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 Deferred Compensation Plan Compliance Review For The Period January 1, 2015 To December 31, 2015
Supervisorial District:	All
Contact:	Ben Lamera, Director of Finance, 874-7450

RECOMMENDATION

Receive and file the attached *County Of Sacramento Deferred Compensation 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 Deferred Compensation 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 DEFERRED COMPENSATION PLAN COMPLIANCE**

We have performed the procedures enumerated below, and on pages 2 and 3 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 457(b) Deferred Compensation Plan (Deferred Compensation Plan) to California Government Code Section 53212 *et seq*., Internal Revenue Services' (IRS) regulations, and the Deferred Compensation 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 Deferred Compensation 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 pages 2 and 3 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 pages 2 and 3 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 4 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 5 in Attachment I, *Findings and Recommendations.* We further noted that reports used to determine changes and entries were not maintained. See Finding 6 in Attachment I, *Findings and Recommendations.*

4. Reviewed participant election process (e.g., investment elections and elected deferral rates) to verify that the appropriate payroll deductions occurred at the proper time.

   Finding: We noted that one participant where the amount returned to the participant could not be supported. See Finding 8 in Attachment I, *Findings and Recommendations.*

5. Tested if investments are properly recorded, 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.

6. 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.

7. 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 these invoices were not reviewed by Personnel Services. See Finding 7 in Attachment I, *Findings and Recommendations.*

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

   Finding: We noted that three participants where the limits per IRS regulations were not automatically restricted in COMPASS. See Finding 1 in Attachment I, *Findings and Recommendations.* We further noted that the employee and employer's automatic restriction for part-time/seasonal/temporary employees were not updated in COMPASS to reflect 2015's contribution limits. See Finding 9 in Attachment I, *Findings and Recommendations.*

9. Tested that Age 50+ increase contribution level is automatically available and works properly according to IRS limits for sample plan year.

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

10. Tested 3 year limited catch up limit (special section 457 catch-up) works properly according to participant's underutilized amounts and the appropriate IRS limits for sample plan year.

    Finding: We noted that two participants utilized the special section 457 catch-up the year the participants retired. See Finding 2 in Attachment I, *Findings and Recommendations.*

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

    Finding: We noted that two participants' employer contributions were not in accordance with the plan provisions and related documents. See Finding 3 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 Deferred Compensation 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, *Findings and Recommendations*

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
Deferred Compensation Plan Compliance
Agreed Upon Procedures
Findings and Recommendations
For the Period January 1, 2015 through December 31, 2015

1. **Automatic Restriction for Full-Time Participants**

During our review of the County of Sacramento (County), Department of Personnel Services' (Personnel Services) administration of the County 457(b) Deferred Compensation Plan (Deferred Compensation Plan), we noted that several participants' deferred compensation limits per the United States Department of the Treasury, Internal Revenue Service's (IRS) regulations were not automatically restricted in the Sacramento County Enterprise Resource Planning System (a.k.a. COMPASS). We noted two participants' employee status changed from part-time/seasonal/temporary (PT) to full-time (FT). The third participant elected the 3 year limited catch up limit (special section 457 catch-up) after the age 50 catch-up was utilized in COMPASS. The reason these participants deferred compensation limits were not restricted was due to the restriction limits based on each line item account on the remuneration statement in COMPASS for calendar year 2015. These different line items are:

- "457 Plan FT Pre-Tax" set at (a) an $18,000.00 limit or 100% compensation for calendar year 2015, whichever is less, for participants under 50 years of age or "457 Plan FT Pre-Tax" set at twice of (a), as previously described, for participants who have elected the special section 457 catch-up and meet the requirements per IRS regulations.
- "457 Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) Catch-Up Plan" set at a $6,000.00 limit for participants 50 years of age or older
- "457 Plan PT Pre-Tax" and "Employer (ER) Paid 457 Plan PT" set at $4,005.00 each. See Finding 9 as it relates to this Finding.

Since COMPASS is not aggregating the different line item account on the remuneration statement to IRS regulations' limits, participants' contribution amounts could be over the IRS regulations' limits and go undetected without management's knowledge.

The amounts over the IRS regulations' limits were returned to the participants on the following pay day. As such, the participants' limits for calendar year 2015 were in accordance with the IRS regulations' limits.

Recommendation

We recommend Personnel Services request to have COMPASS automatically aggregate the different line item accounts on the remuneration statement to reflect the IRS regulations' limits each calendar year.

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Personnel Services' Management's Response
We agree with this finding. Personnel Services has submitted a COMPASS Service Request to the Department of Technology to automatically restrict contributions in the scenarios identified by the audit, as well as others identified by Personnel Services.

2. **Special Section 457 Catch-Up**
The special section 457 catch-up allows a participant to maximize the deferral amount to twice the dollar amount of the maximum 457 elective deferral per calendar year or the aggregate of underutilized deferral amounts for each taxable year the participant is eligible less the amount of annual deferrals under the plan for prior taxable year or years, whichever is smaller.

Per the IRS, 26 CFR Part 1 "Income Taxes", Section 1.457-4, "Annual deferrals, deferral limitations, and deferral agreements under eligible plans" (IRS 457 Catch-Up Regulations):

(3) Special section 457 catch-up—(i) In general. Except as provided in paragraph (c)(2)(ii) of this section, an eligible plan may provide that, for one or more of the participant's last three taxable years ending before the participant attains normal retirement age, the plan ceiling is an amount not in excess of the lesser of—

(A) Twice the dollar amount in effect under paragraph (c)(1)(i)(A) of this section; or

(B) The underutilized limitation determined under paragraph (c)(3)(ii) of this section.

We noted that two participants elected the special section 457 catch-up the year they retired. As such, Personnel Services did not comply with IRS 457 Catch-Up Regulations, as noted above, and the Deferred Compensation Plan trust documents while administering the Deferred Compensation Plan.

Recommendation
We recommend Personnel Services staff review IRS 457 Catch-Up Regulations, as noted above, and create and implement policies and procedures for the special section 457 catch-up to detect any noncompliance with IRS regulations and the Deferred Compensation Plan trust documents.

Personnel Services' Management's Response
Personnel Services will review Internal Revenue Service 457 Catch-Up Regulations, and create and implement policies and procedures for the special Section 457 Catch-Up option to detect any noncompliance with Internal Revenue Service regulations and the Deferred Compensation Plan trust documents.

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3. Part-Time/Seasonal/Temporary Deferred Compensation Amounts

Per the Deferred Compensation Plan trust documents, the County's Deferred Compensation Plan *"is designed to provide for retirement, and death benefits for certain County Employees who are not members of Sacramento County Employees' Retirement System (SCERS), and to avoid the imposition of taxes under the Federal Insurance Contribution Act ("FICA") by qualifying for the exception provided by IRS Code section 3121(b)(7)(F)."*

The County's PT employees, who are not members of SCERS, and the County, contribute a combined total of 7.5% of the County's PT employees' compensation to the designated PT deferred compensation trust account (PT account).

We noted that a total of $6.04 was incorrectly removed from a participant's PT account in Fidelity and $3.02 was returned to the participant and the County each. Since Personnel Services removed $6.04 from the participant's PT account in Fidelity and returned $3.02 to the participant and the County each, the participant's PT account was under contributed in Fidelity and COMPASS. As such, Personnel Services was not in compliance with the Deferred Compensation Plan trust documents.

We also noted that a different PT participant's $0.00 contribution was correct and the County's $49.41 contribution amount recorded in COMPASS was not transferred to Fidelity. However, the County's $49.41 contribution amount recorded in COMPASS was incorrect. As such, the County's contribution amount for this participant was not reflected accurately in COMPASS and Personnel Services was not in compliance with the Deferred Compensation Plan trust documents.

Recommendation
We recommend Personnel Services create and implement policies and procedures to calculate correcting entries for prior/current pay periods and have a second individual review, sign, and date indicating the correcting entries are correct prior to being recorded in COMPASS and transferred to Fidelity. We further recommend Personnel Services to create and implement a procedure to detect when there is no contribution from a PT participant that there should also be no corresponding County contribution recorded in COMPASS.

Personnel Services' Management's Response
We agree with this finding. Personnel Services will implement the procedures in the recommendations. Personnel Services will also conduct a review of the process to ensure proper review and approval.

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4. Workers Compensation and Deferral Amounts

During our review of Personnel Services, we noted that deferral amounts on participants' remuneration statements including workers' compensation wage reimbursements were calculated incorrectly. The deferral rates were calculated based on net gross wages. However, the deferral rates should be calculated based on net earned wages. As such, Personnel Services was deferring amounts on nontaxable wages; and therefore, was not in compliance with IRS regulations.

Recommendation

We recommend Personnel Services staff review 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 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.

5. 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. 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 4.

Personnel Services' Management's Response

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

6. 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 date week. Personnel Services' Employee Benefits Supervisor (Employee Benefits Supervisor) reviews these discrepancy reports and determines if changes are needed in COMPASS/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 to 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 for future references to determine if the changes were made in accordance with the Deferred Compensation Plan trust documents and IRS regulations.

Personnel Services' Management's Response
We agree with this finding. Personnel Services will implement the recommendations.

7. **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.

Recommendation
We recommend Personnel Services to 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.

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Personnel Services' Management's Response
We agree with this finding. The quarterly revenue reports are not immediately available from Fidelity in the detail recommended. 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.

8. **Deferred Compensation Amounts**
During our review, we noted that one participant had $1,657.22 removed from the participant's Fidelity account on March 13, 2015. This amount of $1,657.22 ($1,869.02 – $211.80) consists of $1,869.02 returned to the participant on payment date March 3, 2015 and $211.80 deferred amount on payment date March 13, 2015. Personnel Services was not able to provide the backup support calculations for the $1,869.02 returned amount. As such, we were not able to determine if the $1,869.02 was the correct amount that should be returned to the participant.

Recommendation
We recommend Personnel Services create and implement policies and procedures to confirm returned amounts are correctly calculated and to maintain supporting documentation for calculating the returned amounts for a minimum of six years per the Deferred Compensation Plan trust documents.

Personnel Services' Management's Response
We agree with this finding. Personnel Services will implement the recommendations.

9. **Automatic Restriction for Part-Time/Seasonal/Temporary**
During our review, we noted that the Social Security Administration's maximum taxable earning for Social Security was $118,500.00 for calendar year 2015. Based on the Deferred Compensation Plan trust documents, the County can defer up to 7.5% (3.75% employer and 3.75% employee) of the County's PT employees' compensation to the designated PT account as described in Finding 3.

We noted that the maximum taxable earning was not updated in COMPASS to reflect the $118,500.00. The PT employee and employer contribution limits were set at $4,005.00 ($106,800.00 x 3.75%) each in COMPASS. However, the PT employee and employer contribution limits should be set at $4,443.75 ($118,500.00 x 3.75%) each for calendar year 2015. By not updating calendar year 2015's PT employee and employer contribution limits to $4,443.75, Personnel Services could potentially defer the incorrect amount.

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Based on our testing, we did not note any PT employee and employer contribution limits that were under or over contributed based on the $4,443.75 amount.

Recommendation
We recommend Personnel Services request the maximum taxable earnings for Social Security be updated or confirmed per the Social Security Administration each year in COMPASS in order to automatically restrict the correct PT employee and employer contribution limits in COMPASS.

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 update maximum taxable earnings to automatically restrict the correct part-time employee and employer contribution limits in COMPASS.