



FIDELITY PERFORMANCE COMPLIANCE PROJECT

**COUNTY OF SACRAMENTO 457(b) DEFERRED
COMPENSATION PLAN
COUNTY OF SACRAMENTO 401(a) PLAN**

January 1, 2018 to December 31, 2018

County of Sacramento 457(b) Deferred Compensation Plan
County of Sacramento 401(a) Plan
Fidelity Performance Compliance Project

Engagement Responsibilities

The following is a summary of the procedures performed and the results and recommendations from our completion of certain procedures for County of Sacramento 457(b) Deferred Compensation Plan and County of Sacramento 401(a) Plan (collectively, the Plans) as outlined in our engagement letter and contract dated May 5, 2020 (the Contract). Please refer to the Contract for more information on the nature and limitations of this report.

We carried out each procedure listed in the Scope of Work to the Contract in this report. For each procedure, we summarized the analysis performed along with the results. We do not provide any assurance on our findings, nor do we conclude that the procedures we performed are sufficient for your purposes. If you feel our results would be different under further analysis, then it is your responsibility to inform us and request we perform additional analysis.

This report is intended only to report our findings from the procedures you requested us to perform. For each finding identified, management is responsible for assessing the level of risk, financial statement impact, and the cost for implementing change.

We would like to thank the management and staff of County of Sacramento, Fidelity Workplace Services LLC, and Fidelity Investments for providing requested information and their help in assisting us with the completion of the requested testing.

**County of Sacramento 457(b) Deferred Compensation Plan
County of Sacramento 401(a) Plan
Fidelity Performance Compliance Project**

| Analysis Performed | | Results | Recommendations |
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| Procedure: Accounts shall be reconciled and updated by fund for all income, gains, losses, withdrawals, distributions and loans each Business Day. | | | |
| 1 | We reviewed a sample of funds over the course of several business days to test that the following reconciliations balanced: reconciliations between daily trade activity on Fidelity and the settled cash within the bank account, plan to fund reconciliation, and reconciliations from plan level activity to individual participant accounts/transactions. | All sampled funds selections were reconciled appropriately and timely. | No exceptions noted. |
| Procedure: Auditor will review the allocations of plan assets between and among investment options in a manner calculated to assure same-day transfers between and among investment options. The performance criteria regarding allocations of plan assets between and among investment options in a manner calculated to assure same-day transfers between and among investment options may be evaluated in conjunction with the similar agreed upon procedures report. | | | |
| 1 | We reviewed a sample of participant requested investment election changes to determine if the transfers were made timely through same-day transfers and that contributions were allocated to the correct investment vehicle as directed by the participant. | We noted for 2 of 18 participant investment election changes tested, the transfers were not made in the same day, nor were they within a reasonable timeframe of two days. | We recommend Fidelity strengthen controls to ensure investment elections are updated as soon as feasibly possible. We also recommend the County periodically review the investment change requests to ensure changes are following the plan agreement. |
| Procedure: Auditor shall review benefit payment applications in accordance with the plan and agreement, ensuring all benefit payments were paid in accordance with the plan and negotiated terms. | | | |
| 1 | We reviewed a sample of benefit payment transactions to ensure the following: applications received were entered into the automated system timely, review for acknowledgement and notification to participants of incomplete benefit applications, commencement date for installment payments is no more than 30 days after the application date, confirmation was sent within five business days, timely Notice of Right was made to participants for election of no federal tax withholdings. | We noted each of the 30 participant benefit payments tested were adequately supported. We also noted benefit payment checks were often sent as same-day transactions, and were consistently commenced within three days of the initial request. | No exceptions noted. |

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|---|---|---|----------------------|
| Procedure: Auditor shall review all Website Service performance records to ensure adherence to the standards contained within the contract. | | | |
| 1 | We obtained website availability performance report from Fidelity representatives for the period from January 1, 2018 to December 31, 2018 to review for availability and functionality of NetBenefits to participants. | We noted that for 5 of the 12 months tested, NetBenefits was not 100% available throughout the month. However, NetBenefits was available more than 99% of the total time during each month. | No exceptions noted. |
| Procedure: Auditor shall ensure that Fidelity made all services accessible to people with disabilities, by providing access to the hearing impaired through the VRS and to the visually impaired through the Website. Services for the hearing impaired through the VRS can be accessed through a TTY system that is separate from the VRS, provided the system provides the same functionality as the VRS and has the same hours of availability as the Telephonic Counseling Service. The Plan Website shall conform to the World Wide Web Consortium Web. | | | |
| 1 | We reviewed the TTY call log for the period from January 1, 2018 to December 31, 2018 to determine if there were any periods of unavailability. | We noted no instances of service interruption or unavailability. | No exceptions noted. |
| 2 | We reviewed the Service Group Summary Report for Verizon to verify billings for TTY occurred. | Billings for TTY were properly executed. | No exceptions noted. |
| Procedure: Auditor shall ensure adherence to the standards contained within the contract related to participant contribution amounts of deferred compensation received from the Employer/County EFT were invested in accordance with the participant's investment directions in one or more of the plan's investment options within two business days from the date of receipt of such deferred compensation. | | | |
| 1 | We reviewed a selection of participant contributions to determine if funds for a given pay period were deposited and posted to the participant's account within two business days. | We noted all contributions tested were appropriately deposited within two business days. | No exceptions noted. |
| Procedure: Auditor shall ensure adherence to the fund mapping selections made during the 2018 conversion to the current fund line-up. | | | |
| 1 | We reviewed a selections of participants who (a) made investment elections for the transfer of their account balances and, (b) did not make elections and were automatically mapped to the communicated investment options to ensure the elected or mapped transactions were completed in a timeframe published by the County in all informational materials. | We noted no instances where the funds were mapped incorrectly in connection with the 2018 fund line up conversion. | No exceptions noted. |

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| Procedure: Auditor shall ensure adherence to the standards contained within the contract related to employer contribution amounts of deferred compensation received from the Employer/County EFT were invested in accordance with the participant's investment directions in one or more of the plan's investment options within two business days from the date of receipt of such deferred compensation. | | | |
| 1 | We reviewed a selection of participants with employer contributions to determine if funds for a given pay period were deposited and posted to the participant's account within two business days. | We noted all contributions tested were appropriately deposited within two business days. | No exceptions noted. |
| Procedure: Part-time, Seasonal and Temporary Employee Contributions (PST, Social Security Replacement Program) are deposited and posted to the participant's account within two business days from the date of receipt of such deferred compensation. | | | |
| 1 | We reviewed a selection of employee and employer contributions made each pay period to determine if the contributions were deposited to the trustee within two business days. | We noted all contributions tested were appropriately deposited within two business days. For 6 of 18 participant deferrals tested, the deferral percentage recorded by Fidelity did not agree to the deferral percentage defined in the payroll system. | We understand that the this issue relates to the County manually modifying participants' deferrals in payroll without informing Fidelity. After the test period, the County changed its procedures to no longer allow manual changes in payroll. |
| 2 | We reviewed a selection of participant contributions to determine if the contribution receipt date and the date the funds were posted to the participant's account was within two business days. | We noted all contributions tested appropriately posted to the participant's account within two business days. | No exceptions noted. |
| Procedure: Auditor will ensure that Fidelity remained in substantial and material compliance with Section 457 of the Internal Revenue Code and shall monitor such compliance on a quarterly basis. Obtain quarterly annual deferral limit reports and determine if the run date was within fifteen (15) business days after the end of each quarter; and over deferral notices were sent within fifteen (15) business days after the end of each quarter. | | | |
| 1 | We reviewed two quarters of the "Quarterly Annual Deferral Limit Report" to ensure run date was within 15 business days after the end of each quarter and deferral notice was sent over within 15 business days after each quarter. | We noted the two quarter reports tested had run dates within 15 business days after the end of each quarter and notices were sent within 15 business days. | No exceptions noted. We recommend Fidelity establish programmed compliance limits in the recordkeeping system to stop accepting contributions when a participant exceeds regulatory limits. |

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| | Analysis Performed | Results | Recommendations |
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| <p>Procedure: Auditor shall ensure that Fidelity processed all unforeseeable emergency withdrawal requests it receives in such a manner pursuant to the agreement, and providing that: All completed applications be reviewed and a decision rendered within three (3) business days of the date of receipt of the request and that a notice of decision be mailed within three (3) business days of that date; and participants who submit an incomplete or deficient application be informed in writing of all deficiencies within three (3) business days of the submission.</p> | | | |
| 1 | We reviewed completed and processed requests and verified that the notification was sent no later than six business days after the receipt of the request. | We noted all participant selections tested received notification within six business days after the receipt of the request. | No exceptions noted. |
| 2 | We reviewed incomplete requests and verified the notification was sent to the participant within three business days of the submission, and the notification identified all missing information needed to make the request complete. | We noted all participant selections tested received notification within three business days after the receipt of the request, identifying the missing information. | No exceptions noted. |
| 3 | We reviewed documentation to ensure it met the IRS requirements and National Association of Government Defined Contribution Administrators (NAGDCA) guidelines for appropriateness. | We noted all documentation provided met IRS and NAGDCA guidelines. | No exceptions noted. |
| 4 | We reviewed applications to ensure only the following hardship categories were identified: foreclosure/eviction, medical expenses, funeral expenses, and/or property damage due to casualty. | <p>We noted all hardship applications were recognized as one of the plan approved reasons for hardship.</p> <p>For 1 of 10 hardship withdrawals tested, we noted a tax withholding percentage was elected by the participant and no taxes were withheld by Fidelity on the hardship withdrawal.</p> | We recommend Fidelity strengthen controls to ensure participant tax withholding elections per their applications are withheld correctly from the participant's distribution. |

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| Procedure: Auditor shall ensure that Fidelity processed all loan applications received in such a manner pursuant to Agreement and providing that the following are all done in accordance with its written procedures: | | | |
| i. Fidelity's recording and processing of all loan applications; | | | |
| ii. Fidelity complied with all Plan terms regarding disbursing loans, collecting loan repayments; and imposing default fees; | | | |
| iii. Fidelity developed and maintains procedures for collecting and processing repayments. | | | |
| 1 | We reviewed a selection of completed loan requests, verified the update occurred within three business days, and verified the request for payment was made to the trustee within two business days of entry into the system. | We noted for each selection tested, a request for payment was made to the trustee within two business days of entry into the system. We were unable to verify applications were updated within three days, as Fidelity does not retain loan application data. | We recommend the County and Fidelity implement procedures to retain loan application data. |
| 2 | We reviewed a selection of loan transactions to ensure participant loan fees were charged in accordance with the contract and plan provisions. | For 5 of 18 loans tested, we noted that loan maintenance fees were improperly charged to participant accounts, resulting in overcharges to the account. For 1 of 18 loans tested, we noted a loan setup fee was not correctly charged to the participant's account. | We recommend Fidelity strengthen transaction procedures to charge loan set up and maintenance fees in accordance with the contract and plan provisions. |
| 3 | We reviewed a selection of participant loans to ensure that no participant had more than two loans at any given time. | For 18 loans tested and review of outstanding loan balances at December 31, 2018, we noted no participant accounts with more than two outstanding loans at one time. | No exceptions noted. |
| 4 | We reviewed default transactions to ensure that participant payments resulting in default were in accordance with plan provisions. For a selection of defaulted loans, we verified a Form 1099 was issued for the year of the default. | We noted default participant payments were in accordance with the Plan and participants received Form 1099 in the year of the loan default. | No exceptions noted. |
| Procedure: Auditor shall ensure that all Purchase of Service requests were processed in accordance with the plan and IRS Plan to Plan transfer requirements. | | | |
| 1 | We reviewed a sample of purchase of service transactions to ensure they were processed and documented in accordance with the Plan and IRS transfer requirements. | We noted all transfer or rollover selections tested were processed in accordance with the Plan and IRS requirements. All paperwork received met the standards for the transaction. | No exceptions noted. |

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| Procedure: Auditor shall ensure that all Alternate Payee (Alt Payee) transactions associated with a divorce/division of assets were processed in accordance with the Qualified Domestic Relations (QDRO) agreement and Internal Revenue Code section 414(p). | | | |
| 1 | We reviewed QDRO transactions to ensure they were processed in accordance with the documentation provided and that all paperwork received met Code section 414(p) standards. | We noted all QDRO transactions tested were processed and documented in accordance with Code standards. | No exceptions noted. |
| 2 | For a selection of QDRO withdrawals and transactions requiring alternative payee accounts, we verified alternative payee accounts were established for QDRO transactions to ensure access to the assets. | We noted alternative payee accounts were established appropriately for access to the assets. | No exceptions noted. |
| Procedure: Auditor shall ensure that all beneficiary transactions associated with a death of a participant were processed in accordance with the plan and any beneficiary documentation provided by either the Employer/County or the participant. | | | |
| 1 | For a selection of death benefit and beneficiary transactions, we reviewed paperwork regarding transfer of assets to ensure the documentation was in accordance with standards. | We noted for all selections they had appropriate documentation in accordance with standards. | No exceptions noted. |
| 2 | We reviewed beneficiary accounts to ensure they were established in accordance with the documentation provide and were accessible. | We noted all applicable participants tested had established beneficiary accounts where the beneficiaries could access the assets in their accounts. | No exceptions noted. |
| 3 | For accounts with no available beneficiary, we ensured the proper documentation was provided by and funds were appropriate transferred to the participant's estate. | We noted there were no instances of unavailable beneficiaries for the sampled participants. | No exceptions noted. |
| Procedure: Auditor will research administrative expenses to determine if they are in accordance with agreements, are properly classified and are recorded in appropriate amounts for the proper periods. | | | |
| 1 | We reviewed a selection of administrative expenses charged to the County and a selection of participant accounts to test amounts deducted from participant accounts to determine if the expenses charged were in accordance with the service agreement and for the proper period. | Administrative expenses charged to the County and fees deducted from participant accounts were in accordance with the service agreement and for the proper period. | No exceptions noted. |

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| Procedure: Auditor will test if Required Minimum Distribution (RMD) process is accordance with the Internal Revenue Code and is properly identified, valued and recorded. | | |
| <p>1 We reviewed a sample of required minimum distribution (RMD) transactions to ensure the following:</p> <ul style="list-style-type: none"> - Fidelity issued a timely notification to the Participant that the RMD must commence. - Transaction began within the IRS requirements. - Withdrawal percentage was in accordance with the Uniform Life Expectancy Table - Any missed RMDs were paid upon discovery, with earnings in accordance with the IRS Employee Plans Compliance Resolution System. - Appropriate taxation was withheld from the distribution. | <p>We noted each of the 16 distribution tested were adequately supported by the County and Fidelity.</p> <p>Of the 16 RMD transactions tested, each RMD was issued timely notifications, was within IRS requirements for distribution, percentages were in accordance with the Uniform Life Expectancy table, and taxes were appropriately withheld.</p> <p>We noted that of 574 total active and terminated employees who were over 70.5 at December 31, 2018, there were 34 of these terminated employees with account balances who appear to have been required to receive an RMD and did not receive RMDs for 2018. Some of these terminated participants were no longer at the address on file and could not be reached with notifications from Fidelity.</p> | <p>We recommend the County work with Fidelity to strengthen procedures to perform outreach to terminated employees over 70.5 years old to ensure they are receiving plan statements, are aware of RMD requirements, and required RMDs are processed in accordance with the Internal Revenue Code.</p> |
| Procedure: Active County employees may transfer balances from another “eligible retirement plan” into the County 457 Plan. The characteristics of the funds from the other “eligible retirement plan” continue to apply to the transferred assets. | | |
| <p>1 We reviewed rollover transactions into the plan to ensure the funds were received from a qualified IRA, 401(k)(a), or 403(b) plan, and that all associated information was properly recorded in the participant’s file.</p> | <p>We noted for each of the rollovers tested, all were received from a qualified plan and appropriately documented.</p> | <p>No exceptions noted.</p> |
| <p>2 We reviewed rollover transactions to ensure there were no early withdrawal penalties associated with the transactions (pending or already distributed).</p> | <p>We noted for each of the rollovers tested, there were no inappropriate early withdrawal penalties on the transactions.</p> | <p>No exceptions noted.</p> |

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| Procedure: Retired/separated County employees may transfer balances to another “eligible retirement plan”. The characteristics of the funds from the other “eligible retirement plan” continue to apply to the transferred assets. | | | |
| 1 | We reviewed rollover transactions out of the plan to ensure the funds were sent to a qualified IRA, 401(k)/(a), or 403(b) plan. | We noted of the rollovers tested, all were sent to a qualified plan. | No exceptions noted. |
| 2 | We reviewed rollover transactions to ensure there were no early withdrawal penalties associated with the transactions (pending or already distributed). | We noted of the rollovers tested, there were no inappropriate early withdrawal penalties on the transactions. | No exceptions noted. |
| Procedure: Age 50 “catch-up” contributions as defined by the Economic Growth and Tax Reconciliation Relief Act (EGTRRA) follow the Internal Revenue Code and plan provisions. | | | |
| 1 | We reviewed accounts to ensure additional contributions were elected and in compliance with the EGTRRA provisions. | We obtained birth certificate and additional contribution elections for a selection of participants with "catch-up" contributions and noted all participants and contributions limits were in compliance with the EGTRRA provisions. | No exceptions noted. |
| Procedure: Roth elective deferrals (2018- present) are in compliance with IRS annual deferral limits and plan provisions. | | | |
| 1 | We reviewed participant accounts that elected Roth deferrals and tested the accuracy of the contribution percentage and to ensure compliance with annual deferral limits. | We noted for a selection of participants with Roth deferral contributions, each of them had accurate deferral amounts based on the elected contributions percentage. We noted all Roth deferral participants tested also had deferral contributions in compliance with annual deferral limits. | No exceptions noted. |
| Procedure: Roth in-plan conversions (RIPCs) are in compliance with the regulations and plan provisions. | | | |
| 1 | We reviewed participant accounts with Roth in-plan conversions to ensure compliance with regulations and Plan document. | For the 3 RIPCs that were executed during 2018, all conversions were provided a Form 1099 for the year the conversion occurred. We also noted that each of the participants with RIPCs during 2018 also made contributions deferrals within the annual deferral limits established by the IRS. | No exceptions noted. |

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| Procedure: Automatic cash-out minimum balances are distributed in compliance with plan provisions. | | | |
| 1 | We reviewed all terminated or retired employee accounts with account balances less than \$1,000 to ensure automatic cash-out distributions were made in compliance with the contract and plan provisions. | Based on our review of participant account balances as of December 31, 2018, we noted 249 terminated participants in the Section 457 plan with balances under \$1,000 and 2 terminated participants in the 401(a) plan that appeared to have not been distributed in accordance with plan provisions. | We recommend Fidelity and the County strengthen procedures surrounding the terminated participants to ensure that balances subject to automatic distribution are processed in accordance with plan provisions. |
| Procedure: Unclaimed benefits follow contract terms and California state regulations. | | | |
| 1 | We reviewed uncashed checks to ensure contract and California state regulations were followed. | For 1 of 16 uncashed checks selected for testing did not receive an additional notification from Fidelity regarding the outstanding check. | We recommend the County work with Fidelity to strengthen procedures to perform outreach to participants with uncashed checks. |
| 2 | We reviewed accounts with unclaimed balances over \$5,000 with no activity during the year to ensure the contract and California state regulations were followed regarding unclaimed assets. | We obtained a listing of all participant account activity during 2018, and noted all accounts with unclaimed balances over \$5,000 had activity during the year. Therefore, procedures regarding unclaimed assets were not applicable. | No exceptions noted. |
| 3 | We reviewed participant accounts that fall within the required minimum distributions (RMDs) guidelines but have not yet begun a distribution to ensure: 1) Fidelity sent a reminder, 2) Fidelity made an attempt to locate the participant, and 3) If unable to locate the participant, Fidelity began the process of reviewing for unclaimed asset status. | We reviewed a listing of participant accounts which qualify for RMDs but that have not yet begun distribution, and noted that of 574 active and terminated employees who were over 70.5 at December 31, 2018, there were 34 terminated employees with account balances who appear to have been required to receive an RMD and did not receive RMDs for 2018. Some of these terminated participants were no longer at the address on file and could not be reached with notifications from Fidelity. | We recommend the County work with Fidelity to strengthen procedures to perform outreach to terminated employees over 70.5 years old to ensure they are receiving plan statements and are aware of RMD requirements. |

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| Procedure: Required notifications are sent to all applicable participants. | | | |
| 1 | We obtained all notices sent to participants from Fidelity during the year. | We noted there were four letters sent to participants during the year regarding investment option changes and changes in the fee structure effective in 2018. IRS notifications were also sent to participants with transactions requiring IRS notifications. | No exceptions noted. |