

Audit 101: What Does a 401(k) Audit Look Like?

Purpose and Deliverables

- Audit requirement (≥ 120 eligible employees as of beginning of plan year for initial audits)
- Limited beginning balance procedures required for two-year comparative financial statements
- Ensure compliance with DOL/IRS regulations (ERISA – Employee Retirement Income Security Act) and plan documents
- Deliverables include:
 - Audit opinion (disclaimer if limited scope)
 - Audited financial statements (prepared by us; to be attached to Form 5500)
 - Deficiencies and recommendations (letter to plan governance and management)

Who are the Players?

- Third Party Administrator (TPA)/Recordkeeper/5500 Preparer
- Trustee/Custodian
- Investment Advisor/Co-Fiduciary
- Auditor
- Plan Sponsor
- Plan Administrator
- Plan Trustees/Committee Members
- ERISA Attorney

What We Need from You

- Standard request list provided
 - Selected payroll registers
 - Selected participant data (personnel files)
 - Selected plan level data (provided by TPA)
 - Census (reconciled to payroll)
 - Remittance schedule (template provided by auditor)
 - Plan documents and DOL/IRS correspondence
 - Notices (e.g. fee disclosure, safe harbor)
 - Service provider contracts and Fidelity bond
 - Committee minutes

Timeline

- Audit work begins as early as May once audit packages are available from TPAs, and we transition from our Spring corporate audit work.
- We will pull necessary information from audit packages and begin making sample selections of participants we will test.
- We will confirm specific timing with you for fieldwork between May – September.
- Fieldwork on site is typically 1 - 2 days; report delivery in about one month
 - We can work 100% remotely, if desired.
- Form 5500 deadline for most (December 31 plan year-ends):
 - October 15 (with extension)
 - July 31 (without extension)

What We Will be Testing

- Compliance with DOL/IRS regulations and your plan documents
 - Participant and employer contributions
 - Eligibility
 - Remittances from payroll to the plan trustee/custodian
 - Distributions, loans and rollovers into the plan
 - Fund and income allocation
- Investment earnings (full-scope audits only)
- Plan fees, if material
- Significant transactions, such as mergers or transfers to a new TPA, as applicable
- Internal controls – high level understanding only

Common Deficiencies

- Remittances – timeliness and discrepancies
- Deferral and match discrepancies (primarily eligible compensation issues)
- Eligibility and auto-enrollment/escalation
- Insufficient documentation of fiduciary responsibilities (committee minutes)
- Use of forfeitures
- RMDs (required minimum distributions) and cash-outs
- Hardships
- Plan amendments and participant notices

How Can You Prepare?

- Engage your auditor; discuss fees and timing
- Begin gathering requests (auditor will provide list)
- Discuss audit package timing with TPA and auditor web access
- Fill in remittance schedule (template provided by auditor)
- Identify any potential issues after considering deficiencies (above)
- Ensure plan administration is consistent with plan documents
- Implement a process whereby payroll ensures all new pay codes are being classified appropriately between eligible and ineligible wages
- Consider the need for a match true-up

Contact Information

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For more information related to employee benefit plan and 401(k) services, visit

www.PKFTexas.com/BenefitPlanAudits.