

HOW TO HAVE A SUCCESSFUL 401(K) PLAN AUDIT

At a recent roundtable event, we learned that business leaders and HR executives continue to face challenges when having their organizations' 401(k) plans audited. Changing regulations, complicated guidance and running up against the deadline were just some of the concerns mentioned. Having covered tips for a smooth audit process in our webinar format, **we thought it would be beneficial to provide you with a fillable checklist of items to cover during this crucial audit process.**

1. UNDERSTANDING RECENT REGULATORY ISSUES THAT CAN IMPACT YOUR PLAN

Were loan repayments suspended under the CARES Act provisions in 2020 properly reinstated in January 2021?

Do you hire long-term part-time employees?

Historically, retirement plans only needed to cover employees who worked more than 1,000 hours in a plan year. Beginning in 2024, employees who worked 500 or more hours in three preceding years will need to be offered coverage. These employees do not need to receive employer contributions and will not negatively impact compliance testing. Employers should ensure that hours are being tracked for 2021, 2022 and 2023 in order to offer eligibility on January 1, 2024.

Did the census file you used in compliance testing include your full employee population?

If it didn't, your compliance testing may not have been done properly. The gross compensation and employee contributions should match your plan's payroll records. Make sure the employee contributions withheld and reported on the census file agree to the amounts deposited into the plan (adjusted for timing of year-end payments). This will ensure any missed contributions during the year can be corrected, including payment of any lost earnings.

Did you review compliance testing to ensure any corrective actions were taken timely?

If ADP/ACP tests required refunds, they should have been issued by March 15, or an excise tax has to be paid.

Do you have any self-employed individuals? Make sure that appropriate self-employment earnings were used in contribution calculations and compliance testing rather than draws or distributions.

Partnerships and sole proprietors have adjustments made to their earnings related to self-employment tax adjustment and retirement plan contributions that need to be adjusted for eligible plan earnings.

If your organization utilized leased employees longer than 12 months, does the plan document exclude these workers? Also review the number of leased employees working for more than 12 months to determine any impact on coverage testing.

If your organization has related entities, were they considered as part of compliance testing processes?

If your organization experienced any significant workforce decreases during the year (including sale of a division or layoffs), have you reviewed the partial plan termination rules to determine if the impacted individuals needed to be 100% vested?

Have you completed a detailed review of plan restatement of your 401(k) plan and adopted this to ensure plan provisions align with plan operations, by July 31, 2022?

2. SCHEDULING THE AUDIT PLANNING MEETING WITH KEY MEMBERS OF MANAGEMENT AND YOUR AUDITOR

During this meeting, you should:

Understand new responsibilities under SAS 136, including the need to review investment certification(s).

Share with your auditor any changes you had during the plan year and current year to date that relate to your organization, workforce and/or plan operations.

Update your auditor on any plan errors and corrections made during the plan year.

Create a timeline for when the plan sponsor and auditor will commit to providing information and performing audit procedures.

Designate the appropriate individuals to provide auditors with needed information, generally including both finance and human capital teams. Assign a point person to ensure information requests are provided based on the agreed upon timeline.

3. PLAN GOVERNANCE RESPONSIBILITIES

Make sure you're meeting the below responsibilities:

Establish a retirement plan committee and designate responsibilities to document the committee's activities.

Review and document formal review of SOC reports of recordkeeping and payroll service providers.

Review and benchmark plan fees.

Review fund performance, including target date fund selection criteria.

Select an auditor who specializes in retirement plan audit issues.

Review auditor communications, including addressing reportable findings timely.

For more information, please contact Karen Sanchez, our partner-in-charge of employee benefit plan services:



Karen Sanchez, CPA, QPA, is the partner-in-charge of Sikich's employee benefit plan services. Karen leads a team of professionals, who provide employee benefit plan audits, third-party administration services for retirement plans, welfare plan Form 5500 preparation, payroll tax compliance services and Affordable Care Act reporting.

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