

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

INTERNAL AUDIT UNIT REPORT

457(b) AND 401(a) DEFERRED COMPENSATION PLANS PERFORMANCE AUDIT

DEPARTMENT OF PERSONNEL SERVICES



Audit Committee Submittal Date: 02/27/2026

SUMMARY

Background

The County of Sacramento (County) Department of Personnel Services (DPS) requested the Department of Finance to perform a performance audit of the County 457(b) and 401(a) Plans (Benefit Plans) for compliance with Internal Revenue Service (IRS) regulations, California Government Code Section 53212 *et seq.*, the Benefit Plans' Documents, and Recordkeeping and Related Services Agreement (Agreement) between the County and Fidelity Workplace Services LLC, a Delaware Limited Liability Company for the period of July 1, 2021 to June 30, 2023.

Audit Objective

To verify whether the Benefit Plans were in compliance with IRS regulations, California Government Code Section 53212 *et seq.*, the Benefit Plans' Documents, and the Agreement managed by DPS.

Summary

Based on our procedures performed, we noted several internal control issues related to reconciliations, rollovers, recordkeeping fee analysis, and administrative expenses. We also noted a potential overcharge of administrative fees in the amount of \$1,347.81 to the Benefit Plans' participants.

Department of Finance

Chad Rinde
Director



County of Sacramento

Divisions

Auditor-Controller
Consolidated Utilities Billing &
Services
Investments
Revenue Recovery
Tax Collection & Licensing
Treasury

February 11, 2026

Joseph Angelo, Director
Department of Personnel Services
700 H Street, Ste. 4650
Sacramento, CA 95814

Dear Mr. Angelo:

We have audited County of Sacramento (County) Department of Personnel Services (DPS)' management and oversight of 457(b) and 401(a) Benefit Plans (Benefit Plans) for the period of July 1, 2021 to June 30, 2023.

Our audit was conducted to verify DPS' compliance with Internal Revenue Service regulations, California Government Code Section 53212 *et seq.*, the Benefit Plans' Documents, and Recordkeeping and Related Services Agreement (Agreement) between the County and Fidelity Workplace Services LLC, a Delaware Limited Liability Company (Fidelity) for the period July 1, 2021 to June 30, 2023, and whether DPS has adequate internal controls to manage and oversee the Benefit Plans.

DPS' management is responsible for the design, implementation, and maintenance of effective internal controls to ensure compliance with applicable laws and regulations, the Benefit Plans' Documents, and the Agreement.

The scope of our audit included DPS' management and oversight of the Benefit Plans in accordance with applicable laws and regulations, Benefit Plans' Documents, and the Agreement for the period of July 1, 2021 to June 30, 2023.

The audit methodology utilized to conduct this performance audit included:

Regulatory and Contractual Requirements

- Reviewed laws and regulations, Benefit Plans' documents, and the Agreement related to the Benefit Plans.

Based on our procedures performed, it appears that DPS complied with the plan documents and agreements.

Internal Control Review

- Interviewed key staff/management involved in the Benefit Plans to gain an understanding of the County's responsibilities as it relates to the Benefit Plans.
- Reviewed DPS' written internal control policies and procedures related to the Benefit Plans and tested key control activities.
- Reviewed DPS' 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 was supplied to the record keeper, Fidelity, and whether Fidelity utilized the data in a timely manner.

Based on our review, we noted deficiencies in policies and procedures related to the contribution reconciliations and Fidelity trust accounts, rollover process, and administrative fees. We also noted a potential overcharge of administrative fees of \$1,347.81. See ATT 1 – *Current Findings and Recommendations*.

Testing

- Tested 90 of 55,813 457(b) regular participants, 18 of 9,675 457(b) Roth participants, 18 of 2,561 457(b) Part-time, Seasonal and Temporary (PST) participants, and 24 of the 7,924 401(a) Plan participants' contributions to verify:
 - a. Fund transfers from the employer were timely, secure, and posted promptly by Fidelity.
 - b. Amounts received were properly recorded by Fidelity and disclosed in the participants' financial statement on record.
 - c. Employer and employee contribution payments were in accordance with Benefit Plans' provisions and transactions were properly recorded in the proper accounts, amounts and periods.
- Tested 30 participants' purchases of Sacramento County Employees' Retirement System (SCERS) service credits using 457(b) rollovers to verify that the payments were in accordance with SCERS and 457(b) Plan Documents and processed timely.
- Tested 18 participants eligible for the 401(a) employer matching contribution to verify that contributions were in accordance with 401(a) Plan Document.

- Reviewed participant election process (e.g., elected deferral rates) to verify that the appropriate payroll deductions occurred as elected by participants.

Based on our procedures performed, we did not note any exceptions.

Other

- Followed up on status of prior year audit findings and recommendations. See ATT 2 – *Current Status of Prior Recommendations*.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* issued by the Comptroller General of the United States except for paragraph 3.56 regarding our independence as described in the below paragraph. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair GAGAS' independence standards. Specifically, auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.

Although the Director of Finance is statutorily obligated to maintain the accounts of departments, districts or funds that are held in County Treasury, the staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited including the approval or posting of financial transactions, which would therefore enable the reader of this report to rely on the information contained herein.

Based on our audit, DPS complied with applicable laws and regulations, the Benefit Plans' Documents, and the Agreement for the period of July 1, 2021 to June 30, 2023. However, we did identify certain deficiencies in internal controls noted in ATT 1 – *Current Findings and Recommendations* and ATT 2 – *Current Status of Prior Findings and Recommendations*.

DPS' management responses to the findings identified during our engagement are described in ATT 1 – *Current Findings and Recommendations*. We did not perform procedures to validate DPS' management 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 Sacramento County Board of Supervisors, Sacramento County Executives, Sacramento County Audit Committee, and DPS' management, and should not be used for any other purpose. It is not intended to be,

Joseph Angelo, Director of Personnel Services
February 11, 2026

and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

CHAD RINDE
DIRECTOR OF FINANCE

A handwritten signature in black ink, appearing to read "Tae-Young Kang", with a stylized flourish at the end.

By: Tae-Young Kang, CPA
Audit Manager

Attachments:

ATT 1 – Current Findings and Recommendations
ATT 2 – Current Status of Prior Recommendations

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Deferred Compensation Plans
Performance Audit
Current Findings and Recommendations
For the Period July 1, 2021 through June 30, 2023

1. Reconciliation

Criteria

The reconciliations between Fidelity Workplace Services LLC, a Delaware Limited Liability Company (Fidelity) Invoices (invoices) and Fidelity trust account statements (statements) should be completed, properly reviewed, and approved by DPS personnel with the necessary skill, knowledge and experience. Any discrepancies noted during the reconciliations should be investigated and the resolution of the discrepancies should be documented.

Condition

During our review of all of the reconciliations occurring within our engagement period between invoices and statements, we noted that forty one of the reconciliations were incomplete, none of them had evidence of secondary review and one of the reconciliations showed a difference in the amount of \$105 without any evidence of following up or documenting the explanation and resolution of the difference.

In addition, although we did not note any unresolved discrepancies of contributions between County's records and Fidelity's records during our review of reconciliations, we noted the reconciliations performed by Department of Personnel Services (DPS) staff were inconsistent in how they were prepared, missing some procedures, and had no indication of secondary review and approval of the reconciliations.

Cause

It appears that DPS did not have a formal policy over the contribution or recordkeeper statement reconciliation process in place during the engagement period for the invoices and statements, as well as contributions between County's records and Fidelity's records.

Effect

Incomplete and inaccurate reconciliations and not following up on differences discovered can result in omissions, or errors not being detected in a timely manner.

In addition, without having secondary review of the reconciliations by DPS personnel, any errors made during the reconciliation process may not be detected and corrected.

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Deferred Compensation Plans
Performance Audit
Current Findings and Recommendations
For the Period July 1, 2021 through June 30, 2023

Recommendation

We recommend DPS have personnel review the reconciliations performed by its staff and investigate all discrepancies discovered during the reconciliation process.

We also recommend DPS review, update, and document its policies and procedures related to the reconciliation process to ensure that the reconciliations are completed in a timely manner and are complete and accurate.

DPS Management's Response

DPS Employee Benefits Office (EBO) will review and update its policies and procedures related to reconciliation and evaluate appropriate controls to address the recommendation related to the performance and review of reconciliations.

2. Rollovers**Criteria**

Eligible 457(b) Plan participants can buyback their service credits for their retirement system accounts by rolling over their funds from the 457(b) Plan by completing the retirement system's rollover form. The rollover form is then reviewed by the retirement system's representative and submitted to DPS for the 457(b) Plan's administrator/designee for approval. Once the rollover request is approved by the Plan administrator, the request is sent to Fidelity and then Fidelity issues a check from the participant's account to be payable to the participant's retirement system account.

The Rollover form should be complete and properly approved. Any missing information or approval of rollover forms should be followed up to ensure the accuracy and proper approval prior to processing the rollover request. The completion of rollover process should be verified and documented for all roll over requests.

Condition

During our review of 30 out of the 201 rollover forms processed during the period, we noted the following:

1. Eight rollover forms were missing participant information such as social security number, telephone number, signature, and signature date. However, DPS did not provide any evidence of following up and verifying the missing information.
2. One of the forms was missing the 457(b) Plan administrator/designee's signature evidencing approval.

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Deferred Compensation Plans
Performance Audit
Current Findings and Recommendations
For the Period July 1, 2021 through June 30, 2023

3. Two instances where the checks were dated before the rollover request dates without any documented explanation.
4. Two instances where the Fidelity's confirmation of rollover completions were not documented by DPS.

Cause

It appears that DPS did not follow the rollover policies and procedure for participant's service credit buyback.

Effect

Not following up with missing information, proper approval of rollover forms, and verifying completion of rollover process can lead to errors and delay in the process.

Recommendation

We recommend DPS follow up with any missing information, obtain proper approval of rollover forms, and verify document completion of all rollover requests prior to processing them.

We also recommend DPS review and update its policies and procedures related to the rollover process to ensure that requests are properly authorized and timely processed without error.

DPS Management's Response

DPS agrees with the recommendation. DPS will follow up on missing information, ensure proper approvals, and verify completeness prior to processing rollover requests, as well as review and update its policies and procedures regarding the rollover process.

3. Recordkeeping Fee Analysis

Criteria

Fidelity maintains recordkeeping fees charged to participants of 457(b) and 401(a) Deferred Compensation Benefit Plans (Benefit Plans) in the accounts under its custody (Fidelity Accounts). The portion of the fee included Sacramento County's revenue for administering Benefit Plans.

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Deferred Compensation Plans
Performance Audit
Current Findings and Recommendations
For the Period July 1, 2021 through June 30, 2023

Written policies and procedures should be maintained related to periodic analysis of appropriateness of recordkeeping fees charged to participants of the Benefit Plans, and the process of setting the fees based on the analysis. The written policies and procedures will assist DPS to re-evaluate the fee structures in a standardized manner and to maintain appropriate funding levels that would cover expenses for the Benefit Plans' operation without under or over charging participants.

Condition

We noted that DPS did not maintain written policies and procedures related to periodic analysis of the appropriateness of recordkeeping fees charged to participants of the Benefit Plans, and the process of setting the fees based on the analysis. This is a repeat finding from prior audit. See ATT 2 – *Current Status of Prior Recommendations*.

Cause

It appears that DPS did not have written policies and procedure related to the periodic analysis of appropriateness of recordkeeping fees.

Effect

Not maintaining policies and procedures related to the periodic analysis of appropriateness of recordkeeping fees charged to participants of the Benefit Plans, and the process of setting the fees based on the analysis limits transparency and increases the risk of over or under collection of the fees from Benefit Plan participants.

Recommendation

We recommend DPS establish written policies and procedures related to the periodic analysis of appropriateness of recordkeeping fees charged to participants of the Benefit Plans, and the process of setting the fees based on the analysis.

DPS Management's Response

DPS does not believe a policy is warranted to analyze and set record keeping fees. And the reason for this is because DPS contracts for record keeping services through a formal solicitation process where services are requested and vendors submit proposals, including fees and fee structure, which are evaluated, awarded, and negotiated to ensure the record keeping fees are competitive with the market and the participants receive the greatest value for the services provided.

Additionally, DPS continuously monitors the funds in the Fee Expense account to determine if there are appropriate balances in reserve. There is no clear best practice

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Deferred Compensation Plans
Performance Audit
Current Findings and Recommendations
For the Period July 1, 2021 through June 30, 2023

for the level of reserve funds, so DPS works with the County's external consultant, the record keeper, and the Deferred Compensation Working Committee to inform recommendations to the Deferred Compensation Advisory Committee for any decisions related to adjusting participant fees to ensure an appropriate fund balance. As an example, during the period of audit, the Deferred Compensation Advisory Committee had decided to the extend a fee holiday for participants for one year to draw down the reserve.

4. Administrative Fees

Criteria

DPS charges administrative expenses to the plan participants and gets reimbursed for the administrative expenses by making claims to Fidelity quarterly for actual costs incurred to administer Benefit Plans. Any excess revenues over administrative expenses should be used to reduce future administrative expenses.

Condition

During our review, we noted DPS Benefit Plan's revenues exceeded its actual administrative expenses in the amount of \$1,347.81 for fiscal year (FY) 2021/22. Upon our inquiry, DPS did not provide sufficient explanation or resolution of the excess revenue.

Cause

It appears that DPS did not offset certain revenues and refunds to the Benefit Plans' account in calculating billable administrative expenses. In addition, it appears that DPS did not maintain procedures to true-up the administrative expenses at year end and make an appropriate adjustment.

Effect

DPS may have overcharged the Benefit Programs' participants in the amount of \$1,347.81 during FY 2021/22.

Recommendation

DPS should true-up the administrative expenses at year end and make an appropriate claim adjustment.

We recommend DPS establish written policies and procedures related to year end reconciliation and claim adjustment for administrative fee claims.

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Deferred Compensation Plans
Performance Audit
Current Findings and Recommendations
For the Period July 1, 2021 through June 30, 2023

We also recommend that DPS work with Fidelity to resolve the overclaimed amount of \$1,347.81.

DPS Management's Response

The audit accurately indicates that the Deferred Compensation Program charges administrative expenses to the plan, which are subsequently reimbursed by Fidelity through the submission of a quarterly invoice. This task is performed by the Department of Finance, General Accounting Unit (DOF). Additionally, a year-end reconciliation process to align revenues with expenses is already in place and is also carried out by DOF. DPS EBO will share the audit findings and recommendations with the DOF team responsible for these tasks and will request the implementation of the suggested improvements. Furthermore, DPS EBO will work with DOF to address the overcollection of \$1,347.81 in FY 2021-22.

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Plans Performance Audit
Current Status of Prior Recommendations
For the Period July 1, 2021 through June 30, 2023

**CURRENT STATUS OF PRIOR RECOMMENDATIONS (REPORT DATED
NOVEMBER 6, 2023 FOR THE PERIOD JULY 1, 2020 THROUGH JUNE 30, 2021)**

1. 401(a) Employer Matching Contribution

Prior Recommendation

We recommended DPS review the 401(a) Plan Document and adjust its practice of administering 401(a) or update the Plan Document and its practice accordingly. We also recommended DPS assess the impact of not complying with the Plan documents as it relates to the employer contributions.

Current Status

It appears the recommendation has been implemented.

2. Recordkeeping Fees

Prior Recommendation

We recommended DPS:

- Establish written policies and procedures related to the reconciliation process of the Fidelity Accounts' financial activities and balances in order to account for the Fidelity Accounts' financial activities and balances consistently and accurately.
- Establish written policies and procedures related to periodic analysis of appropriateness of recordkeeping fees charged to participants of the Benefit Plans, and the process of setting the fees based on the analysis. The written policies and procedures will assist DPS to re-evaluate the fee structures in a standardized manner and to maintain appropriate trust funds level that would cover expenses for the Benefit Plans' operation without under or over charging participants.

Current Status

It appears the recommendation has been partially implemented. DPS has established written policies and procedures related to the reconciliation process of the Fidelity Accounts' financial activities. Please see finding #3 at ATT1 – Current Findings and Recommendations

County of Sacramento
Department of Personnel Services
457(b) and 401(a) Plans Performance Audit
Current Status of Prior Recommendations
For the Period July 1, 2021 through June 30, 2023

3. Annual Reporting Requirement

Prior Recommendation

We recommended DPS ensure the submission of the Annual Report on Benefit Plans to the Board timely. We also recommended DPS ensure to report the required elements which includes the total amount of general fund expenditures for County administrative operation and a description and the amount of any expenditure reimbursement or revenue credited to general fund administration of the Plan by the Plan assets.

Current Status

It appears the recommendation has been implemented.