



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

MEMORANDUM

**DATE:** February 17, 2022

**TO:** SDCERS Audit Committee

**FROM:** Sarah Dickson, SDCERS Chief Internal Auditor

**SUBJECT:** San Diego Unified Port District Payroll Audit for the period July 1, 2020 through June 30, 2021

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Enclosed is the San Diego Unified Port District (District) Payroll Audit for the period July 1, 2020 through June 30, 2021. Overall, the District has procedures in place for the transmittal of census data and many control strengths were identified during the audit.

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

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Marcelle Voorhies Rossman, SDCERS Deputy Chief Executive Officer  
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## **Internal Audit Report**

# **San Diego Unified Port District Payroll Audit for the Period July 1, 2020 through June 30, 2021**

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

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## **EXECUTIVE SUMMARY**

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Every two weeks, the San Diego Unified Port District (District) transmits to the San Diego City Employees' Retirement System (SDCERS) a file that contains over 10,000 pieces of information on approximately 550 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 District 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 District has procedures in place to ensure complete and accurate census data reporting to SDCERS. Strengths identified during the audit period from July 1, 2020 through June 30, 2021 include:

- Accurately and completely reporting most elements to SDCERS for randomly tested Members. Census data was correctly transmitted to SDCERS with 99% accuracy.<sup>1</sup>
- Paying the correct bi-weekly amount owed to SDCERS.
- Correctly reporting Member's status (e.g. active or on leave).

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

### **Outstanding Recommendations – High Ranking**

Although significant progress has been made, the District collectively has 11 outstanding recommendations relating to the Retirement Benefit Calculations & Setup Audit issued in August 2015 and the Plan Sponsor Contribution and Reporting Audit issued in July 2019.

### **Deferred Retirement Option Plan (DROP) participants – Medium Ranking**

The District's Plan Document does not clearly address how to calculate DROP contributions when a DROP participant's Base Compensation is less than his/her regular Base Compensation resulting from working less than a standard 80-hour work week or from using non-pensionable wage types. As a result, there were inconsistencies in how the District reported Base Compensation to SDCERS for DROP participants under these circumstances.

### **Various Pensionable Compensation Over or Understatements – Medium Ranking**

Based on the various tests performed, there were four errors that resulted in either an understatement or overstatement of the Member's pensionable compensation.

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<sup>1</sup> Percentage based on 25 randomly selected employee records covering the two pay periods – September 25, 2020 through October 8, 2020 and May 21, 2021 through June 3, 2021.

### **General Miscellaneous Member's Retroactive Pay-Raises – Low Ranking**

Based on testing conducted, two General Miscellaneous Members who received retroactive raises effective October 1, 2020 via the pay-period ending June 3, 2021 had a lump sum adjustment added to his/her June 3, 2021 pensionable compensation instead of having each of the 17 pay-periods adjusted individually.

### **Hiring Process – Low Ranking**

One Miscellaneous PEPRAs employee was erroneously entered into the District's payroll system and therefore was not having his data transmitted to SDCERS. Note that Membership and contributions for Miscellaneous PEPRAs employees do not begin until five years after his/her hire date; this employee has not yet reached five years.

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Based on this audit, there were nine total recommendations all of which pertained to the District. The District agrees with all recommendations. Their responses, including anticipated completion dates, are included within each of the findings.

Internal Audit would like to thank the District 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 District and SDCERS' Audit Committee, Board of Administration, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

## INTRODUCTION

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### BACKGROUND

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

Each pay period, the District 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 District 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.

<b>San Diego Unified Port District– Membership Total</b>		
<b>Valuation as of:</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Active Counts	362	361
Terminated Vested	258	277
Disabled	56	55
Retirees <sup>2</sup>	487	455
Beneficiaries	85	89
<b>Total Members</b>	<b>1,248</b>	<b>1,237</b>
Active Member Payroll	\$37,310,562	\$36,810,149
Average Pay Per Active	\$103,068	\$101,967
Benefits in Pay Status	\$30,758,355	\$28,429,092
Average Benefit	\$48,978	\$47,461

*Source: SDCERS – San Diego Unified Port District Actuarial Valuation as of June 30, 2020*

### PRIORITY RATING PROCESS

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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.

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<sup>2</sup> 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: Outstanding Recommendations**

Although significant progress has been made, the District collectively has 11 outstanding recommendations relating to the Retirement Benefit Calculations & Setup Audit issued in August 2015 and the Plan Sponsor Contribution and Reporting Audit issued in July 2019.

**Priority Rating:** High

### **BACKGROUND**

The District has worked diligently over the last several years to remediate their outstanding recommendations. After the Plan Sponsor Contribution and Reporting Audit Report was issued in July 2019, the District had 26 recommendations outstanding, plus two more from two other audits.<sup>3</sup>

### **FINDING & RISK STATEMENT:**

The District currently has 11 outstanding recommendations relating to the Retirement Benefit Calculations & Setup issued in August 2015 and the Plan Sponsor Contribution and Reporting Audit issued in July 2019. The outstanding recommendations can be summarized into three categories:

1. Plan Document Updates
2. Memorandum of Understanding (MOU) Updates
3. Error Corrections

The specific report reference and summarized recommendation by category is as follows:

<b>Category</b>	<b>Report Reference</b>	<b>Summarized Recommendation</b>	<b>Status Update</b>
A. Plan Document Updates	<ul style="list-style-type: none"> <li>• Retirement Benefit Calculations &amp; Set-up Audit #10</li> <li>• Plan Sponsor Contribution &amp; Reporting Audit #1.6c</li> </ul>	<ul style="list-style-type: none"> <li>• Amend §302(h) of the Retirement Plan to the correct dates. The dates in paragraph §302(h) should be amended to match the dates in the table.</li> </ul>	The District created a new draft of their Plan Document in 2020 and supplied it to SDCERS the latter part of 2020. SDCERS provided their comments to the District in early 2021 and the District

<sup>3</sup>One other recommendation outstanding related to the Plan Sponsor Contribution and Reporting Audit issued in June 2016, but was owned by SDCERS and cannot be remediated until after the District completes their remediation.

Category	Report Reference	Summarized Recommendation	Status Update
		<ul style="list-style-type: none"> <li>The District should remove the phrase in the Plan regarding the COL Contributions that states, “which are used to fund the Member’s or Miscellaneous Member’s share of the COLA Program.”</li> </ul>	is now in the process of finalization. This includes, but is not limited to, requesting internal and external legal counsel to review the document once again.
B. MOU Updates	<ul style="list-style-type: none"> <li>Plan Sponsor Contribution &amp; Reporting Audit: <ul style="list-style-type: none"> <li>#1.3</li> <li>#1.5</li> <li>#4b</li> </ul> </li> </ul>	The District’s MOUs should be updated to include the terms of the PEPPRA. The District should also clarify in the MOUs how employee compensation is calculated (e.g. overtime).	The District has appropriately updated the police MOU; however, the teamsters MOUs have been extended for one year to October 1, 2022. If a side-letter doesn’t specify these changes, updates will be made in 2022.
C. Error Corrections	<ul style="list-style-type: none"> <li>Plan Sponsor Contribution &amp; Reporting Audit: <ul style="list-style-type: none"> <li>#1.1</li> <li>#2b</li> <li>#3b</li> <li>#4d</li> <li>#5b</li> <li>#7b</li> </ul> </li> </ul>	The District should determine if pensionable compensation for any Member has been incorrectly reported to SDCERS and communicate to SDCERS the Member accounts required to be corrected.	The District intends to provide a comprehensive list of error corrections to SDCERS. One specific error correction requires more manpower than running a simple payroll report. After error corrections for this one error-type have been identified, all error corrections will be provided at once.

Un-remediated recommendations expose the District to reputational risk, non-compliance risk and risk of errors.

**RECOMMENDATION:**

District Management should remediate all recommendations above as soon as possible. Map out remediation efforts by category above (e.g. Plan Document updates, MOU updates, and error corrections) to ensure feasible implementation deadlines are provided and then calendar the due dates to ensure they are not surpassed.

**MANAGEMENT OWNER:** District Management

**MANAGEMENT’S RESPONSE TO “A: Plan Document”:** The District has continued to work on a restatement of the plan document. Both District and SDCERS staff have reviewed draft updates. The document is undergoing final edits and review of changes suggested by SDCERS, and then will go to outside counsel for a last review. While progress has been made, staffing changes in

fall 2021 and vacancies since have impacted originally planned timelines. The District is now targeting a July 2022 completion date.

**MANAGEMENT’S ESTIMATED COMPLETION DATE FOR “A: Plan Document”:** July 2022

**MANAGEMENT’S RESPONSE TO “B: MOU Updates”:** The District’s current MOUs with its bargaining units have been in place since the time of the prior audit and expire in September 2022. The District is entering negotiations with all four of its bargaining units in summer 2022, with new agreements planned for October 2022. These will be the first MOUs established since the prior audit, and updates to language identified in the audit are expected to be incorporated into the new agreements at that time.

**MANAGEMENT’S ESTIMATED COMPLETION DATE FOR “B: MOU Updates”:** October 2022.

**MANAGEMENT’S RESPONSE TO “C: Error Corrections”:** While payroll system updates corrected prior audit findings on a go-forward basis, the District is continuing to work on identifying needed corrections for pay periods prior to those updates. The plan was to report all the corrections in a single batch. However, a few items have proven to be complex data to evaluate. The District plans to report corrections to SDCERS by April 2022.

**MANAGEMENT’S ESTIMATED COMPLETION DATE FOR “C: Error Corrections”:** April 2022

**Finding #2: DROP Participants**

The District's Plan Document does not clearly address how to calculate DROP contributions when a DROP participant's Base Compensation is less than his/her regular Base Compensation resulting from working less than a standard 80-hour work week or from using non-pensionable wage types. As a result, there were inconsistencies in how the District reported Base Compensation to SDCERS for DROP participants under these circumstances.

**Priority Rating:** Medium

**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 District'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 UPD.

(4) 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 deducted from the Member's salary on a pre-tax basis pursuant to Internal Revenue Code §414(h)(2).

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

**FINDING & RISK STATEMENT:**

The District'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 or uses a nonpensionable wage type resulting in less than the DROP participant's normal Base Compensation.<sup>4</sup> As a result, the District inconsistently reported DROP contributions to SDCERS for DROP participants under these circumstances. See below.

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<sup>4</sup>Amendment 5 to the District's Plan Document clarifies how to calculate contributions for *Active Members* in similar circumstances.

Example A (actual):

Wage Type (abbreviated)	Number	Amount	Base Compensation Reported
Regular	42	\$1,364	
Holiday	8	\$260	
<b>Total</b>		\$1,624	\$2,598*
*Regular rate of pay multiplied by 80 hours, or \$1,364/42*80.			

Example B (hypothetical, for comparative purposes to the table above):

Wage Type (abbreviated)	Number	Amount	Base Compensation Reported
Regular	42	\$1,364	\$1,364
Holiday	8	\$260	\$260
<b>Total</b>		\$1,624	\$1,624

Example A's Base Compensation reported was grossed up, as if working 80 hours while Example B's Base Compensation reported was based on 50 working hours (NOT grossed up).

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

**RECOMMENDATIONS:**

- A. The District 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 or uses a nonpensionable wage type resulting in less than the DROP participant's normal Base Compensation.
- B. The District should modify the payroll system to reflect changes in the Plan Document.
- C. The District Management should determine which employee data was incorrectly reported to SDCERS and communicate to SDCERS the Member accounts requiring correction.

**MANAGEMENT OWNER:** District Management

**MANAGEMENT'S RESPONSE:** The District agrees that the plan document needs to clearly state how to calculate DROP contributions in pay periods when a participant works less than a standard 80-hour work period. The Port plans to make a decision on this item and communicate it to SDCERS by April 2022 and incorporate the decision into the plan document update. Prior practice has processed pensionable salary, the basis for DROP contributions, in the same manner as active participants. Should the Port change this practice we will also report any corrections that may be needed by June 2022.

**MANAGEMENT'S ESTIMATED COMPLETION DATE A:** April 2022 for communication; July 2022 for plan document update

**MANAGEMENT'S ESTIMATED COMPLETION DATE B:** June 2022

**MANAGEMENT'S ESTIMATED COMPLETION DATE C:** June 2022

**Finding #3:** Various Pensionable Compensation Over or Understatements

- A. Based on testing pensionable compensation accuracy for employees who worked greater than 80 “regular” hours<sup>5</sup>, we noted shift differential pay over and above one non-PEPRA employee’s 80 hours of work was erroneously included in pensionable compensation. Note, the “regular” hours over and above this non-PEPRA employee’s 80 hours of work was appropriately excluded from pensionable compensation.
- B. Based on census testing, one non-PEPRA employee was paid lead differential pay at his new, higher rate for the entire pay-period even though the higher rate was only in affect for part of the pay-period. Thus, pensionable compensation was slightly overstated. Note, the employee’s regular rate of pay was appropriately pro-rated.
- C. Based on testing Base Compensation for DROP Members, one DROP Member’s Base Compensation was understated, which appeared to be related to the “Holiday Pay In Lieu” wage type.
- D. Based on focused testing over District employees utilizing COVID-related wage types, one employee had his pensionable compensation understated for two pay-periods. This understatement appeared to be related to the “Fire Extinguisher” wage type.

**Priority Rating:** Medium

**BACKGROUND:**

The District’s Salary Ordinance (SO) indicates the following:

**Section 12. Differential for Lead for Certain Classes in Group D:** when assigned as the responsible lead person for an entire evening, night, weekend or holiday shift, whenever a supervisory class is not on said shift assignment, or when assigned as the Harbor Police Watch Commander, shall be paid at a rate approximately five percent (5%) higher than the employee's base rate of pay for said classes. Employees receiving a lead differential under the provisions of this Section shall not receive differential pay for any paid time off or for time worked while on light or modified duty.

**Section 23. Evening and Night Premium Eligibility:** Any full-time non-sworn employee who is subject to a regularly recurring fixed shift, and where at least fifty percent (50%) of said regularly recurring scheduled hours are between the hours of 1800 hours and 0800 hours (6:00 p.m. – 8:00 a.m.) shall receive an hourly shift differential in the amount of \$1.75. Regular recurring fixed shift shall be defined as a shift where the employee is required to work the same scheduled hours.

The SO also indicates the following:

Pay Type	Pensionable for Classic Members	Pensionable for New Members as defined by PEPRA
Lead Differential	Yes	No

<sup>5</sup> This scenario is typically associated with Dispatchers due to their work schedules.

Pay Type	Pensionable for Classic Members	Pensionable for New Members as defined by PEPRA
Night Premium Pay	Yes	Yes
Holiday Pay In Lieu	Yes	No
Emergency Paid Sick Leave (Families First Coronavirus Response Act)	Yes	Yes
Public Health Emergency Leave (Families First Coronavirus Response Act)	Yes	Yes
Fire Extinguisher	Yes	Yes

Within Article 18 of the police officer bargaining unit’s Memorandum of Understanding (MOU) the following is indicated:

The Salary Ordinance shall reflect the following approximate unadjusted base salary increases for the term of this Memorandum:

- i. October 1, 2019: 3% to Lieutenants, Sergeants, Corporals, Officers
- ii. October 1, 2020: 3% to Lieutenants, Sergeants, Corporals, Officers

In actuality, as a result of COVID-19 impacts, 1.5% of the 3% raise was deferred until the pay period ending June 3, 2021 and then retroactively applied back to October 1, 2020.

**FINDINGS & RISK STATEMENTS:**

A. Based on testing accuracy of pensionable compensation for employees who worked greater than 80 regular hours, one non-PEPRA employee had shift differential pay over and above his regular 80 hours of work that was erroneously included in pensionable compensation. See below:

Wage Type (abbreviated)	#	Amount	Pensionable Compensation Reported	Pensionable Compensation Per Audit	Difference Over/ (Under)
Regular	84	\$3,334	**\$3,174	**\$3,174	
Overtime	12	\$750			
Shift Premium	84	\$147	\$147	*\$140	
Lead Differential	12	\$24	\$24	\$24	
<b>Total</b>		\$4,255	\$3,345	\$3,338	\$7
* Calculated as \$1.75*80 hours.					
**The District’s payroll system appropriately adjusted “Regular” hours down to 80 hours calculated as follows: \$39.27*24 hours plus \$39.86*56 hours					

B. Based on testing census data, one employee selected had lead differential pay during a pay-period where a mid-pay-period raise occurred. The lead differential was applied at the higher rate, rather than pro-rated resulting in a slightly overstated pensionable compensation. See below:

Wage Type (abbreviated)	#	Amount	Pensionable Compensation Reported	Pensionable Compensation Per Audit	Difference Over/ (Under)
Regular	80	\$4,011	\$4,011	\$4,011	
Overtime	23	\$1,954			
Canine Team	80	\$201	\$201	\$201	
Lead Differential	81	\$206	\$206	*\$203	
Educational	1	\$188	\$188	\$188	
<b>Total</b>		\$6,560	\$4,606	\$4,603	\$3
*Calculated as 5%*\$49.34*37 hours plus 5%*\$50.83*44 hours.					

C. Based on testing Base Compensation for DROP Members, one DROP Member’s Base Compensation was understated. Management asserted the difference relates to the “Holiday Pay in Lieu” wage type. See below:

Wage Type (abbreviated)	#	Amount	Pensionable Compensation Reported	Pensionable Compensation Per Audit	Difference Over/ (Under)
Regular	74.5	\$3,919		*\$4,129	
Overtime	17	\$1,451			
Holiday Premium	10	\$263		\$263	
Vacation Pay	1.5	\$79		\$79	
Holiday pay in Lieu	8	\$421		\$421	
Educational	1	\$188		\$188	
WC Appt-Off Duty	4	\$210			
<b>Total</b>		\$6,531	\$4,659	*\$5,080	(\$421)
*For the “Pensionable Compensation Per Audit,” we grossed up wages; we added 4 hours of work times regular rate of pay ( $\$3,919/74.5 = \$52.60 * 4 = \$210$ ). If we had not done so, the difference would have been lower (half the difference amount as currently stated above, or ~\$211). See Finding #2 above for further discussions regarding this matter.					

D. Based on focused testing over District employees utilizing COVID-related wage types, one employee had his pensionable compensation understated for two pay-periods. Management asserted the difference relates to the “Fire Extinguisher” wage type. See below for PPE June 3, 2021:

Wage Type (abbreviated)	#	Amount	Pensionable Compensation Reported	Pensionable Compensation Per Audit	Difference Over/ (Under)
Regular	59	\$1,870		\$1,870	
COVID ESL	13	\$453		\$453	
Holiday Pay	8	\$254		\$254	
Out of Class	67	\$106		\$106	
Fire Extinguisher	67	\$106		\$106	
<b>Total</b>		\$2,789	\$2,682	\$2,789	(\$107)

Misstated pensionable compensation increases the risk of misstating the Member’s high one-year or three-year salary calculation as well as the Member’s calculated contributions

**RECOMMENDATIONS:**

Ai – Di. The District should determine the root cause of the error and rectify.

Aii. – Dii. The District should determine which employee data was incorrectly reported to SDCERS and communicate to SDCERS the Member accounts requiring correction.

**MANAGEMENT OWNER:** District Management

**MANAGEMENT’S RESPONSE Ai-Aii:** The District agrees with the finding that in most circumstances, including the case tested in the audit, differentials for a non-PEPRA employee should not exceed the employee’s regularly scheduled 80 hours. The District is working to identify a method to address this configuration in the payroll system. The current estimated completion date is July 2022, with corrections reported by September 2022.

**MANAGEMENT’S ESTIMATED COMPLETION DATE Ai:** July 2022

**MANAGEMENT’S ESTIMATED COMPLETION DATE Aii:** September 2022

**MANAGEMENT’S RESPONSE Bi-Bii:** The District agrees that its payroll system is currently processing lead differential at a single rate during the pay period, rather than at the different rates that apply when an employee has received a pay change within the pay period. The District will update its system configuration, including reviewing other potentially impacted differential and premium wage types, with configuration updates estimated for July 2022. The reporting of corrections on this item will require discussions with SDCERS management.

**MANAGEMENT’S ESTIMATED COMPLETION DATE Bi:** July 2022

**MANAGEMENT’S ESTIMATED COMPLETION DATE Bii:** To be determined after discussions with SDCERS.

**MANAGEMENT’S RESPONSE Ci-Cii:** The District agrees that the base compensation for the tested case is understated. At this time the District believes that this issue is an interaction between Holiday Pay in Lieu, off duty workers compensation appointment time, and methods for identifying the employee’s regularly scheduled 80 hours. Configuration updates are estimated for July 2022. Timelines for reporting corrections will depend on the specific details as the item is researched further but is currently estimated as September 2022.

**MANAGEMENT’S ESTIMATED COMPLETION DATE Ci:** July 2022

**MANAGEMENT’S ESTIMATED COMPLETION DATE Cii:** September 2022

**MANAGEMENT’S RESPONSE Di-Dii:** The District agrees that the Fire Extinguisher wage type is not correctly incorporated into pensionable pay. This item impacts 2 employees. Configuration updates will be completed in February 2022 and reporting of corrections will be completed by April 2022.

**MANAGEMENT’S ESTIMATED COMPLETION DATE Di:** February 2022

**MANAGEMENT’S ESTIMATED COMPLETION DATE Dii:** April 2022

**Finding #4: General Miscellaneous Member’s Retroactive Pay-Raises**

Based on testing conducted, two General Miscellaneous Members who received retroactive raises effective October 1, 2020, via the pay-period ending June 3, 2021, had a lump sum adjustment added to his/her June 3, 2021 pensionable compensation instead of having each of the previous 17 pay-periods adjusted individually.

**Priority Rating:** Low

**BACKGROUND:**

Within Article 19 of the various teamster bargaining unit’s Memorandum of Understanding (MOU) the following is indicated:

The Salary Ordinance shall reflect the following approximate unadjusted base salary increases for the term of this MOU:

- i. October 1, 2016 across the board increase will be 3.0%.
- ii. Second through 5th year salary increases will be a minimum of 1.5%.

In actuality, 1.5% raises were awarded to teamsters as of October 1, 2020 (4<sup>th</sup> year). As a result of COVID-19 impacts, the teamsters deferred their entire pay-raises, or 1.5%, until the pay period ending June 3, 2021. Raises were retroactively applied.

**FINDING & RISK STATEMENT:**

Based on testing conducted, two General Miscellaneous Members who received retroactive raises effective October 1, 2020, via the pay-period ending June 3, 2021, had a lump sum adjustment added to his/her June 3, 2021 pensionable compensation instead of having each of the previous 17 pay-periods affected adjusted individually. See example below:

#	PPE	Pensionable Compensation Reported	Pensionable Compensation Per Audit	Difference
1	6/3/2021	\$2,999.60	\$2,414.40	-\$585.20
2	5/20/2021	\$2,379.20	\$2,414.40	\$35.20
3	5/6/2021	\$2,379.20	\$2,414.40	\$35.20
4	4/22/2021	\$2,379.20	\$2,414.40	\$35.20
5	4/8/2021	\$2,379.20	\$2,414.40	\$35.20
6	3/25/2021	\$2,379.20	\$2,414.40	\$35.20
7	3/11/2021	\$2,379.20	\$2,414.40	\$35.20
8	2/25/2021	\$2,379.20	\$2,414.40	\$35.20
9	2/11/2021	\$2,379.20	\$2,414.40	\$35.20
10	1/28/2021	\$2,379.20	\$2,414.40	\$35.20
11	1/14/2021	\$2,379.20	\$2,414.40	\$35.20
12	12/31/2020	\$2,379.20	\$2,414.40	\$35.20
13	12/17/2020	\$2,379.20	\$2,414.40	\$35.20
14	12/3/2020	\$2,379.20	\$2,414.40	\$35.20
15	11/19/2020	\$2,379.20	\$2,414.40	\$35.20

#	PPE	Pensionable Compensation Reported	Pensionable Compensation Per Audit	Difference
16	11/5/2020	\$2,379.20	\$2,414.40	\$35.20
17	10/22/2020	\$2,379.20	\$2,414.40	\$35.20
18	10/8/2020	\$2,379.20	\$2,402.20	\$22.00
Net Impact				\$0

Adjusting pensionable compensation all at once instead of adjusting each pay-period individually increases the risk of misstating the Member’s high three-year salary calculation.

**RECOMMENDATIONS:**

- A. The District should determine the root cause of this error and rectify.
- B. The District should determine which employee data was incorrectly reported to SDCERS and communicate to SDCERS the Member accounts requiring correction.<sup>6</sup>

**MANAGEMENT OWNER:** District Management

**MANAGEMENT’S RESPONSE:** This finding is accurate and the District internally identified this issue and corrected system configuration in 2021. General Miscellaneous Members are not required to make employee contributions to the plan. The original configuration in the transmittal file reported any pensionable salary calculated during the pay period, whether current or retroactive, as part of the current pay period instead of processing adjustment records for prior pay periods for retroactive changes. District staff identified the issue after a large set of retroactive pay changes was processed in May 2021. File configuration was updated in June 2021. While no employee contributions are impacted, District staff will research and report pensionable salary adjustments with an estimated completion date of April 2022.

**MANAGEMENT’S ESTIMATED COMPLETION DATE A:** June 2021

**MANAGEMENT’S ESTIMATED COMPLETION DATE B:** April 2022

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**RECOMMENDATION 4A HAS BEEN COMPLETED.** As indicated in “Management’s Response,” configurations were rectified in June 2021. Screen-shots provided by the District were reviewed by the Chief Internal Auditor to ensure configurations were corrected.

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<sup>6</sup> To provide additional context, there were approximately 39 General Miscellaneous Members for the pay-period ending June 3, 2021 and not all of them were subject to the 1.5% retroactively applied increase.

**Finding #5: Hiring Process**

One Miscellaneous PEPRAs employee was erroneously entered into the District's payroll system and therefore was not having his data transmitted to SDCERS. Note that Membership and contributions for Miscellaneous PEPRAs employees do not begin until five years after his/her hire date; this employee had not yet reached five years.

**Priority Rating:** Low

**BACKGROUND:**

Upon hiring, Human Resources will obtain necessary, completed documentation (e.g. I-9, Employee Master Data Form) and then enter pertinent information into the payroll system. Another Human Resources employee will check the data enterer's work to ensure it is complete and accurate. The documentation is then filed in the employee's personnel file.

PEPRA Members do not start contributing to SDCERS or become Members of SDCERS until after five years of employment. The District communicates these PEPRA Member's information to SDCERS via the bi-weekly transmittal file regardless of whether they are Members or not.

**FINDING & RISK STATEMENT:**

One Miscellaneous PEPRA employee was erroneously entered into the District's payroll system and therefore was not having his data transmitted to SDCERS. Further testing was conducted to determine if this was likely a one-time error, however, another Miscellaneous PEPRA employee was discovered with the same circumstances. This error is not deemed significant because Miscellaneous PEPRA employees do not become Members or begin contributing until after five years of employment.

Incorrect data entry increases the risk that pertinent information will not be communicated timely to SDCERS.

**RECOMMENDATION:**

Train District employees on how to accurately enter new-hire information into the payroll system.

**MANAGEMENT OWNER:** District Management

**MANAGEMENT'S RESPONSE:** The District agrees with the finding, a manual data entry error occurred on a rehired employee that prevented him from being included in the transmittal file. This particular employee was corrected when the issue was identified during fieldwork for this audit in November 2021. District staff reviewed all other employees in November 2021, identified and made one other correction, and verified that all other employees were being appropriately reported.

In September 2021 the District began implementation of a new human resources information system. An automated process for certain standard new hire data has been established. The error identified in this finding was a manual item of data entry at the time, but as of February 2022 this

data is created via this new automated system process upon an employee's hire or rehire.

**MANAGEMENT'S ESTIMATED COMPLETION DATE:** February 2022

## **INHERENT LIMITATIONS**

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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**

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I have concluded work on the District Payroll Audit. Based on the audit work performed, I have determined the following:

The District is meeting objectives in the following areas:

- Census data
- Transmittal payments
- Reporting Members' status

Implementation of the nine recommendations contained in this Audit Report should assist the District in improving the pension payroll process.

# **APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY**

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## **AUDIT OBJECTIVES**

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The objective of the audit was to determine whether the District 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**

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This audit was performed for the period from July 1, 2020 through June 30, 2021 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.
- Carried forward transaction walkthroughs from prior audits.
- Randomly selected 25 transmittal records covering pay periods that include: pay-raises (October 8, 2020) and at least one holiday (June 3, 2021) during the audit period July 1, 2020 through June 30, 2021. 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 (2021=\$290K and 2020=\$285K), and PEPRA caps (2021 = \$128,059 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 two pay periods selected (October 8, 2020 and June 3, 2021), 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.
- For the pay periods in which we have payroll remuneration reports (these were requested to clear outstanding recommendations throughout FY21 and five pay periods were used on this test), filter employees in DROP who appeared to work less than 80 hours and determine whether they received pensionable pay equal to 80 hours when they only worked partial hours.
- Select Members from each of the two pay periods selected (October 8, 2020 and June 3, 2021) that have more than 80 hours reported and determine if the Member's pensionable compensation is appropriate.
- For the two pay-periods selected (October 8, 2020 and June 3, 2021), determine if the District is correctly calculating pensionable compensation when an employee uses FFCRA/COVID time.
- Determine if SDCERS is receiving adequate information to assess the reasonableness of a Member's status (e.g. active or on leave) and whether the time is appropriately categorized as purchasable or non-purchasable, where applicable, for the two pay-periods selected (October 8, 2020 and June 3, 2021).
- Select employees who were on the District's October 8, 2020 and June 3, 2021 payroll file but not on the associated transmittal file and determine if the employees are appropriately classified as a Member or Not. This is testing for missing Members that should be included in the Plan.
- Determine if anyone on the District's June 3, 2020 payroll is also being paid retirement benefits. Sub-select samples to ensure compliance with IRS regulations and SDCERS policies.
- For the two pay-periods selected (October 8, 2020 and June 3, 2021), determined how much was owed by the Plan Sponsor versus how much was paid and determined if there were any differences.
- Reviewed the October 8, 2020 transmittal file and filtered to determine which employees, if any, would likely surpass the limit or cap during CYE 2020. Then determined if the Member did in fact surpass the Code section 401(a)(17) limit or PEPPRA 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.