

# Deferred Compensation Plan BOARD REPORT 18-09

Date: March 20, 2018  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: Plan Audits

*Board of Deferred  
Compensation Administration  
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## Recommendation:

That the Board of Deferred Compensation Administration: (a) receive and file information regarding defined contribution plan audits; and (b) direct staff to draft for Board approval a Request for Proposal (RFP) for Deferred Compensation Plan auditing services.

## Discussion:

As indicated at the Board's January 16, 2018 meeting, staff is presenting a report and findings with respect to developing a plan for conducting ongoing audits of the City's Deferred Compensation Plan. The last time an audit was conducted for the City's Plan was in 2003, at a cost of \$38,000. An auditor was chosen as a result of an RFP issued by the Board. Two responses were received, and the Board awarded the contract to Macias, Gini & Company ("Macias Gini"). In completing its analysis of the Plan's financial statements, Macias Gini reported that they found no issues and that the Plan's financial statements conformed with generally accepted accounting principles.

At that time, ongoing audits were not viewed as a common feature of governmental defined contribution plans. The Board did not elect to pursue additional audits. However, a practice of providing for ongoing financial audits, particularly for larger plans, appears to be becoming more commonplace. An informal query of governmental members of the National Association of Governmental Defined Contribution Administrators (NAGDCA) indicates that many plans have ongoing financial audits. In addition, the City's colleagues at the County of Los Angeles and State of California indicated to staff that they conduct annual audits; colleagues at the City/County of San Diego indicated they do not conduct audits.

Staff also reached out to the Plan's Third-Party Administrator (TPA), Voya, and inquired about their observations and experience regarding audits in working with their clients. Voya reported that approximately 50% of their large public sector plans, as well as approximately 90% of their large private sector plans, conduct regular audits, the vast majority of which are also done annually. Furthermore, Wendy Young-Carter from Segal Consulting, the Plan's administrative consultant, informed staff that retirement plans governed by the Employee Retirement Income Security Act (ERISA) conduct audits on an annual basis. She indicated that although ERISA requirements do not apply to

governmental plans such as the City's Deferred Compensation Plan, those requirements are often used as guidance for best practice.

Because there is wide variability in the structure of governmental plans, it is unclear what the approximate costs of an audit would be for the City's Plan. The County of Los Angeles and the State of California, as examples, both have their auditors review multiple plans, while the City has only one plan. Both entities further indicated that the number of responses they received to their procurements was relatively small, and that proposers may not necessarily have broad experience in the conduct of governmental defined contribution plan audits.

Nevertheless, staff's finding is that an RFP would be an important first step to obtaining the relevant scope and pricing information that would be necessary for the Board to develop final decisions regarding whether audits should be conducted and at what frequency. Staff therefore recommends that the Board direct staff to draft for Board approval an RFP for Deferred Compensation Plan auditing services.

Submitted by: \_\_\_\_\_  
Matthew Vong

Approved by: \_\_\_\_\_  
Steven Montagna