

Internal Control Items with a Direct Impact on Financial Reporting - SDCERS

Exhibit D

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
1	The City should contribute to SDCERS annually the Annual Required Contribution, as calculated by SDCERS actuary, including an amount sufficient to amortize existing UAAL over a reasonable period of time that assures that current taxpayers are paying for the full cost of services rendered by employees of the City and not passed on to future generations.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>Per 2/21/07 4th Mayor Kroll Status report: "Complete. The Mayor's five Year Plan contains full ARC (Annual Required Contribution) contributions over an amortization period in compliance with the "Gleason Settlement." The City's budget for fiscal year 2007 contains a contribution of \$162 million to pay the full ARC. This contribution was made at the beginning of the fiscal year (July 2006).</p> <p>Additionally, the plan for fiscal years 2008-2012 provides for payment of ARC plus to eliminate negative amortization of the UAAL (Unfunded Actuarial Accrued Liability). The ARC plus contribution amounts to an additional \$27.1 million annual contribution over this period, or \$135.5 million in total.</p> <p>The survey results can be accessed on the City's website at:</p> <p>http://www.sandiego.gov/mayor/pdf/five_year_plan_11_15.pdf"</p>	Feb-07	NA	Yes - SDCERS Bank Cash Transaction Statement Reports for July 2006 (FY07) and July 2007 (FY08) detailing Plan Sponsor Contributions from the City of San Diego were reviewed. The payment amounts, \$162 million and \$165 million, respectively, were consistent with the actuarial assumptions or methods used in the June 30, 2005 Annual Valuation. This item has been accepted by Internal Audit as remediated.

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2	The costs should be reflected in the City's annual budget and five-year plan, and variances caused by changes in actuarial assumptions should be explained.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 11/22/06 3rd Mayor Kroll Status report: "Complete. For clarification purposes, [this item] relates to costs for proposed new retirement benefits for city employees. The City acknowledges the need to accurately calculate the costs of any new retirement benefits and includes such costs in all budgets and five year plans. Additionally, the voters passed Proposition B which will require the City to obtain voter approval for any increases (with the exception of cost of living) in municipal pension benefits."	Nov-06	NA	No
3	The City should not use its contribution to pay for any benefits other than retirement benefits and the related costs of administering the Plan. Thus, no portion of the City's annual contribution to SDCERS should be credited against the City's obligation to pay retiree healthcare costs, or for any other of the so-called "Waterfall" payments, unless and until the City pays the required ARC.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 2/21/07 4th Mayor Kroll Status report: "City Attorney action complete. The Municipal Code change to repeal the "Waterfall" payments is in the process of being docketed."	Feb-07	NA	No

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4	The Audit Committee concurs with actions being taken by the Retirement Administrator to establish a financial reporting function within SDCERS.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>Per 2/21/07 4th Mayor Kroll Status report: Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation."</p> <p>Per SDCERS letter dated January 31, 2007: "SDCERS' Financial Reporting and Administration Division...has been expanded to include four accountants, one management analyst and three support staff - the most experienced and talented financial team in SDCERS' history."</p>	Feb-07	NA	No
5	For purpose of calculating annual funding requirements, the UAAL should reflect a prudent view of economic reality and include within it the costs of the Corbett settlement.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>Per 4/9/07 5th Mayor Kroll Status report: "Substantially complete. SDCERS Board action approved and directed the actuary to include the costs of the Corbett settlement and 13th check. The Actuary report dated January 2007 contains these components in the UAAL. The Actuarial Valuation Report was presented at the SDCERS board meeting dated January 19, 2007.</p> <p>In addition, the SDCERS Board has directed its actuary to complete an experience study which will be presented to the Board in the winter of 2008. This study will provide the Board with information to make further assumption decisions such as the appropriate discount rate and salary growth SDCERS should use."</p>	Apr-07	NA	No

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6	The Retirement Administrator and CFO of SDCERS should annually include in the SDCERS' CAFR a signed management report on the financial statements and disclosures which include a statement of SDCERS' responsibility for establishing and maintaining an effective system of internal control over financial reporting and disclosures; a statement setting forth SDCERS' assessment of the effectiveness of the internal controls; a statement that based on their knowledge, the CAFR does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the CAFR not misleading; and a statement that the financial statement and other information included in the CAFR fairly present in all material respects the net assets and activities of SDCERS for the period presented.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	SDCERS is committed to accepting responsibility for establishing and maintaining an effective system of internal control over financial reporting and disclosures. As such, SDCERS plans to comply with the 2005 edition (most current) of the Government Finance Officers Association (GFOA) "Blue Book," Governmental Accounting, Auditing, and Financial Reporting (GAAFR) that provides guidance on financial reporting for state governments. The GAAFR's latest guidance on transmittal letters is that they contain a statement that says "Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements."	Dec-07	NA	No

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				The GAAFR's guidance is consistent with GASB Statement No. 34, Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments. SDCERS will include this statement in its CAFR transmittal letter consistent with this guidance beginning with the June 30, 2006 report. The City adopted similar language in its 2005 CAFR Transmittal Letter, and Macias Gini & O'Connell also concur with this approach.			

Footnotes:

- [1] Per information provided to Internal Audit by Management Staff and information provided via the Mayoral Kroll Status updates.
- [2] "Date Reported" refers to the date the finding was reported as remediated via: 1) Memos from Management, 2) Mayoral Kroll Status Reports, 3) Status Reports to Internal Audit from Process Owners, 4) Independent Auditor's Reports and 5) Report from John Dyer, Mayoral Consultant, to Internal Audit.