



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

MEMORANDUM

DATE: March 29, 2024

TO: SDCERS Audit Committee

FROM: Sarah Dickson, SDCERS Chief Internal Auditor

SUBJECT: San Diego County Regional Airport Authority Pension Payroll Audit for the period July 1, 2022 through June 30, 2023

Enclosed is the San Diego County Regional Airport Authority (SDCRAA) Pension Payroll Audit for the period July 1, 2022 through June 30, 2023. Overall, the SDCRAA has procedures in place for the transmittal of census data and many control strengths were identified during the audit.

I would like to thank the SDCRAA 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: Kimberly Becker, SDCRAA President/Chief Executive Officer
Scott Brickner, SDCRAA Vice President/Chief Financial Officer
Monty Bell, SDCRAA Director, Human Resources
Kim Rodriguez, SDCRAA Senior Human Resources Analyst - Benefits
Amy Gonzalez, SDCRAA General Counsel
Elizabeth Stewart, SDCRAA Director, Accounting
Lee Parravano, SDCRAA Chief Auditor
Gregg Rademacher, SDCERS Chief Executive Officer
Johnny Tran, SDCERS Chief Compliance Officer/General Counsel



Internal Audit Report

San Diego County Regional Airport Authority

Payroll Audit

for the Period July 1, 2022 through June 30, 2023

Prepared by:

Sarah Dickson, Chief Internal Auditor

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EXECUTIVE SUMMARY

Every two weeks, the San Diego County Regional Airport Authority (Airport) transmits to the San Diego City Employees' Retirement System (SDCERS) a file that contains approximately 10,000 pieces of information on approximately 400 Members. The information includes Member name, pensionable salary, Member contributions, class of employee, and Member date of birth. The transmittal file updates each Member's data contained within SDCERS' pension administration system, IRIS. Member data is used by SDCERS to determine items such as service retirement eligibility, monthly base salary for benefits, benefit formula, and death benefits. Collectively, the underlying member data is referred to as "census data". The objective of the audit was to determine whether the Airport complied with applicable sections of their Plan Document, Public Employees' Pension Reform Act (PEPRA), and SDCERS' Board Policies, and to validate completeness and accuracy of census data.

The Airport has procedures in place to ensure complete and accurate census data reporting to SDCERS. Strengths identified during the audit period from July 1, 2022 through June 30, 2023 include:

- Correctly applying the pensionable compensation cap for tested Members.
- Correctly reporting pensionable compensation for the bi-weekly pay periods tested.

There are no findings or observations to report for the period from July 1, 2022 through June 30, 2023.

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

The information in this report is intended solely for the use of the Airport and SDCERS' Audit Committee, Board of Administration, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

INTRODUCTION

BACKGROUND

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

Each pay period, the Airport transmits to SDCERS information such as Member name, pensionable salary, Member contributions, class of employee, and Member date of birth. The transmittal file is reported to SDCERS via the Employer Self Service Portal (ESS). The transmittal file updates each Member's data contained within SDCERS' pension administration system, IRIS. Member data is used by SDCERS to determine items such as service retirement eligibility, monthly base salary for benefits, benefit formula, and death benefits. Collectively, the underlying member data is referred to as "census data". The objective of the audit was to determine whether the Airport complied with applicable sections of their Plan Document, Public Employees' Pension Reform Act (PEPRA), and SDCERS' Board Policies, and to validate completeness and accuracy of census data.

San Diego County Regional Airport Authority – Membership Total		
Valuation as of:	June 30, 2023	June 30, 2021
Active Counts	364	353
Terminated Vested	196	182
Disabled	3	3
Retired ¹	184	172
Beneficiaries	12	12
Total Members	<u>759</u>	<u>722</u>
Active Member Payroll	\$35,607,167	\$32,528,943
Average Pay Per Active	\$97,822	\$92,150
Benefits in Pay Status	\$9,920,310	\$9,132,255
Average Benefit	\$49,851	\$48,836

Source: SDCERS – San Diego County Regional Airport Authority Actuarial Valuation as of June 30, 2023

AUDIT RESULTS

There are no findings or observations to report for the period from July 1, 2022 through June 30, 2023.

¹ Includes DROP participants.

INHERENT LIMITATIONS

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

CONCLUSION

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

The Airport is meeting objectives in the following areas:

- Correctly applying the pensionable compensation cap for tested Members
- Correctly reporting pensionable compensation for the bi-weekly pay periods tested.

There are no observations or findings to report at this time.

APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY

AUDIT OBJECTIVES

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

AUDIT SCOPE & METHODOLOGY

This audit was performed for the period from July 1, 2022 through June 30, 2023 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.
- Became familiar with departmental objectives, how they are attained, how they are monitored and how results are determined.
- Walked through transactions subject to auditing, including correlating controls. This included interviewing staff responsible for processing transactions within scope to ascertain what job duties they perform, records they have access to, and authorization they have in order to determine if there are any issues that should be addressed.
- Randomly selected 25 transmittal records covering pay periods that include: pay-raises and at least one holiday during the audit period July 1, 2022 through June 30, 2023. 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 (\$330K = Calendar 2023 & \$305K = Calendar 2022), and PEPRA caps (\$146,042 for 2023 and \$134,974 for 2022).

- 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 PEPRAs Members only – California Government Code 7522.34(a)).
- Selected pay-period ending October 6, 2022 and reviewed the associated Payroll Register's cumulative pay-codes. Selected those that are less frequently used. Selected a sample, where appropriate, of those employees who used the pay-codes selected and determined whether they were appropriately included in or excluded from pensionable compensation.
- For the pay periods selected, selected all Members from each pay period that had partial hours reported (i.e., hours are less than 80) that were not hired or terminated during the pay-period and determined if the Member's pensionable compensation was appropriate.
- Determined if SDCERS is receiving adequate information to determine a Member's status (e.g. active or on leave) and whether the time was appropriately categorized as purchasable or non-purchasable, where applicable.
- Reviewed the payroll register to determine which employees did not have SDCERS-related deductions (and therefore were not Members). Investigated those employees to determine why they did not have SDCERS-related deductions and whether they were appropriately NOT Members.
- Obtained the FY2023 actuary payee file and the payroll report dated June 1, 2023 (the closest to fiscal year-end) to determine active employees as of June 1, 2023. Conducted a match to determine who was on the actuary file in addition to the active payroll file and selected a sample. Also, obtained the FY2023 actuary payee file and obtained a report of 1099's as of December 31, 2022. Conducted a match to determine who was on the actuary file in addition to the 1099 file and selected a sample. Tested to ensure compliance with IRS regulations and SDCERS' policies regarding rehired retirees.
- Reviewed the October 6, 2022 transmittal file and filtered to determine which employees, if any, would likely surpass the limit or cap during CYE 2022. Then determined if the Member did in fact meet the limit or cap and therefore had associated contributions ceased appropriately.
- For the Employer Self Service Portal (ESS) at the Airport, ensured those with access as of May 2023 were appropriate.

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.