *City*) to SDCERS. Principal is the custodial bank for the *City's* SPSP-H account.

Once membership SDCERS membership is established, the *City's* Risk Management Department records a change from SPSP-H to SDCERS into SAP, the *City's* system of record. Once this change is made, the employee automatically begins transmitting contributions via the *City's* bi-weekly transmittal file as of the effective date of the change.

FINDINGS & RISK STATEMENT:

- A. MC §24.0104(k) indicates certain Prop B Employees must elect to remain in SPSP-H instead of join SDCERS during a 60-day election period. As discovered through different tests, certain employees should have been offered a choice but were not within the 60-day time-frame (~140² out of ~3,200 Prop B Employees with the option to choose). At least one (1) was not offered a choice timely and the employee has since terminated employment with the City. At least one (1) was not offered a choice, yet funds were transferred from Principal.
- B. Similar to “A” directly above, MC §24.0104(j) indicates employees who are inactive as of July 8, 2022, must join the System when they return to the City’s active payroll (subject to the 60-day election period for certain Prop B Employees dictated in MC §24.0104(k)). Twenty-five selections (25) were made from a population of ~250 Prop B Employees the Chief Internal Auditor identified as potentially inappropriately missing from the July 22, 2022 transmittal file. As a result of this testing:
- i. Two (2) Prop B Employees on leave as of July 8, 2022 have since returned to active payroll and should have been offered a choice, but were not within the 60-day time-frame.
 - ii. Two (2) Prop B Employees opted in to SDCERS with the first group of Prop B Employees, but were on leave as of July 8, 2022 and therefore the 60-day election period resets to, “the first date after July 8, 2022 in which the employee is on the City’s active payroll in a standard hour position” (MC §24.0104(l)(1)(C)). One (1) of these two erroneously had funds transferred from Principal in August 2022 when the employee was still inactive.
- C. MC §24.0104(a)(2) indicates general salaried, classified and unclassified employees who are rehired after July 8, 2022, and work in a standard hour position, unless the employee opted to not join SDCERS, must join SDCERS. Based on the Chief Internal Auditor’s analysis of City data after July 8, 2022 through October 18, 2022, twelve (12) Prop B Employees rehired after July 8, 2022 who did not opt-out of SDCERS, have not yet joined SDCERS.

Not offering a choice to those that are eligible increases the risk of non-compliance with the MC, the risk of reputational damage and the risk of litigation. Furthermore, non-compliance with the MC increases the risk of missed contributions (either in the form of Prop B time contributions and/or recurring contributions via the bi-weekly transmittal files) or premature contributions (e.g. in the event the employee had funds transferred without having made a choice or in the event the employee was inactive as of July 8, 2022).

RECOMMENDATIONS:

- A. Identify all employees who need to be offered a choice and offer them the choice, including those who have terminated. If he/she opts-in to SDCERS or already opted in and has since terminated, communicate to the City’s Department of Finance and to SDCERS to obtain a calculation from Cheiron, where applicable. In addition, ensure funds are transferred from Principal. If he/she opts-out of SDCERS but made contributions already (e.g. as a fund-to-fund

² Figure overstated by those who were inactive as of July 8, 2022. The Chief Internal Auditor does not have a defined population of those who were inactive as of July 8, 2022.

transfer and/or as recurring contributions via the bi-weekly transmittal files), correct the accounts and communicate to SDCERS the accounts requiring corrections.

- Bi. Develop, document and implement a policy and procedure for identifying and monitoring those Prop B Employees who were inactive as of July 8, 2022 and become active sometime after July 8, 2022. The policy and procedure should also include a process ensuring a timely choice is offered, where applicable. Ensure the policy and procedure includes a process for communicating those who opted-in or who did not have a choice to the City's Department of Finance and to SDCERS in order for Cheiron to calculate contract amounts. The policy and procedure should also ensure a process over transferring funds from Principal, when applicable.
- Bii. Identify all employees who became active after July 8, 2022. For those that need to be offered a choice, offer them the choice. If he/she opts-in to SDCERS, or if he/she is not allowed a choice, communicate to the City's Department of Finance and to SDCERS to obtain calculations from Cheiron. In addition, ensure funds are transferred from Principal, when applicable.
- Biii. Identify all employees who had funds erroneously transferred while inactive. Correct the accounts and communicate to SDCERS the accounts requiring corrections.
- Ci. Develop, document and implement a policy and procedure for identifying rehires hired after July 8, 2022, who have not irrevocably decided to stay in SPSP-H, to ensure they join SDCERS and begin contributing. Modify the MC section attributed to purchase of service credit and then include a process for determining whether the Prop B Employee has Prop B time eligible for purchase.
- Cii. Identify all employees who were rehired after July 8, 2022 and communicate to SDCERS the accounts requiring correction (including a fund-to-fund transfer from Principal in accordance with the revised MC, where necessary, and/or missed contributions via the bi-weekly transmittal files).

MANAGEMENT OWNER FOR "A": Risk Management

MANAGEMENT'S RESPONSE TO "A": Agree. Risk Management will identify all employees who need to be offered a choice and offer them a 60-day election period in which they will make their choice. Risk Management will provide impacted employees to the Department of Finance (DoF) so that they can prepare payroll files for SDCERS to obtain a calculation from Cheiron.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "A": Separated employees are anticipated to be completed by May 2024, based on estimated timeline for receiving the Cheiron calculations.

MANAGEMENT OWNER FOR "Bi-Biii": Risk Management

MANAGEMENT'S RESPONSE TO "Bi": Agree. Risk Management to begin regular bi-weekly reporting to monitor employees that were inactive as of July 8, 2022 (due to leave without pay, LTD, or other leave) and become active after July 8, 2022. Following the return to active status, the 60-day election window will be provided (to eligible employees) as soon as administratively

possible. Risk Management will provide list of employees needing calculation to DoF and to SDCERS to obtain calculations from Cheiron.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "Bi": Completed; list of impacted employees has been identified and process is in place to capture future employees that go from inactive to active.

MANAGEMENT'S RESPONSE TO "Bii": Agree. Risk Management has identified all employees to date who have become active after July 8, 2022 and will provide a choice, if eligible. Risk Management will provide a list of employees needing calculation to DoF and to SDCERS to obtain calculations from Cheiron.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "Bii": August 2023.

MANAGEMENT'S RESPONSE TO "Biii": Agree. Risk Management will run reports to determine if anyone had funds erroneously transferred while inactive and will work with SDCERS and Principal to correct the accounts.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "Biii": June 2023

MANAGEMENT OWNER FOR "Ci-Cii": Risk Management

MANAGEMENT'S RESPONSE TO "Ci": Agree. Risk Management already monitors all rehires to determine the appropriate savings plan enrollment.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "Ci": Already implemented.

MANAGEMENT'S RESPONSE TO "Cii": Agree. Corrections were retroactively made through payroll to have employees join SDCERS as of their rehire dates.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "Cii": Corrected in February 2023.

Finding #2: Misstatement of Contributions

- A. When testing reasonableness of the July 22, 2022 transmittal file from the City to SDCERS, seven (7) of 25 selections chose to join SDCERS, but calculations from Cheiron were not yet available to execute a transfer from Principal. Therefore, funds have not yet transferred for missed Prop B contributions. Three (3) of these seven (7) selections were missing recurring contributions to SDCERS via the transmittal files, either for the pay period ending July 22, 2022 or September 30, 2022.
- B. When testing reasonableness of the July 22, 2022 transmittal file from the City to SDCERS, three (3) of 25 had to join SDCERS and began recurring contributions via the transmittal files either for the pay period ending July 22, 2022 or September 30, 2022. However, funds have not yet been transferred for missed Prop B contributions. Two of these three inappropriately began contributions as of the pay period ending July 22, 2022 (they were appropriately included in the September 30, 2022 transmittal file).
- C. When testing completeness of funds transferred from Principal, we noted two (2) employees out of 27 tested reasonably opted³ to join SDCERS after their election period ended, but their funds were never transferred from Principal.

Priority Rating: Low

BACKGROUND:

MC §24.0104(g), (h), (i), and (j) indicate Prop B Employees must join SDCERS on July 9, 2022, September 17, 2022, July 9, 2022, and when the Prop B Employee returns to the City's active payroll in a standard hour position, respectively. Once enrolled, recurring contributions begin via the bi-weekly transmittal file process that has been in effect for multiple years. MC §24.0104(g), (h), (i), and (j) also indicate upon joining the *System* the *Member* must purchase *Service Credit* by way of a trustee-to-trustee transfer for all of the *Member's* periods of service while working in a standard hour position prior to joining the *System*. The trustee-to-trustee transfer is from Principal to SDCERS. MC §24.1313(g) is silent on the actual transfer timing, other than "as soon as administratively feasible."

FINDINGS & RISK STATEMENTS:

- A. Twenty-five selections were made from a population of ~250 Prop B Employees the Chief Internal Auditor identified as potentially inappropriately missing from the July 22, 2022 transmittal file. As a result of this testing, seven (7) of 25 selections chose to join SDCERS, but calculations from Cheiron were not yet available to execute a transfer from Principal. Therefore, funds have not yet transferred for missed Prop B contributions. Three (3) of these seven (7) selections were missing recurring contributions to SDCERS via the transmittal files, either for the pay period ending July 22, 2022 or September 30, 2022.

Not enrolling Prop B Employees as SDCERS Members on a timely basis increases the risk that contributions will not begin timely and unpaid contributions will be owed.

³ Two employees were given incorrect information which impacted their initial decision. As a result, they were allowed to change their decision to opt-in to SDCERS after the expiration of the 60-day election period.

- B. As a result of this testing from the same population discussed in 2A above, three (3) of 25 had to join SDCERS and began recurring contributions via the transmittal files either beginning for the pay period ending July 22, 2022 or September 30, 2022. However, funds have not yet been transferred for missed Prop B contributions. Two of the these three inappropriately began contributions as of the pay period ending July 22, 2022 (they were appropriately included in the September 30, 2022 transmittal file).

Not enrolling Prop B Employees as SDCERS Members on a timely basis increases the risk that contributions will not begin timely and unpaid contributions will be owed.

- C. When testing completeness of funds transferred from Principal, we noted two (2) employees reasonably opted⁴ to join SDCERS after their election period ended, but their funds were never transferred from Principal.

Not transferring Principal funds increases the risk SDCERS will not receive all funds necessary and increases the risk the employee's associated records in IRIS will be misstated.

RECOMMENDATIONS:

- A. Ensure the fund-to-fund transfers are completed for those Prop B employees that did not yet have Cheiron's calculation available. Identify all employees who were not appropriately enrolled as members of SDCERS, including his/her enrollment timing (e.g. membership as of July 9, 2022 versus as of September 17, 2022), and then communicate to SDCERS the accounts requiring corrections.
- B. Determine the root cause for enrolling a Prop B Employee into SDCERS but not obtaining the correlating fund-to-fund transfer. Identify all the Prop B Employees that were treated similarly and obtain the correlating fund-to-fund transfer. Identify all employees who were enrolled on an inappropriate date (e.g. membership as of July 9, 2022 versus as of September 17, 2022), and then communicate to SDCERS the accounts requiring corrections.
- C. Identify all Prop B Employees who opted in to SDCERS but did not have Principal funds transferred and ensure transfer of the funds.

MANAGEMENT OWNER FOR "A": Risk Management

MANAGEMENT'S RESPONSE TO "A": Agree. Risk Management has completed the make-whole calculations following receipt of the Cheiron data and will be triggering the transfer of SPSP-H funds to SDCERS.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "A": May 2023

MANAGEMENT OWNER FOR "B": Risk Management

⁴ Two employees were given incorrect information which impacted their initial decision. As a result, they were allowed to change their decision to opt-in to SDCERS after the expiration of the 60-day election period.

MANAGEMENT'S RESPONSE TO "B": Agree. Risk Management has completed the make-whole calculations following receipt of the Cheiron data and will be triggering the transfer of SPSP-H funds to SDCERS.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "B": May 2023

MANAGEMENT OWNER FOR "C": Risk Management

MANAGEMENT'S RESPONSE TO "C": Agree. Risk Management has completed the make-whole calculations following receipt of the Cheiron data and will be triggering the transfer of SPSP-H funds to SDCERS.

MANAGEMENT'S ESTIMATED COMPLETION DATE FOR "C": May 2023

Finding #3: Process Documentation

Those Prop B Employees who were offered a choice to either remain in SPSP-H or enter SDCERS who chose to stay in SPSP-H have made an irrevocable decision to remain in SPSP-H. If these Prop B employees terminate and are rehired, they must remain in SPSP-H, yet there is not documented process or warning within SAP to identify these employees to ensure they are not inappropriately added to SDCERS.

Priority Rating: Low

BACKGROUND:

MC §24.0104(k) indicates certain employees must be given the option to irrevocably elect to remain an active participant in the SPSP-H instead of joining the *System* and purchasing *Service Credit* as describe in sections 24.1313 and 24.1314. MC §24.0104(c) indicates employees who elect to remain in SPSP-H plan are not eligible to join or accrue benefits in the *System*. MC §24.0104(1)(2) indicates that by electing to remain an active participant in the SPSP-H, the employee irrevocably waives the right to join the *System* and to purchase *Service Credit* under sections 24.1313 and 24.1314.

Those Prop B Employees with the option to choose were administered and tracked by the City's Risk Management within the same module that employees use to sign up for annual benefits. After the 60-day election period was completed, those who opted out of SDCERS were added to a "new" SPSP-H Plan within SAP, the City's system of record. Approximately 300 Prop B Employees, or ~10% of those provided the irrevocable election, decided to remain in SPSP-H. Management asserted they intend to document policies and procedures and are also investigating whether SAP can be revised to prevent those who made the irrevocable decision from being enrolled in SDCERS.

FINDING & RISK STATEMENT:

Those Prop B Employees who were offered a choice to either remain in SPSP-H or enter SDCERS who chose to stay in SPSP-H have made an irrevocable decision to remain in SPSP-H. If these Prop B employees terminate and are rehired, they must remain in SPSP-H, yet there is not documented process or warning within SAP to identify these employees to ensure they are not inappropriately added to SDCERS.

Undocumented policies and procedures increase the risk of error especially in the event of City employee turnover; legacy knowledge of what to do with rehires who already decided to stay in SPSP-H will be lost unless documented.

RECOMMENDATION:

Develop, document and implement a policy and procedure for identifying those Prop B Employees who opted to stay in SPSP-H to ensure they are not erroneously entered into SDCERS. A strong control would be to add a preventative system control within SAP that identifies these types of rehires and disallows changing membership-type from SPSP-H to SDCERS.

MANAGEMENT OWNER: Risk Management

MANAGEMENT'S RESPONSE: Agree. Risk Management is working with the Department of IT to determine the best solution in SAP for ensuring those Prop B Employees who opted to stay in SPSP-H to ensure they are not erroneously entered into SDCERS.

MANAGEMENT'S ESTIMATED COMPLETION DATE: July 2023

Finding #4: Reasonableness of Leave Time in IRIS

One (1) of the four (4) Prop B employees selected for testing had the incorrect service credit amount in IRIS associated with leave time and the transaction was already independently reviewed. The Prop B Mandatory service credit amount was correctly calculated by Cheiron and correctly reflected within IRIS.

Priority Rating: Low

BACKGROUND:

Cheiron was directed to calculate missed contributions plus interest based on payroll data provided by the City's DOF. If the payroll data indicated the employee's status was non-contributing, military, LTD (long term disability), NLWOP (non-purchasable leave without pay), or PLWOP (purchasable leave without pay), those pay periods were to be excluded from Cheiron's calculation. For the military, LTD, NLWOP or PLWOP time, SDCERS manually calculated the associated service credit for these "leave periods" for entry into IRIS, SDCERS system of record. SDCERS also designated the time as purchasable or non-purchasable, based on the employee's status on the payroll file provided by the City's DOF. An independent review for reasonableness was required within IRIS before the "leave" record was considered final.

FINDING & RISK STATEMENT:

The Chief Internal Auditor estimated a population of Prop B Employees set to join SDCERS as of July 8, 2022 (~3,400 employees) and then haphazardly selected 25 Prop B Employees for testing. Based on testing, only four (4) of the 25 samples selected had some "leave periods" subject to testing. One (1) of the four (4) tested had the incorrect service credit amount in IRIS associated with a "leave period" and the transaction was already independently reviewed. The Prop B Mandatory service credit amount was correctly calculated by Cheiron and correctly reflected within IRIS. Inadequate secondary review increases the risk that errors will go undetected.

RECOMMENDATION:

Review the population of Prop B employees who had "leave periods" and ensure the associated records are accurately recorded in IRIS. Train staff on how to recalculate the "leave periods" so that when he/she independently reviews, errors will more likely be detected.

MANAGEMENT OWNER: SDCERS Benefits Administration (BA)

MANAGEMENT'S RESPONSE: Management agrees with the recommendation. BA will provide training to senior staff and conduct a review of all leave periods entered as a result of the unwinding of Proposition B.

MANAGEMENT'S ESTIMATED COMPLETION DATE: July 1, 2023

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 Proposition B Unwinding Audit over Newhires and Active Employees and Rehires after July 8, 2022. Based on the audit work performed, I have determined the following strengths:

- Carefully crafting the MC language
- Creating an election module familiar to City employees with tracking capabilities
- Working well together across multiple City Divisions
- Successfully identifying and enrolling approximately 3,200 Prop B Employees

However, there were four findings that need to be addressed. Implementation of the eight associated recommendations contained in this Audit Report should assist the City and SDCERS in improving the Prop B Unwinding Process.

APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY

AUDIT OBJECTIVES

The objectives of the audit were to evaluate controls used to unwind certain aspects of Prop B and to verify the completeness and accuracy of associated transactions. “Certain” is used deliberately to clarify this audit is *not* all encompassing.

AUDIT SCOPE & METHODOLOGY

The scope of the audit included payroll reporting, other reporting and member enrollment of Prop B Employees for varying periods. See the table below for specific periods by employee-type.

Employee-Type	Scope Period
Newhires	July 10, 2021 through October 15, 2021
Active Employees	July 20, 2012 through September 30, 2022
Employees Rehired after July 8, 2022	July 9, 2022 through October 18, 2022

- 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.
- Walkthrough transactions subject to auditing. This includes 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.
- Obtain the transmittal file for the pay period October 2, 2021 through October 15, 2021. This transmittal file should include City newhires (any newhires hired on or after July 9, 2021). Analyze the transmittal file to identify employees missing from the transmittal file, select a sample and investigate for reasonableness. In addition, select a sample of employees included on the transmittal file and investigate for reasonableness and ensure the employee was included in the correct SDCERS plan. Finally, review any employees on the transmittal file where the SDCERS plan was atypical (e.g. Plan ID 46) for appropriateness.

- Create a **MasterList** of all Prop B Employees: Determine the first employee ID associated with a hire-date of July 20, 2012 and the last employee ID associated with a hire-date of July 9, 2021 (e.g. Prop B Employees). Sequentially number the employee ID's in between the two employee ID's identified above to obtain a complete population of employees hired during Prop B. Obtain data queries from the City's Risk Management Department in order to analyze these potential Prop B Employees. Data queries included information such as the employee ID, employee name, employee original hire date, their position on hire date, their employee group on hire date (e.g. no standard hour position or full-time), their subarea on hire date (e.g. their Union), any organizational reassignments, any terminations and any rehires. After analyzing the employees, conclude on the following:
- Whether the employee should be included in the population of Active Employees
 - Whether the employee should have a choice to remain in SPSP-H or join SDCERS
 - Whether the employee should be included in the Inactive Employees population
 - Whether the employee is or eventually became a Police Officer
 - Whether the employee needs to be monitored to determine when he/she becomes active again.
- Carry forward conclusions from the **MasterList** and carry forward employees included on Cheiron's calculations of "missed contributions plus interest." Analyze the data to determine which employees on the **MasterList** are excluded from Cheiron's calculations. Select samples of the excluded employees and determine if the employee was appropriately excluded from Cheiron's calculations.
- Carry forward conclusions from the **MasterList** and carry forward employees included on Cheiron's calculations of "missed contributions plus interest." Analyze the data to determine which employees should NOT have been included in the Active Prop B Employee population (per the conclusions on the **MasterList**), but are in fact included on Cheiron's calculations. Select samples and determine if the employee was initially included and then ultimately appropriately excluded from Cheiron's calculations (e.g. terminated late in FY2022).
- Carry forward nearly completed conclusions from the **MasterList**. Analyze the data to determine which employees should have been included in the Active Prop B Employee population and who opted in to SDCERS (where applicable and per the conclusions on the **MasterList**). Select samples and then carry forward pensionable salary information provided by the City Department of Finance (DOF) to SDCERS. Recalculate pensionable salary based on data within SAP for each pay-period for the employee selected and compare the recalculation to the amounts provided by DOF. Differences less than 1% of pensionable salary were accepted.
- Determine population of SDCERS Prop B employees who opted in to SDCERS. Ensure the SDCERS employee is enrolled into SDCERS as of July 9, 2022 and is un-enrolled in SPSP-H as of July 8, 2022 by reviewing his/her account in SAP. Ensure the SDCERS employee is enrolled into the appropriate Plan (General 2009) and the entry date appears reasonable by reviewing his/her account in IRIS

- Carry forward conclusions from the **MasterList**. Analyze the data to obtain a population of Active Prop B Employee's with the ability to choose whether to stay in SPSP-H or join SDCERS (per the conclusions on the **MasterList**). Obtain a population of Prop B Employees who were offered a choice from the City's Risk Management Department. Reconcile the two populations above and make selections from those either missing from the **MasterList** or those missing from Risk Management's list. Determine whether the selected employee was appropriately allowed or not allowed a choice to stay in SPSP-H or join SDCERS.
- Obtain a population of Prop B Employees who were offered a choice from the City's Risk Management Department. Filter the population to reflect only those who opted out of SDCERS or who didn't respond. Select a sample and determine whether the selected employee's decision was appropriately supported.
- Carry forward conclusions from the **MasterList**. Analyze the data to obtain a population of Active Prop B Employees who had to join SDCERS or who had the option and chose to join. Select a sample and calculate the years of service to be used to calculate "missed contributions plus interest." Also, calculate gaps in service. Carry forward the associated selection's Cheiron calculation of "missed contributions plus interest." Test for the following:
 - Compare the years of service per Cheiron versus calculated per audit to ensure accuracy.
 - Agree the service credit amount per audit into IRIS to ensure accurately input.
 - Agree the gaps in service credit and whether the time is purchasable per audit into IRIS to ensure accurately input.
- Carry forward samples selected at the "Reasonableness of Payroll Data" Test. Carry forward the payroll data provided by the City to SDCERS for the samples selected. Recalculate "member contributions plus interest." Carry forward the associated selection's Cheiron calculation of "missed contributions plus interest." Compare Cheiron's calculation to the calculation per Audit. Differences less than 5% of Cheiron's calculation were accepted.
- Carry forward Principal's schedule of funds transferred, by employee. Carry forward Cheiron's calculations of "member contributions plus interest," by employee. Analyze the data to determine, for each employee on the Principal schedule, the amount of "member contributions plus interest." Ensure the amount transferred from Principal is at least as much as the "member contributions plus interest."
- Carry forward Principal's schedule of funds transferred, by employee. Carry forward Cheiron's calculation of "actuarial liability" by employee. Analyze the data to determine, for each employee on the Principal schedule, the amount of "actuarial liability." Ensure the amount transferred from Principal is no more than the "actuarial liability" amount.
- Carry forward Principal's schedule of funds transferred, by employee, and select samples. Ensure to capture the total member cost and payment plan amount (pre and post-tax) per the

Principal schedule. Carry forward Cheiron's initial calculations of “member contributions plus interest” and determine the amount of “member contributions plus interest” for the selected employee. Look at the selected Prop B Employee’s record in IRIS and document the SDCERS Plan, Total PSC Amount, Post Tax Amount, Pre-Tax Amount, Pre-Tax COLA, Pre-Tax SS and Pre-Tax Norm Cost per IRIS. Also, calculate allocations between Normal Cost, COLA and SS. Test for the following:

- The total member cost per Principal agrees to the Member Cost per IRIS.
- The Normal Cost, COLA and SS allocations per audit agree to the amounts allocated per IRIS.

- Carry forward conclusions from the **MasterList** and determine which employees should have been included in the Active Prop B Employee population. Carry forward Principal's schedule of funds transferred, by employee. Reconcile the two populations above and any differences between the two populations are deemed exceptions needing further investigation. Those Prop B Employees who opted out of SDCERS were identified and removed from the population of exceptions. Make selections from the remaining exceptions and determine whether the selected employee appropriately had no funds transferred from Principal.
- Carry forward conclusions from the **MasterList**. Analyze the data to determine which employees should have been included in the Active Prop B Employee population and who opted in to SDCERS (where applicable and per the conclusions on the **MasterList**). Carry forward employees included on the IRIS July 22, 2022 and the IRIS September 30, 2022 transmittal files. Analyze the data to determine which Prop B Employees on the **MasterList** are missing from either the July 22, 2022 or September 30, 2022 transmittal files. Sample the remaining items and add additional data such as dates the employee was on LTD, whether he/she was offered a choice to join SDCERS with the first group of employees, and what entry date is applicable per the Muni Code. Test to ensure the employee was allowed a choice in a timely manner, where applicable, the July 22, 2022 and September 30, 2022 transmittal files are complete and accurate and the selection's Prop B records in IRIS are correct.
- Carry forward conclusions from the **MasterList**. Analyze the data to determine which employees should NOT have been included in the Active Prop B Employee population (per the conclusions on the **MasterList**). Carry forward the July 22, 2022 transmittal file. Compare the two populations and determine if any Prop B Employees were included on the July 22, 2022 transmittal file when he/she should not have been. Review the comments and conclusions on the **MasterList** to determine which employees can be filtered out further. Review the remaining comments and conclusions to determine whether it's appropriate that the employee is included in the July 22, 2022 transmittal file.
- Carry forward the July 22, 2022 IRIS transmittal file and select samples. Carry forward the “Original Hire Date,” “Personnel Subarea as of Original Hire Dt” and the conclusions per the **MasterList** for the selected samples. Obtain from IRIS the SDCERS Plan and SDCERS Membership/Entry Date attributed to the selected employee. Test to ensure:

- The employee is appropriately a member of SDCERS.
 - The Plan in which the employee is enrolled is appropriate.
 - The Membership date is appropriate
- Obtain Cheiron's report of City Employees whose Membership Date was designated to be September 17, 2022. Select samples and determine whether the employee is accurately designated as an SDCERS as of September 17, 2022.
- Obtain a data query from the City's Risk Management Department in order to analyze the Prop B Employees. The data query goes through October 18, 2022. Identify a population of anyone rehired after July 8, 2022. Select samples and test to ensure the employee was either appropriately enrolled in SDCERS or was appropriately NOT enrolled in SDCERS. For those that were appropriately enrolled, ensure the membership date and plan are appropriate.
- Obtain a data query from the City's Risk Management Department in order to analyze the Prop B Employees. The data query goes through October 18, 2022. Identify a population of anyone who had an organizational change after July 8, 2022. Review the population further to identify employees who were No Standard Hours (NSH) for the duration of Prop B who then changed to Standard Hours (SH) after July 8, 2022. Test to ensure the employee was appropriately enrolled in SDCERS and the membership date was equal to the date he/she changed from NSH to SH.

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.