COUNTY OF SACRAMENTO

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

# INTERNAL AUDIT REPORT

# 457 PLAN REPORT

# DEPARTMENT OF PERSONNEL SERVICES

SACRAMENTO COUNTY

**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 457(b) Deferred Compensation Plan's (Deferred Compensation Plan) compliance with the California Government Code Section 53212 *et seq.*, Internal Revenue Services' (IRS) regulations, and the Deferred Compensation Plan trust documents.

## Audit Objective

To confirm whether Personnel Services is in compliance with the California Government Code Section 53212 *et seq.*, Internal Revenue Services' (IRS) regulations, and the Deferred Compensation Plan trust documents.

## Summary

We noted issues related to initial contributions, Sacramento County Employee's Retirement System (SCERS) purchase of service credits, outside retirement plan roll-in to County Deferred Compensation Plan, automatic restriction for full-time participants, special section 457 catch-up, workers compensation and deferral amounts, manual changes, revenue allowances and recordkeeping fees, deferred compensation amounts, and automatic restriction for Part-Time/Seasonal/Temporary (PST).

**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

Subject: **COUNTY OF SACRAMENTO DEFERRED COMPENSATION PLAN COMPLIANCE**

We have performed the procedures enumerated below, and on pages 2 and 3 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 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, 2016 to December 31, 2016. Personnel Service's management is responsible for maintaining compliance for the Deferred Compensation 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 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 and our findings were as follows and on the next two pages:

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

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

4. Sacramento County Employees' Retirement System (SCERS) allows purchase of service credits using the Deferred Compensation Plan rollovers. Tested to determine the payments are in accordance with SCERS and Deferred Compensation Plan documents, and are processed timely.

   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. Active County employees may transfer balances from another "eligible retirement plan" into the Deferred Compensation Plan. The characteristics of the funds from the other "eligible retirement plan" continue to apply to the transferred assets. Tested if other "retirement plan" is indeed "eligible" and properly recorded.

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

8. Terminated employees are allowed to access Deferred Compensation 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.

9. Determined the current status of prior findings and recommendations reported on County of Sacramento Deferred Compensation 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 Deferred Compensation 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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**Report dated July 7, 2016 for the period of January 1, 2015 to December 31, 2015**

## 1. Automatic Restriction for Full-Time Participants

Prior Comment

During our inspection 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 was 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.

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Prior Recommendation
We recommended 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.

Prior Personnel Services' Management Response
We agreed 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.

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

**2. Special Section 457 Catch-Up**

Prior Comment
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.

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Prior Recommendation
We recommended 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.

Prior Personnel Services' Management 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.

Current Status
This finding has not been implemented. See Finding Number 5 at Attachment II, *Current Findings and Recommendations.*

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

Prior Comment
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

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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.

Prior Recommendation
We recommended 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 recommended 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.

Prior Personnel Services' Management Response
We agreed 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.

Current Status
This finding has been implemented.

**4. Workers Compensation and Deferral Amounts**

Prior Comment
During our inspection 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.

Prior Recommendation
We recommended 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.

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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 6 at Attachment II, *Current Findings and Recommendations.*

5. **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. 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.

Prior Recommendation
We reiterate the recommendation at Finding 4.

Prior Personnel Services' Management Response
We agreed with this finding. 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 7 at Attachment II, *Current Findings and Recommendations.*

6. **Discrepancy Reports**

Prior Comment
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) reviewed these discrepancy reports and

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determined if changes were needed in COMPASS/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 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.

Prior Personnel Services' Management Response
We agreed with this finding. Personnel Services will implement the recommendations.

Current Status
This finding has been implemented.

7. **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 to obtain quarterly invoices from Fidelity detailing the quarterly revenue allowances and recordkeeping fees. We also recommended 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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Prior Personnel Services' Management 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.

Current Status
This finding has not been implemented. See Finding Number 8 at Attachment II, *Current Findings and Recommendations.*

**8. Deferred Compensation Amounts**

Prior Comment
During our inspection, 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.

Prior Recommendation
We recommended 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.

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

Current Status
This finding has not been implemented. See Finding Number 9 at Attachment II, *Current Findings and Recommendations.*

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**9. Automatic Restriction for Part-Time/Seasonal/Temporary**

Prior Comment
During our inspection, 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 of this attachment.

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.

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.

Prior Recommendation
We recommended 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.

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

Current Status
This finding has not been implemented. See Finding Number 10 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 457(b) Deferred Compensation Plan (Deferred Compensation Plan), we noted that eight participants had their initial contributions occur in the same calendar month the participant elected to defer compensation. In addition, these participants did not elect to defer their compensation on or before performing any service for the County.

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.*"

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

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.

Personnel Services' Management Response

We agree with this finding. Department of Personnel Services will work with the record-keeper, to ensure that no enrollments and subsequent contributions are accepted prior the employees' initial service with the County.

## 2. Sacramento County Employees' Retirement System (SCERS) – Purchase of Service Credits

Comment

During our current inspection of the Deferred Compensation Plan's purchase of service credits for SCERS, we noted the following:

- The Plan Administrator/Designee did not date 16 out of 20 Rollover Forms.

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- The participant did not date next to its signature on five out of 20 SCERS Purchasable Service Election forms.
- One participant's Distribution Request Form was not provided.
- Two participants' Distribution Request Form, Rollover Form, and SCERS Purchasable Service Election Form were not provided.
- One participant's purchase of service credit occurred after the participant retired.

Forms should be dated to validate that authorization of payment was obtained prior to remittance and proper supporting documentation (Distribution Request Form, Rollover Form, and SCERS Purchasable Service Election Form) should be maintained to support authorization of payment.

Purchase of service credit should be obtained prior to retirement and per the Deferred Compensation Plan trust document, "*Notwithstanding any provisions of the Plan to the contrary, the Administrator may permit a Participant whose Severance from Employment has not occurred to transfer as a direct Plan-to Plan Transfer, any portion of the Participant's Account to SCERs…*".

Without dates on the forms and proper supporting documentation, we cannot determine if the authorization of payment was obtained prior to remittance. By allowing a participant to purchase service credit after retirement, Personnel Services was not in compliance with the Deferred Compensation Plan trust documents.

Recommendation
We recommend Personnel Services ensure forms are maintained and dates are inputted by participants and the Plan Administrator/Designee prior to remitting payment to SCERS. We also recommend purchase of service credits be authorized and remitted for participants that are active employees.

Personnel Services' Management Response
We agree with this finding. Department of Personnel Services has recently created and implemented a procedure related to the process of these requests and will ensure internal compliance with the procedure.

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## 3. Outside Retirement Plan Roll-In to County Deferred Compensation Plan

Comment
During our current inspection of outside retirement plans transferred into the County Deferred Compensation Plan, we noted that three participants did not have any support for the transfer of funds into the County Deferred Compensation Plan. Fidelity informed us that this is due to internal Fidelity accounts, and therefore, do not require paperwork to transfer the funds to the County Deferred Compensation Plan. Without any supporting documentation, we cannot determine if the transfer was authorized and transferred from an eligible plan by the participant.

Recommendation
We recommend Personnel Services ensure all transfers from outside retirement plans be documented with the funds plan type and that the participant authorize the transfer to the County Deferred Compensation Plan.

Personnel Services' Management Response
We agree with this finding. Department of Personnel Services has recently created and implemented a procedure related to the rollover process and will ensure internal compliance with the procedure.

## 4. Automatic Restriction for Full-Time Participants

Comment
Per email from a Senior Information Technology Analyst, Service Request 20892 for deferred compensation aggregate contributions has not yet started and the start date has been delayed due to year end benefit changes. As such, we did not perform any additional procedures other than this inquiry. See Finding Number 1 at Attachment I, *Current Status of Prior Findings and Recommendations* for a detailed description of the finding.

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.

Personnel Services' Management Response
We agree with this finding. Department of Personnel Services has submitted a COMPASS Service Request to the Department of Technology (Service Request #20892) to automatically restrict contributions in the scenarios identified by the audit, as well as others identified by the Department of Personnel Services. This project has a 2018 completion date.

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In the meantime, a report was created, run each pay period, which details current pay period and YTD 457 contributions. EBO staff reviews the report and makes any necessary changes. Review includes a second individual cross-checking the payroll exceptions to ensure the correction has been completed.

**5. Special Section 457 Catch-Up**

Comment
Per email from a Senior Information Technology Analyst, Service Request 20879 for change to payroll third party for 457b, PST, and 401a has been placed on hold since July 13, 2017. As such, we did not perform any additional procedures other than this inquiry. See Finding Number 2 at Attachment I, *Current Status of Prior Findings and Recommendations* for a detailed description of the finding.

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 Response
We agree with this finding. Department of Personnel Services has reviewed IRS 457 Catch-Up Regulations, and has recently created and implemented procedures for the special Section 457 Catch-Up option and will ensure internal compliance with the procedure.

**6. 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 should have been deferred on net earned wages and were not deterred. We further noted nontaxable wages needed a catch up period and during this period amounts should not be deferred, but 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 Deferred Compensation Plan trust documents.

In addition, per email from a Senior Information Technology Analyst, 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.

Personnel Services' Management Response

We agree with this finding. Department of Personnel Services has submitted a COMPASS Service Request # 20877 to the Department of Technology to calculate deferral amounts based on net earned wages. This project is anticipated to have 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 Employee Benefits 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.

7. **Manual Changes**

Comment

During our current 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. As such, we noted three participants where their initial manual change for their deferred compensation amount was for the incorrect amount and a correction and refund needed to be made in the following pay period(s). See Finding Number 9 of this attachment (Deferred Compensation Amounts) for more detail. 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 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.

Personnel Services' Management Response
We agree with this finding. Department of Personnel Services has recently implement the recommendations

8. **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 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.

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## 9. Deferred Compensation Amounts

Comment
During our current inspection, we noted that three participants had amounts removed from their Fidelity account. We requested support for the refunds to the participants and were informed that Personnel Services provided deferral amounts that were too large and the participant requested a portion of the large deferral amount be refunded. We requested support from Personnel Services that the participant authorized the large deferral amount. However, no supporting documentation could be provided.

Proper internal controls indicate that funds should not be refunded to the participant if the participant authorized the large amount to be deferred and there was no error by Personnel Services to defer that amount.

Recommendation
We recommend Personnel Services create and implement policies and procedures to provide the correct deferral amounts and obtain and maintain authorization from the participant for the new deferral amounts.

Personnel Services' Management Response
We agree with this finding. Department of Personnel Services has recently implemented the recommendations, placing copies of all deferred compensation documents in the employees' electronic files.

## 10. Automatic Restriction for Part-Time/Seasonal/Temporary (PST)

Comment
Per email from a Senior Information Technology Analyst, Service Request 20879 for change to payroll third party for 457(b), PST, and 401(a) has been placed on hold since July 13, 2017. As such, we did not perform any additional procedures other than this inquiry. See Finding Number 9 at Attachment I, *Current Status of Prior Findings and Recommendations* for a detailed description of the finding.

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 PST employee and employer contribution limits in COMPASS.

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Personnel Services' Management Response
We agree with this finding. Department of Personnel Services submitted COMPASS Service Request #20876 to the Department of Technology to update maximum taxable earnings to automatically restrict the correct PT employee and employer contribution limits in COMPASS. This request was completed on August 12, 2016.

Additionally, Department of Personnel Services has recently created and implemented a procedure related to these employees and will ensure internal compliance with the procedure.

**11. Repeat Findings**

Comment
We noted that Finding Numbers 4, 5, 6, 7, 8, 9, and 10 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.