



Plan Sponsor Contribution and Reporting Audit - City of San Diego



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June 3, 2015

Audit Objectives and Scope

- Evaluate the controls over member records and payroll data submitted by the City to SDCERS and to verify the accuracy and adequacy of that information
- Audit Period July 1, 2011 through June 30, 2013

Findings

- Finding #1: The City of San Diego has not been contributing annually the amount necessary to fund a normal retirement allowance during the period July 1, 1994 to June 30, 2013 due to discounting employee offsets.
 - Priority Rating: High
- Finding #2: The amount paid for Multiple Certification pay could not be traced to an MOU or signed supporting documentation.
 - Priority Rating: Low

Finding #1

- Annually SDCERS actuary performs an actuarial valuation
 - Actuarial valuation determines:
 - Normal Cost
 - Actuarial Accrued Liability
 - Actuarial Value of Assets
 - Actuarial Present Value for a Pension Plan
 - Actuary makes assumptions regarding future events such as:
 - Mortality
 - Withdrawal
 - Disablement and Retirement

Finding #1

- City's annual retirement cost is made up of two parts:
 - Normal Cost – The cost of the benefit that is attributed to the current year of service
 - Payment on the Unfunded Actuarial Liability (UAL) – Amortized annual payment between the difference of the actuarial value of assets and actuarial value of liabilities

Finding #1

The Normal Cost is split substantially equal between employer and employee rates.

Employer Normal Cost

+

Employee Normal Cost

=

Total Normal Cost

Finding #1

Part of the employee Normal Cost is subject to offset by the City as determined through meet and confer process

Employer Normal Cost

+

Employee Normal Cost
paid by City

Employee Normal Cost
paid by employee

=

Total Normal Cost

Finding #1

The offset is not refunded to employees at termination

Employer Normal Cost

+

Employee Normal Cost
paid by City

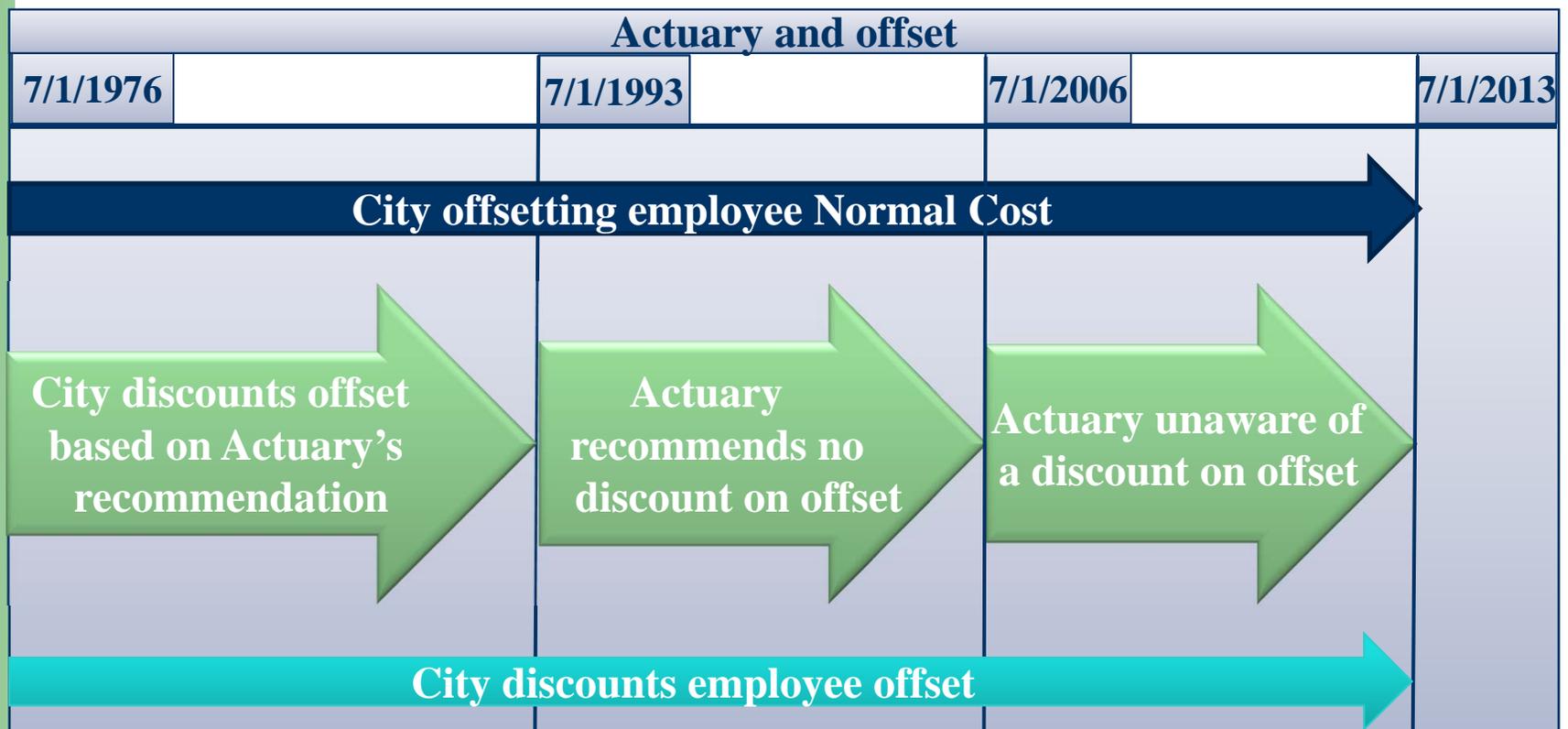
Employee Normal Cost
paid by employee

=

Total Normal Cost

Finding #1

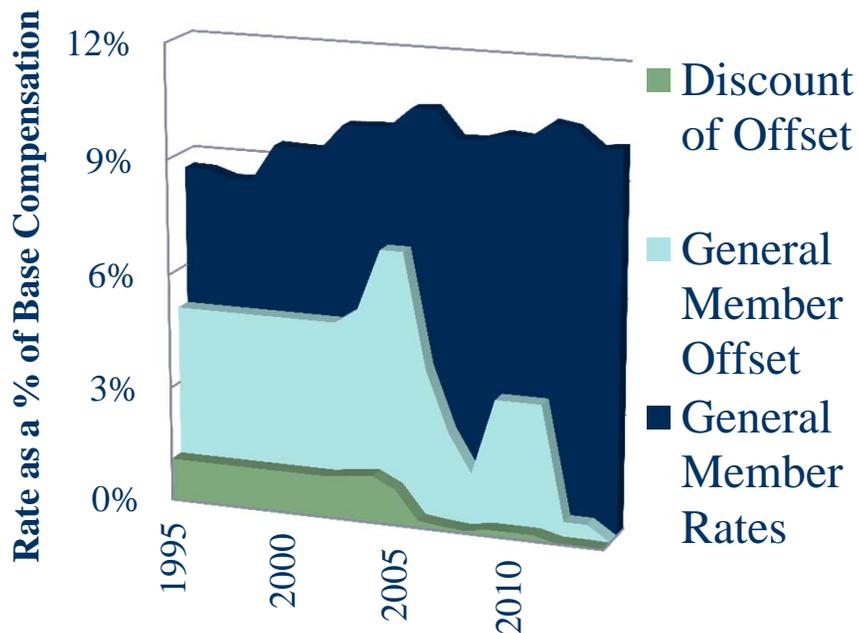
Actuary and offset recommendations



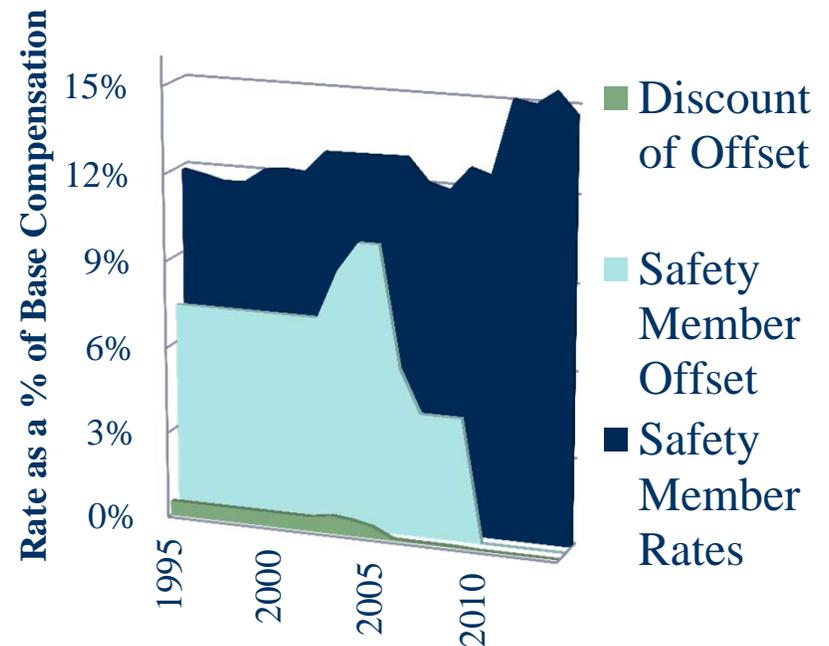
Finding #1

General and Safety Member Rates

General Member



Safety Member



Finding #1

- City Charter Section 143
 - Employees shall contribute according to actuarial tables adopted by the Board of Administration for a normal retirement allowance
 - The City shall contribute annually an amount substantially equal to that required of the employees for normal retirement allowances
 - In no circumstances shall the City and the Board enter into multi-year contracts or agreements defraying full funding of City obligations to the System

Finding #1

- Discounted employee offsets from July 1, 1994 to June 30, 2013
 - Were not based on actuarial amounts
 - Were calculated outside the actuarial process
 - SDCERS Board approved the discount amounts for contributions from July 1, 1994 to June 30, 2006
 - Difference between the Normal Cost and the amount actually contributed is an experience gain/loss
 - Any gain/loss is paid as a component of the UAL

Finding #1

- Discounted employee offsets from July 1, 1994 to June 30, 2013 (Continued)
 - Collecting the discounted employee offset as a component of UAL is a violation of the Plans terms
 - Failing to administer the Plan with its terms could risk the Plan's qualified status
 - The Board should undertake reasonable efforts to seek payment for the discounted offsets
 - Failing to undertake reasonable efforts to seek payment is a violation of the Board's obligation

Finding #1

- Discounted employee offsets from July 1, 1994 to June 30, 2013 (Continued)
 - The gross amount of discounted employee offsets not remitted to SDCERS, as calculated by SDCERS Internal Auditor, is estimated to be \$49,000,000 at June 30, 2014
 - The net amount of discounted employee offsets not remitted to SDCERS, as calculated by SDCERS Internal Auditor, is estimated to be \$23,000,000 at June 30, 2014.
 - \$23,000,000 does not account for interest or the years when the City's contribution to SDCERS was less than the Annual Required Contribution/Actuarially Determined Contribution
 - The difference between the \$49,000,000 and the \$23,000,000 is due to payments made on the amortization of the UAL.

Finding #2

- The amount paid for Multiple Certification pay could not be traced to an MOU or signed supporting documentation
 - MOU does not state if second certification is paid at a set rate or if it should be paid in an amount equal to the certificate obtained
 - Pay was based on an unsigned memo from 2001

SDCERS Board

- Audit Report was presented on March 13, 2015 to SDCERS Board of Administration
- SDCERS Board of Administration met in closed session on March 13, 2015 & May 8, 2015
 - No reportable action was taken

Questions?