

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDITS UNIT

INTERNAL AUDIT REPORT

401(a) PLAN REPORT

DEPARTMENT OF PERSONNEL SERVICES



Audit Committee Submittal Date: 07/18/2018

SUMMARY

Background

The County of Sacramento (County) Department of Personnel Services (Personnel Services) requested DOF Auditor-Controller Division to perform agreed-upon procedures to the County 401(a) Plan's (401 Plan) compliance with the California Government Code Section 53215 *et seq.*, Internal Revenue Services' (IRS) regulations, and the 401 Plan trust documents.

Audit Objective

To confirm whether Personnel Services is in compliance with the California Government Code Section 53215 *et seq.*, Internal Revenue Services' (IRS) regulations, and the 401 Plan trust documents.

Summary

We noted issues related to the timing of initial contributions and contribution changes, disbursements, participant election process, workers compensation and deferral amounts, and revenue allowance and recordkeeping fees.

Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

Inter-Departmental Memorandum

June 8, 2018

To: David Villanueva
Deputy County Executive/Plan Administrator

From: Ben Lamera
Director of Finance

By: Alan A. Matré
Chief of Audits

A handwritten signature in blue ink, appearing to read "Alan A. Matré", is written over the printed name.

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

We have performed the procedures enumerated below, and on page 2 of this report, which were agreed to by you, for the County of Sacramento, Department of Personnel Services (Personnel Services). These agreed-upon 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, 2016 to December 31, 2016. Personnel Service's management is responsible for maintaining compliance for the 401 Plan. The sufficiency of the procedures is solely the responsibility of Personnel Services. 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 and our findings were as follows and on the next page:

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

Finding: We did not note any exceptions as a result of our procedures.

2. Tested timing of initial contributions and contribution changes. Ensured the initial contribution does not take place in the same calendar month the participant entered into agreement to defer compensation and ensured initial contributions are made on the date indicated by the participant.

Finding: We noted an exception as a result of our procedures. See Attachment II, *Current Findings and Recommendations*.

3. Inspected whether disbursements are made to or on behalf of the persons entitled to them and only to such persons by record keeper.

Finding: We noted an exception as a result of our procedures. See Attachment II, *Current Findings and Recommendations*.

4. Inspected participant election process (e.g. elected deferral rates) that triggers a 401(a) contribution to verify that the appropriate payroll deduction occurred at the proper time.

Finding: We noted an exception as a result of our procedures. See Attachment II, *Current Findings and Recommendations*.

5. Tested loans to participants and related interest to determine whether the amounts due the plan have been properly identified, the value recorded, and that unrepaid loans are disclosed as distributions in financial statements.

Finding: We did not note any exceptions as a result of our procedures.

6. Tested if Minimum Required Distribution process is in accordance with the IRS and is properly identified, valued and recorded.

Finding: We did not note any exceptions as a result of our procedures.

7. Terminated employees are allowed to access 401(a) funds immediately without the necessity of utilizing the loan or hardship provisions. Tested termination process from County to record-keeper to ensure potential access to funds is timely.

Finding: We did not note any exceptions as a result of our procedures.

8. Determined the current status of prior findings and recommendations reported on County of Sacramento 401(a) plan compliance report for the period of January 1, 2015 to December 31, 2015, dated July 7, 2016.

Finding: The current status of prior findings and recommendations for the 401(a) plan compliance report is at Attachment I, *Current Status of Prior Findings and Recommendations*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit or examination, or review, the objectives of which would be the expression of an opinion or conclusion, respectively, on Personnel Services compliance or results of our procedures referred above. Accordingly, we do not express such an opinion or conclusion. 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 II, *Current Findings and Recommendations*. We did not perform procedures to validate Personnel Service's responses to the findings and, accordingly, we do not express an opinion 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, Sacramento County Audit Committee, 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.

Attachments

Attachment I, *Current Status of Prior Findings and Recommendations*

Attachment II, *Current Findings and Recommendations*

cc: Members, Board of Supervisors
Nancy Newton, Assistant County Executive
Britt Ferguson, Chief Fiscal Officer, Office of Budget and Debt Management
David Devine, Director, Personnel Services

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Department of Personnel Services
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Current Status of Prior Findings and Recommendations
For the Period January 1, 2016 through December 31, 2016

Report dated July 7, 2016 for the period of January 1, 2015 to December 31, 2015

1. Workers Compensation and Deferral Amounts

Prior Comment

During our inspection 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.

Prior Recommendation

We recommended 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 recommended 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.

Prior Personnel Services' Management Response

We agreed 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.

Current Status:

This finding has not been implemented. See Finding Number 3 at Attachment II, *Current Findings and Recommendations*.

2. Manual Changes

Prior Comment

During our inspection, 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

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doing so, incorrect amounts or entries could occur and go undetected without management's knowledge.

Prior Recommendation

We reiterated the recommendation in Finding 1.

Prior Personnel Services' Management Response

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

Current Status:

This finding has been implemented. We did not note any exceptions as a result of our procedures.

3. Discrepancy Reports

Prior Comment

We noted that Personnel Services' Employee Benefits Analyst Level 2 ran 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) reviewed these discrepancy reports and determines if changes are needed in COMPASS and/or Fidelity. In addition to the discrepancy reports, the Employee Benefits Supervisor received 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.

Prior Recommendation

We recommended 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.

Prior Personnel Services' Management Response

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

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Current Status:

This finding has been implemented.

4. Revenue Allowances and Recordkeeping Fees

Prior Comment

During our inspection, 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.

Prior Recommendation

We recommended 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 recommended Personnel Services record the revenue allowances and recordkeeping fees in COMPASS when received and paid, respectively, by the County.

Prior Personnel Services' Management Response

We agreed with this finding. The quarterly revenue reports were 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.

Current Status:

This finding has not yet been implemented. See Finding Number 4 at Attachment II, *Current Findings and Recommendations*.

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1. Initial Contributions

Comment

During our current inspection of the County of Sacramento (County), Department of Personnel Services (Personnel Services) administration of the County 401(a) Plan (401 Plan), we noted that eleven participants had their initial contributions occur in the same calendar month the participant elected to defer compensation and these participants did not elect to defer their compensation on or before performing any service for the County. Since the initial contribution occurred when it should not have, the one percent match requirement included the incorrect initial contribution and the participants' 401 Plan match was incorrectly contributed by the County. These participants did not elect their deferred compensation at the appropriate time and at a low rate that they were not able to catch up to the one percent requirement starting from when they were applicable for the County 401 Plan match.

Per the Deferred Compensation Plan trust document, *“An existing Eligible Employee may make an initial election to make section 457 Deferrals to the Plan by entering into an agreement with the Employer to defer Compensation before the first day of the month in which the Compensation to be deferred is paid or made available. A newly hired Eligible Employee may make an election to make Section 457 Deferrals by entering into an agreement to defer Compensation within the same month that the Compensation is paid or made available so long as the agreement is made on or prior to the first day that the Eligible Employee performs any service for the Employer.”*

Per the 401 Plan trust document, *“For each Plan Year beginning on and after January 1, 2008, the Participant must have deferred under the Eligible 457(b) Plan in each applicable payroll period at least one percent (1%) of his or her Compensation earned during that payroll period.”*

As such, Personnel Services was not in compliance with the Deferred Compensation Plan and 401 Plan trust documents.

Recommendation

We recommend Personnel Services ensure the initial contributions occur in the following month the participants elected to defer their compensation if the participants did not elect to defer their compensation on or prior to the first day the participant performed any service for the County. In addition, the County 401 Plan match should only occur when the participant meets the one percent requirement starting from when the participant was applicable for the County 401 Plan match.

Personnel Services' Management Response

No response received for this finding.

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2. Payee Support

Comment

During our current inspection of the 401 Plan, we noted that eight out of 20 participants tested had their distributions made to an individual/entity other than the participant. We requested support from Fidelity that these participants requested and authorized for the change to their payee distribution. However, we were informed by Fidelity staff that there was no support that could be provided, and that the changes were updated in Fidelity's system when participant's called to change the payee information. Without proper support, we cannot determine if the distribution to the payee other than the participant was correct and authorized.

Recommendation

We recommend Personnel Services ensure Fidelity maintain support that the participant authorized the change to a payee other than the participant.

Personnel Services' Management Response

No response received for this finding.

3. Workers Compensation and Deferral Amounts

Comment

During our current inspection of Personnel Services, we noted that deferral amounts on participants' remuneration statements including workers' compensation wage reimbursements were calculated incorrectly. We noted deferral amounts were not calculated and deferred on net earned wages. We further noted nontaxable wages needed a catch up period and during this period amounts were deferred. As such, Personnel Services was deferring amounts on nontaxable wages and not deferring amounts on net earned wages; and therefore, was not in compliance with the 401 Plan trust documents.

In addition, per email from a Senior Information Technology Analyst, COMPASS Service Request 20877 for the deferred compensation nontaxable wage exclusion has been placed on hold.

Recommendation

We recommend Personnel Services staff 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.

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Personnel Services' Management Response

We agree with this finding. Service Request # 20877 was submitted to the Department of Technology to calculate deferral amounts based on net earned wages. This project has a 2018 completion date and completion will be a joint effort between DTECH and EBO.

In the meantime, a discrepancy report has been created and is run each pay period and audited by EBO staff to ensure no 457 contributions are deducted from employees who are currently receiving Workers' Compensation wages, which currently includes a review by a second individual who reviews the payroll calculation exceptions to ensure the calculations are being performed accurately. Additionally, DPS has recently created and implemented a procedure related to these employees and will ensure internal compliance with the procedure.

4. Revenue Allowances and Recordkeeping Fees

Comment

During our prior inspection, 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.

During our current inspection, we interviewed the Employee Benefits Manager and Employee Benefits Supervisor if these reports were obtained, reviewed, and recorded. We were informed that they were not obtained, reviewed, or recorded. As such, we did not perform any additional procedures other than this inquiry.

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 Response

We agree with this finding. The quarterly revenue reports are not immediately available from Fidelity in the detail recommended, however, the Department of Personnel Services has requested Fidelity provide the information to comply with this recommendation. The Department of Personnel Services will work with the County's Investment office to ensure

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the revenue allowance comply with quarterly activity and will implement the recommendation to record the revenue allowances and recordkeeping fees in COMPASS when received and paid.

5. Repeat Findings

Comment

We noted that Finding Numbers 3 and 4 of this attachment are repeat findings from the prior agreed-upon procedures report. See Attachment I, *Current Status of Prior Findings and Recommendations*. Proper internal controls dictate that these findings be resolved in a timely manner.

Recommendation

We recommend Personnel Services implement all recommendations that are noted in this attachment.

Personnel Services' Management Response

No response received for this finding.