COUNTY OF PLACER

OFFICE OF
AUDITOR-CONTROLLER

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Lori Walsh, Personnel Director
145 Fulweiler Avenue, Suite 200
Auburn, CA 95603

Re: Personnel Department Review, Phase 1 – Follow-Up Review

Dear Ms. Walsh:

The Internal Audit Division of the Auditor-Controller's Office performed a follow-up to our prior Phase 1 review of the Personnel Department (Department). The objective of our follow-up procedures was to determine how recommendations from our previous review were implemented to strengthen internal controls. Our procedures included inquiries of Department personnel along with reviewing of supporting documentation relating to the deficiencies in internal control and how recommendations were utilized along with actions taken.

The following is the summary of observations and recommendations along with the Department's responses from the previous report, dated June 27, 2014, which are then followed by the status of the Department's implementation of our recommendations.

Retirement Health Savings Plan Non-Discrimination Testing

In November 2011, the Board of Supervisors approved the creation of a Retirement Health Savings Plan (RHSP) for Management and Confidential employees and Elected Officials. The first retirees from these employee groups began utilizing the plan in calendar year 2012. During our review of the plan, we noted that the required non-discrimination testing was not performed for the 2012 calendar year in order to determine whether employees participating in the plan needed to receive a W-2 for any "excess" reimbursement. The testing was completed in early 2014 by the Department and our review of this testing confirmed two retirees should have received W-2s for 2012. In addition, the non-discrimination testing for the 2013 calendar year was not performed in time to issue W-2s by the January 31, 2014 IRS deadline. The W-2s were issued to the retirees late but were included in the submittal to the IRS of all other W-2s for County employees by their March 31, 2014 deadline.

We recommend Department staff work with the County Executive Office, County Counsel and Auditor-Controller's Office on the best course of action to correct missed W-2s for the 2012 calendar year. In addition, we recommend the Department work with the RHSP vendor to obtain the required information in order to do the non-discrimination testing and provide the Auditor-Controller's Office the results well before the W-2 January 31st deadline.

Personnel Department Response:

Personnel acknowledges the need to correct the outstanding W-2s for the 2012 calendar year and will work with the County Executive Office, County Counsel, and the Auditor-Controller's Office to determine the appropriate course of action to correct this issue. Recognizing the short time frames with performing the non-discrimination testing with yearend payroll information and issuance of the W2, Personnel had requested this be performed by the vendor but were informed that this is not a service they provide. Personnel will revisit this service with the vendor but should their position be unchanged, we will then engage the Auditor-Controller with discussions regarding the appropriate placement of this function.

Status – Implemented

W-2s have been issued for the two retirees who should have received W-2s for 2012. Additionally, the Auditor-Controller's Office (ACO) conducted non-discrimination testing, on behalf of the Department, for 2014 and all applicable W-2s were issued by the January 31st deadline.

Flexible Spending Accounts Non-discrimination Testing

The County has a Flexible Spending Account (FSA) plan for our represented employees, PPEO and DSA, and a separate FSA plan for our Management and Confidential employees. The County also has a Health Reimbursement Account (HRA) for Tahoe employees. During our review of the plans, we noted that the non-discrimination testing has never been performed on any of these plans since inception. It appears as though the Tahoe HRA and PPEO and DSA FSAs may not be subject to this testing based on documents provided by the Department, however, more research needs to be done to confirm. The vendor offers several non-discrimination test bundles as an optional service at an additional charge.

Due to the frequency and complexity of the tests, we recommend the Department contract with the vendor as soon as possible to perform the services on all applicable plans. In addition, we recommend Department staff work with County Counsel to confirm the facts of the potential exclusions from testing as noted above.

Personnel Department Response:

While the plan documentation referenced does not indicate a requirement for non-discrimination testing, Personnel will work with County Counsel to determine the need for non-discrimination testing. If required, Personnel will pursue contracting out this service including defining payroll data requirements and costs associated with implementing this recommendation.

Status – Implemented

The Department worked with their benefits consultant to confirm that non-discrimination testing should be conducted for the FSA plan for the County's PPEO and DSA represented employees, the separate FSA plan for Management and Confidential employees and the HRA for Tahoe employees. Subsequently, non-discrimination testing was conducted for 2012, 2013 and 2014 by the department.

Deferred Compensation Programs – Purchase of Service Credits

Currently, the County's 457 deferred compensation programs allow a "plan to plan" transfer to purchase airtime. However, it was recently discovered that the County's 401k deferred compensation programs do not allow a "plan to plan" transfer to purchase airtime, even though the CalPERS 401k certification form allows such a transfer.

We recommend the Department work with CalPERS to amend the certification form to remove this provision.

Personnel Department Response:

This form is an official CalPERS document used statewide through their public website for all participating agencies and members. While the restriction of plan to plan transfers has been a long standing 401(k) plan prohibition for Placer County, recent pension reform legislative changes in the area of service credit purchases has brought this to the attention of participants.

Status – Implemented

CalPERS denied the County's request to amend CalPERS 401k certification form to remove the provision allowing "plan to plan" transfer to purchase airtime as it is used by all CalPERS member agencies. The County revised their internal worksheet, as suggested by CalPERS, to indicate that the County's plan does not allow the use of plan funds for purchasing service credits. The County's revised worksheet was submitted to CalPERS for review and was subsequently approved. The revised worksheet has been posted on the Department's webpage.

Deferred Compensation Programs – Hardship Requests

Currently, the County's 401k and 457 deferred compensation programs contain provisions for hardship requests. At this time, there is no complete documentation of the hardship program procedures, process, and timeline. In addition, once an applicant is approved under this program, he or she is not allowed to make deferred compensation contributions for the next six months. According to the Department, there we no subsequent contributions made by hardship applicants; however, there is no monitoring to ensure contributions did not occur during the next six months for those that had approved hardship requests.

We recommend that the Department develop guidelines for the County's hardship program and establish a monitoring system to ensure contributions are not being made during restrictive periods.

Personnel Department Response:

Due to the infrequency of approved hardship requests, Personnel has not utilized a formal procedure but was aware of this restriction. A review of the three hardship requests approved within the last three years confirms that there were no subsequent contributions made within six months of approval consistent with this provision. Personnel will document its current monitoring procedure as well as require a signed acknowledgement by the employee of the contribution restriction for six months following approval.

Status – Implemented

The Department published and subsequently submitted to the Deferred Compensation Committee (DCC) the Deferred Compensation Hardship Withdrawal Request – Administrative Procedures and the Hardship Withdrawal Request Contribution Discontinuation Certification form. Additionally, the Department submitted their review of proposals from MassMutual and VOYA to manage the County's deferred compensation hardship withdrawal request process for both the County's 401k and 457 plans along with their recommendation that the County contract with MassMutual and VOYA to administer the County's deferred compensation hardship withdrawal request process.

Deferred Compensation Programs – Deferred Compensation Committee Website

The current website has not been updated to reflect changes in Committee composition, forms, and other information that would be useful to plan participants.

We recommend the Department work with the Deferred Compensation Committee to determine how the website should be maintained going forward since the Committee chair can change over the course of time.

Personnel Department Response:

The Personnel Department concurs with this recommendation. Recent action at the Deferred Compensation Committee meeting of June 11, 2014 established Personnel as the lead for updating the website with input from the Committee's retired representative as well as the Auditor-Controller. Once updated, the Personnel Department will maintain the site's content.

Status – Implemented

The Deferred Compensation Committee website has been updated to include updated Committee composition information along with links to agendas and meeting minutes. Going forward, two years of agendas and minutes will be accessible through the County's website which the Department will now maintain.

Deferred Compensation Programs – Plan Providers

The County currently has two deferred compensation plan providers, CalPERS and MassMutual. By having two plan providers, it doubles the work of the plan administrator for the County and the chair of the Deferred Compensation Committee. It can also lead to confusion when applying rules since both providers have different responsibilities. For example, the MassMutual 401k and 457 plans identify the County as the Plan Administrator and the Deferred Compensation Committee is the apparent financial advisor. The CalPERS 401k and 457 Plans are administered by CalPERS and they, along with ING, act as the financial advisor and plan administrator.

It has also been several years since the County has gone out to bid for deferred compensation plan services.

We recommend the Department work with the Deferred Compensation Committee to determine the need to have two plan providers and any possible implications to switching to one. Once determined, we further recommend the County go out and competitively bid for the deferred compensation plan services that also includes a financial advisor and Plan Administrator.

Personnel Department Response:

The Personnel Department acknowledges the additional workload of providing employees the choice of two deferred compensation plans. Personnel will work with the Deferred Compensation Committee to explore the interest of the County, its employees, and retirees in light of the complexities of making changes to our 401 (k) and 457 plans.

Status – In Process

The Deferred Compensation Committee has contracted the services of a consultant to perform a Review of Fiduciary Practices for Investment Stewards for the County's two 401k plans and two 457 plans. The consultant will be issuing a report that will provide best practice recommendations for deferred compensation plans.

Deferred Compensation Programs – Beneficiaries

During the course of the review, it was determined that employees' information being entered into ACORN (County's online human resources and payroll system) for beneficiaries does not necessarily transmit to all benefit providers, including deferred compensation programs.

We recommend the Department determine what beneficiary information is currently being transmitted to all benefit plan providers and confirming whether ACORN is the system of record for this information through the lens of the providers.

Personnel Department Response:

Several vendors have through their documentation and forms designated that beneficiary information is to be maintained by Placer County. Personnel will review applicable agreements/ contracts and confirm with those that do not specify this designation to ensure that beneficiary information is available and transmitted to those plan providers who request this information. Personnel will document this understanding with all applicable vendors.

Status – Implemented

The Department's staff worked directly with providers to determine their requirements for retaining and transmitting beneficiary information and it was determined that ACORN cannot be the sole system of record for all beneficiary designation information. Some providers rely on the information provided to them as the official system of record for beneficiary information while other providers rely on the County as the official system of record.

Department staff is also in the process of developing a communication method to ensure that employees are aware of the importance of ensuring the Department is kept updated with the employee's beneficiary information.

Deferred Compensation Programs – Security Access

The Department, as the Plan Administrator, was not monitoring which employees had security access to our deferred compensation plans. It was also determined that key employees working with our deferred compensation programs online had not been trained on how to utilize the system to monitor 401k and 457 employee activity.

We recommend the Plan Administrator regularly monitor who has security access to our deferred compensation programs and ensure that employees tasked with ensuring compliance are properly trained.

Personnel Department Response:

Personnel concurs with this recommendation and in October 2013 updated the security access ensuring that only the authorized key employees have access to the system. Personnel will continue to ensure that access to these programs is by authorized employees only.

Status – Implemented

Ongoing monitoring of security access to the County's deferred compensation programs will be overseen by the Department's Executive Secretary and Senior Administrative Services Officer.

Training has been provided to existing employees tasked with ensuring compliance, to the extent needed to perform their program responsibilities. Training for additional or future employees will be handled by the benefits manager or his/her designee.

Deferred Compensation Programs – Loan Reports

Loan arrears and loan default reports were being sent to the Department, as the Plan Administrator, but they were not being acted upon or being sent to the Deferred Compensation Committee.

We recommend that any loan reports being sent to the Plan Administrator be distributed to the Chair of the Deferred Compensation Committee prior to each quarterly meeting.

Personnel Department Response:

The Personnel Department will provide a summary report of loan arrears and defaults to the Chair of the Deferred Compensation Committee prior to each quarterly meeting. The confidential nature of individual loan reports precludes circulation outside the Personnel Department.

Status – Implemented

The Department is now providing loan default and loan arrears reports to the Chair of the Deferred Compensation Committee on a quarterly basis.

Deferred Compensation Programs – Contracts and Agreements

The Department had a difficult time locating key contracts and agreements with our plan providers. In addition, certain agreements received were either outdated or conflicted with ones received from our vendors.

We recommend the Department maintain a central location for key contracts and plan agreements with our plan providers, preferably electronically stored. We further recommend the Department correspond with our plan providers to ensure we have the most recent contracts and agreements on file.

Personnel Department Response:

Personnel concurs with this recommendation.

Status – Implemented

The Department has completed a centralized spreadsheet with integrated links to the most recent contracts and plan agreements which are electronically stored by the Department.

New Regulation

The current FSA plans are "use-it-or-lose-it" plans, where the amounts in accounts at the end of the plan year cannot be carried over to the next year. The IRS regulations changed and now for plan years beginning after December 31, 2012, plans may allow up to $500 of unused amounts to be rolled over into the following year.

We recommend Department staff work with the County Executive Office and the Board of Supervisors to amend the contract to allow rollover of the unused amounts in the FSA in order to enhance this existing benefit offered to our employees.

Personnel Department Response:

Personnel Department is aware of this change in IRS regulation that affects Health FSAs programs only. Enhancements to benefits are usually considered as a package in conjunction with other pay and benefit changes. Personnel department will work with the County Executive Office to include this enhancement for discussion with the Board of Supervisors next time changes in pay and benefits for affected employees are being considered.

Status – To Be Determined

The Department is currently working with the labor negotiating team to determine financial and policy impacts on implementing this recommendation.

ACORN Monitoring and Reporting

Embedded within the ACORN application are a series of earning and time reporting codes that trigger employee compensation and benefits. In addition, many of these codes have been designed to ensure compliance with the Fair Labor Standards Act (FLSA), IRS, and many other regulatory agencies.

Many times throughout the year, with more impact during labor negotiation periods, the Department is asked to provide a plethora of information via queries and reports. One such report, the Placer Reporting Table, is also used for budgeting and forecasting purposes. The Placer Reporting Table requires a significant amount of work by the Department, along with assistance from the Auditor-Controller's Office, in maintaining and validating the information.

We recommend the Department work with the County Executive Office to establish an ACORN Compliance/Monitoring Subcommittee, similar to the ACA Subcommittee. This subcommittee would be used to determine what queries and reports are needed for County management and the labor negotiation team and to determine what County department is going to maintain and provide the queries and reports. This subcommittee could also determine what is currently being monitored in the ACORN system, what still needs to be monitored, especially as it relates to the use of earning and time reporting codes to ensure compliance with laws and regulations (Chapter 3, MOUs, PERS, FLSA, etc.), and which County departments should provide the ongoing monitoring.

Personnel Department Response:

As stated, the ACORN system provides a plethora of useful information for multiple purposes. The Personnel Department will continue to work with the County Executive Office and the Auditor's Office to ensure the most efficient and relevant use of system information and will participate in discussions and provide recommendations for any subcommittee deemed to be beneficial by all concerned.

Status – Not Implemented

The ACORN Executive Steering Committee formed a subcommittee to evaluate the use of the Placer Reporting Table only. This subcommittee is still in the process of determining the proper County use and future maintenance of the Placer Reporting Table. The formation of an ACORN Compliance/Monitoring Subcommittee is pending results of the Human Resources Study.

The Personnel Department's responses to our recommendations identified in our original review report dated June 27, 2014 are included above. We did not audit their responses and, accordingly, we do not express an opinion on them.

We appreciate the courtesy and cooperation of the Department's staff throughout the course of this review.

Respectfully,

Andrew C. Sisk, CPA
Auditor-Controller

cc: David Boesch, County Executive Officer
Judy LaPorte, Personnel Services Manager
Placer County Civil Service Commission
Placer County Audit Committee