



Hernando County Clerk of Circuit Court
Audit Services Department
Follow-Up Audit Report
of
457 Deferred Compensation Plan
November 16, 2020

MANAGEMENT LETTER

TO: Jeffrey Rogers, County Administrator

VIA: The Honorable Doug Chorvat, Jr. 

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services 

DATE: November 16, 2020

SUBJECT: Follow-Up Audit of the 457 Deferred Compensation Plan

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted a follow-up audit of the 457 Deferred Compensation Plan Audit. Based on observations and communications with key personnel, the audit team produced the attached report for your review. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "Correspondence to Note" item.

The purpose of this report is to furnish management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the internal audit team exercised due professional care in the performance of this review, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The courtesies and cooperation extended by the employees of the Hernando County Human Resources Department during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6235, or just stop by our offices in Room 215.

ATTACHMENT: 457 Deferred Compensation Plan Follow-Up Audit Report

Copy: Michelle Posewitz, Human Resources Director

Copy: Board of County Commissioners

Chairman John Mitten
Commissioner John Allocco
Commissioner Wayne Dukes
Commissioner Jeff Holcomb
Commissioner Steve Champion

Copy: Audit Services Planning & Priorities Committee

The Honorable Doug Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Amy Gillis, CPA, CGFO, Director, Financial Services
Jon Jouben, Deputy County Attorney
Tobey Phillips, Deputy County Administrator
Jeffrey Rogers, County Administrator
Stephanie Russ, Budget Manager, Office of Management & Budget
Jeff Wolf, CPA, Senior Audit Manager, MSL P.A.
William Blend, CPA, CFE, Shareholder, MSL P.A.

Table of Contents

EXECUTIVE SUMMARY.....	5-6
ACKNOWLEDGEMENT.....	7
BACKGROUND.....	8
OBJECTIVE & SCOPE.....	8
DISCUSSION POINTS	
1. Compliance with F.S. 212.215(5).....	9
2. Fiduciary Responsibilities.....	10

Executive Summary

The Audit Services Department (ASD) conducted a follow-up audit of the 457 Deferred Compensation Plan Audit dated May 23, 2017. The purpose of this follow-up audit was to determine the status of the previous recommendations for improvement and management's corrective actions.

The purpose of the original 457 Deferred Compensation Plan Audit was to determine compliance with Florida Statutes and IRS Regulations and to assess management's performance of fiduciary duties.

To assess the status of previous recommendations, ASD reviewed documentation to identify the actual actions taken to implement improvements.

Of the two recommendations in the original audit, ASD determined that the recommendations were fully implemented.

The two recommendations that were implemented pertained to the following Opportunities for Improvement:

1. Create and adopt an Ordinance authorizing the offering of a deferred compensation program for County employees.
2. Due to the complexities of investment products, management should consider contracting with a third party to administer the 457 Deferred Compensation Plan. If budget constraints should preclude outsourcing this responsibility, management should consider implementing the following: an investment policy; a Deferred Compensation Advisory Committee; and periodic reviews/analysis of plan providers' performance including plan fees and expenses. In addition, a formal evaluation of additional plan providers should be performed and documented.

ASD commends management for the full implementation of recommended improvements.

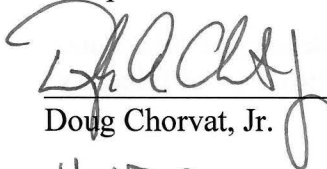
Opportunity for Improvement No.	Audit Report Recommendation	Management Response	IMPLEMENTATION STATUS				
			Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
1	Create and adopt an Ordinance authorizing the offering of a deferred compensation program for County employees.	Management agrees with Audit's recommendation and has worked with the County Attorney's Office to have an Ordinance drafted. Due to the public hearing requirements, this Ordinance is expected to be approved by the BOCC at its May 23, 2017 meeting.	✓				
2	Due to the complexities of investment products, management should consider contracting with a third party to administer the 457 Deferred Compensation Plan. If budget constraints should preclude outsourcing this responsibility, management should consider implementing the following: an investment policy; a Deferred Compensation Advisory Committee; and periodic reviews/analysis of plan providers' performance including plan fees and expenses. In addition, a formal evaluation of additional plan providers should be performed and documented.	Management has received some samples of contracts that other governmental agencies have for these services and will work with Purchasing to determine if these contracts can be piggy backed off of.	✓				

Acknowledgement

Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Vicky Sizemore, Internal Auditor

This report was reviewed and authorized by Doug Chorvat, Jr. Clerk of Circuit Court and Comptroller.



Doug Chorvat, Jr.
11-17-2020

Date

BACKGROUND INFORMATION

The Deferred Compensation Plan is a voluntary, supplemental retirement plan offered by the County in accordance with Section 457 of the Internal Revenue Code. Participants in the Plan elect to defer a portion of their compensation until a future date.

Participants specify the deferral amount and select the investment options. Contributions for active employees are made to their deferred compensation account by payroll deduction.

OBJECTIVE

The purpose of this 457 Deferred Compensation Plan follow-up audit was to assess the status of previous recommendations for improvement.

The purpose of the original 457 Deferred Compensation Plan Audit was to determine compliance with Florida Statutes and IRS Regulations and to assess management's performance of fiduciary duties.

SCOPE

To determine the current status of the previous recommendations, ASD obtained and reviewed documentation to assess the actual actions taken by management to implement operational improvements.

This follow-up audit was performed during the timeframe of September 10, 2020 through October 26, 2020.

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Opportunity for Improvement	Description	Page Reference
1.1	Create and adopt an Ordinance authorizing the offering of a deferred compensation program for County employees	9
2.1	Implement policies and procedures addressing the County's fiduciary responsibilities; Contract with a third party to administer the 457 Deferred Compensation Plan	10

Discussion Points

Status of Recommendations

This section reports the follow-up actions taken by management regarding Opportunities for Improvement reported in the 457 Deferred Compensation Plan Audit dated May 23, 2017. The audit comments and recommendations contained herein are those of the original audit, followed by the current status of the Opportunity for Improvement.

Discussion Point 1: Compliance with F.S. 112.215(5)

Florida Statute 112.215(5) states

*“Any county, municipality, or other political subdivision of the state may by ordinance, and any constitutional officer under s. 1(d), Art. VIII of the State Constitution of 1968 may by contract agreement or other documentation constituting approval, adopt and establish for itself and its employees a deferred compensation program. ...”*¹

The audit team identified an improvement opportunity.

1.1 Opportunity for Improvement: Create and adopt an Ordinance authorizing the offering of a deferred compensation program for County employees.

A review of the Hernando County Code of Ordinances on www.municode.com disclosed that the County currently does not have an ordinance authorizing the offering of a deferred compensation program. Instead of an Ordinance the Board of County Commissioners approved a Resolution in 1981, Resolution number 81-95, authorized the creation of the deferred compensation program. It is unclear why a Resolution was passed instead of an Ordinance.

Recommendation: Create and adopt an Ordinance authorizing the offering of a deferred compensation to County employees as required by Florida Statute 112.215(5).

Management Response: Management agrees with Audit’s recommendation and has worked with the County Attorney’s Office to have an Ordinance drafted. Due to the public hearing requirements, this Ordinance is expected to be approved by the BOCC at its May 23, 2017 meeting.

Status: Fully Implemented

¹ Florida Statutes

Discussion Point 2: Fiduciary Responsibilities

Under the County's Deferred Compensation Plan, much of the control and responsibility for participant investment outcomes is borne by the participant. However, the County, as plan sponsor,

*"remains fully and solely responsible for maintaining the plan, meeting regulatory requirements, educating participants, prudently selecting and monitoring both investment options and service providers, and controlling plan expenses."*²

2.1 **Opportunity for Improvement: Implement policies and procedures addressing the County's fiduciary responsibilities**

The ASD noted that the County currently does not have policies and procedures that address the County's fiduciary responsibilities regarding the administration of the 457 Deferred Compensation Plan. New providers are not evaluated in depth. Management meets with prospective providers to discuss their services and products but does not perform and document a formal review. In addition, a formal review of current providers is not performed. A cursory review of provider performance reports is performed. However, it is not documented. Therefore, it could not be substantiated.

Recommendation: Due to the complexities of investment products, management should consider contracting with a third party to administer the 457 Deferred Compensation Plan. If budget constraints should preclude outsourcing this responsibility, management should consider implementing the following: an investment policy; a Deferred Compensation Advisory Committee; and periodic reviews/analysis of plan providers' performance including plan fees and expenses. In addition, a formal evaluation of additional plan providers should be performed and documented.

Management Response: Management has received some samples of contracts that other governmental agencies have for these services and will work with Purchasing to determine if these contracts can be piggy backed off of.

Status: Fully Implemented

² National Association of Government Defined Contribution Administrators, Inc. Fiduciary Responsibility www.nagdca.org