

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 13, 2016
“*Communications Received and Filed*” Item

To: Board of Supervisors

From: Department of Finance

Subject: County Of Sacramento 401(a) Plan Compliance Review For The Period
January 1, 2015 To December 31, 2015

Supervisory District: All

Contact: Ben Lamera, Director of Finance, 874-7450

RECOMMENDATION

Receive and file the attached, *County Of Sacramento 401(a) Plan Compliance Review For The Period January 1, 2015 To December 31, 2015.*

Respectively Submitted,

Ben Lamera
Director of Finance

Attachment 1: County of Sacramento 401(a) Plan Compliance Review for the Period
January 1, 2015 to December 31, 2015

**COUNTY OF SACRAMENTO
INTERNAL SERVICES
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER**

Inter-Departmental Correspondence

July 7, 2016

To: David Villanueva
Chief Deputy County Executive/ Plan Administrator

From: Ben Lamera
Director of Finance

By Alan A. Matré
Chief of Audits



Subject: **COUNTY OF SACRAMENTO 401(a) PLAN COMPLIANCE**

We have performed the procedures enumerated below, and on page 2 of this report, for the County of Sacramento, Department of Personnel Services (Personnel Services). These procedures were performed solely to evaluate the compliance of the County of Sacramento 401(a) Plan (401 Plan) to California Government Code Section 53215 *et seq.*, Internal Revenue Services' (IRS) regulations, and the 401 Plan trust documents for the plan (calendar) year, January 1, 2015 to December 31, 2015. Personnel Service's management is responsible for maintaining compliance for the 401 Plan. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, and on page 2 of this report, either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below, and on page 2 of this report, and is not intended to pertain to any of Personnel Service's other operations, procedures, or compliance with laws and regulations. The procedures we performed are summarized as follows:

1. Tested contributions from the employee and employer to determine whether the amounts received are properly recorded in the proper account, period, and disclosed in the individual's financial statement by record keeper, and whether any appropriate allowances have been made for uncollectable/forfeited amounts.

Finding: We did not note any issues that required attention as a result of our procedures.

2. Reviewed transfer process of funds from employer to record keeper to ensure transfer of amounts is timely, secure, and posted promptly by cut off time and given accurate Net Asset Value (NAV) at the record keeper.

Finding: We did not note any issues that required attention as a result of our procedures.

3. Reviewed procedures regarding the secure, accurate and timely transmission of relevant participant data, such as payroll data establishing eligibility, to determine whether all eligible covered employees have been properly included, whether accurate participant data is supplied to record keeper, and whether the record keeper utilizes the data in a timely manner.

Finding: We noted that the participants' deferral amounts with workers compensation wages were calculated incorrectly. See Finding 1 in Attachment I, *Findings and Recommendations*. We also noted that only one individual performs manual changes and entries in the Sacramento County Enterprise Resource Planning System (a.k.a. COMPASS) and/or Fidelity. See Finding 2 in Attachment I, *Findings and Recommendations*. We further noted that reports used to determine changes and entries were not maintained. See Finding 3 in Attachment I, *Findings and Recommendations*.

4. Tested if investments are properly recorded, and properly valued as of the statement date (generally at fair value), and that investment transactions or capital gains are made in accordance with the plan's established investment policies.

Finding: We did not note any issues that required attention as a result of our procedures.

5. Tested whether investment income has been properly allocated to individual participant accounts.

Finding: We did not note any issues that required attention as a result of our procedures.

6. Tested if the revenue sharing income (revenue allowance) net of recordkeeping fees from the plan's investment selections has been properly recorded.

Finding: We noted that the revenue allowances and recordkeeping fees were not recorded in COMPASS. We further noted that these invoices were not reviewed by Personnel Services. See Finding 4 in Attachment I, *Findings and Recommendations*.

7. Tested whether contributions are automatically restricted at employer or if not, are reimbursed.

Finding: We did not note any issues that required attention as a result of our procedures.

8. Reviewed employer contributions to determine whether the payments are in accordance with plan provisions and related documents.

Finding: We noted that the employer contribution for one participant with workers compensation wages was calculated incorrectly. See Finding 1 in Attachment I, *Findings*

and Recommendations. We also noted that manual entries for employer contributions for two participants were calculated incorrectly. See Finding 2 in Attachment I, *Findings and Recommendations.*

We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on Personnel Services cash balances, financial schedules, compliance, or results of our procedures referred above. Accordingly, we do not express such opinions. This report relates only to the review of Personnel Services maintaining compliance for the 401 Plan and does not extend to Personnel Service's operations as a whole. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Personnel Service's responses to the findings identified during our engagement are described in Attachment I, *Findings and Recommendations.* We did not perform procedures to validate Personnel Service's responses to the findings and, accordingly, we do not express opinions on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Executive, and Personnel Service's management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachment

Attachment I, *Finding and Recommendation*

cc: Members, Board of Supervisors
Assistant County Executive Officer
Britt Ferguson, Chief Financial Officer
David Devine, Director of Personnel Services

County of Sacramento
Department of Personnel Services
401(a) Plan Compliance
Agreed Upon Procedures
Findings and Recommendations
For the Period January 1, 2015 through December 31, 2015

1. Workers Compensation and Deferral Amounts

During our review of the County of Sacramento (County), Department of Personnel Services (Personnel Services) administration of the County 401(a) Plan (401 Plan), we noted one participant's deferral amount on its remuneration statement included the removal of workers compensation wages were calculated correctly. However, the participant's County contribution of 1% was calculated incorrectly. The County's 1% deferral rate was calculated based on net gross wages. The County's deferral rates should be calculated based on net earned wages. As such, Personnel Services deferred the incorrect amount and under contributed the County's 1% contribution to the participant's 401 Plan. Therefore, Personnel Services was not in compliance with the 401 Plan trust documents and United States Department of the Treasury, Internal Revenue Service's (IRS) regulations.

Recommendation

We recommend Personnel Services staff review the 401 Plan trust documents and IRS regulations and create and implement policies and procedures to calculate deferral amounts based on net earned wages. We further recommend a second individual review, sign, and date indicating the calculations are correct prior to being recorded in the Sacramento County Enterprise Resource Planning System (a.k.a. COMPASS) and transferred to Fidelity.

Personnel Services' Management's Response

We agree with this finding. Personnel Services has submitted a COMPASS Service Request to the County Department of Technology to calculate deferral amounts based on net earned wages. We will conduct a review of the process to ensure proper review and approval.

2. Manual Changes

During our review, we noted that manual changes in COMPASS were not reviewed by a second individual to confirm the amounts were correct prior to inputting the changes in COMPASS. We further noted that as a result, two participants manual entries were calculated incorrectly, resulting in the County over contributing to the participants' 401 Plans. Proper internal controls indicate that manual changes should be reviewed by a second individual prior to being recorded in COMPASS and transferred to Fidelity. By not doing so, incorrect amounts or entries could occur and go undetected without management's knowledge.

Recommendation

We reiterate the recommendation in Finding 1.

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Personnel Services' Management's Response

We agree with this finding. Personnel Services will conduct a review of the process to ensure proper review and approval.

3. Discrepancy Reports

We noted that Personnel Services' Employee Benefits Analyst Level 2 runs different discrepancy reports to capture the different changes of participants' status from part-time to full-time, from non management to management, regular wages to workers' compensation wages, etc. each pay day week. Personnel Services' Employee Benefits Supervisor (Employee Benefits Supervisor) reviews these discrepancy reports and determines if changes are needed in COMPASS and/or Fidelity. In addition to the discrepancy reports, the Employee Benefits Supervisor receives the new employee lists from the different departments that may need to be updated/entered in COMPASS and/or Fidelity for the Deferred Compensation Plan. These discrepancy reports and new employee lists were not retained per the Deferred Compensation Plan trust documents. As such, we were not able to determine if the changes and/or entries were accurately reflected in COMPASS and/or Fidelity.

Recommendation

We recommend Personnel Services retain the discrepancy reports, new employee lists, and any other reports/lists used to input changes or new entries into COMPASS and/or Fidelity for a minimum of six years per the 401 Plan trust documents for future references to determine if the changes were made in accordance with the 401 Plan trust documents and IRS regulations.

Personnel Services' Management's Response

We agree with this finding. Personnel Services will implement the recommendations.

4. Revenue Allowances and Recordkeeping Fees

During our review, we noted that Personnel Services was not receiving invoices from Fidelity detailing the quarterly revenue allowances and recordkeeping fees. As such, the revenue allowances and recordkeeping fees were not reviewed for accuracy and compliance with the Trust Agreement between Fidelity Management Trust Company and the County of Sacramento (Fidelity's Trust Agreement). We further noted that the revenue allowances and recordkeeping fees were not recorded in COMPASS. Therefore, the revenue allowances and recordkeeping fees were not accurately reflected in COMPASS.

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Recommendation

We recommend Personnel Services obtain quarterly invoices from Fidelity detailing the quarterly revenue allowances and recordkeeping fees. We also recommend Personnel Services review the revenue allowances and recordkeeping fees for accuracy and compliance with Fidelity's Trust Agreements. We further recommend Personnel Services record the revenue allowances and recordkeeping fees in COMPASS when received and paid, respectively, by the County.

Personnel Services' Management's Response

We agree with this finding. The quarterly revenue reports are not immediately available from Fidelity in the detail recommended and Personnel Services has requested Fidelity provide the information to comply with this recommendation. Personnel Services will implement the recommendation to record the revenue allowances and recordkeeping fees in COMPASS when received and paid.