10 Mistakes That Could Trigger a 401(k) Plan Audit

Benefit professionals, at a minimum, should take the time now to sit down with outside ERISA counsel and plan an internal audit to ensure that their plans are in compliance, says Heidi L. Lamarca, a principal and practice leader of Windham Brannon, a chartered professional accounting firm. She outlines 10 red-flag risk areas that often draw the DOL's attention and could trigger an audit of your 401(k) plan.

1. **Missteps with the plan's eligibility requirements**
   Some employees may be enrolled too early or too late—or forgotten altogether, which can be the case with employees working at another corporate affiliate or division.
2. **Misinterpretation of the vesting period**
   Each plan defines when employees reach one year of service. HR and other departments may calculate it differently.
3. **Violation of break-in-service rules**
   Usually, plans state that when employees leave and are rehired within a certain time frame, that they're automatically eligible to participate in a 401(k) plan. This rule is sometimes overlooked.
4. **Errors in calculating employee contributions**
   401(k) contributions should be determined in accordance with the plan document (which should include the definition of compensation) and in accordance with employees' instructions.
5. **Miscalculations of profit-sharing contributions**
   Errors occur most often when annual calculations are performed manually versus being automatically tallied through payroll software.
6. **Mismanagement of employee requests**
   When employee requests, such as changes in deferral percentages, are handled manually, they are sometimes coded incorrectly or simply not entered at all.
7. **Late or inconsistent payment of employee deferrals**
   According to the DOL, contributions must be paid as soon as administratively feasible, but no later than the 15th business day of the following month (when deferrals are withheld). Employee contributions should be within this time frame, but also consistently remitted among all payrolls and pay periods.
8. **Increasing forfeiture accounts**
   When employees leave and forfeit their 401(k) balances, those funds aren't always used as outlined in the plan, such as for paying employer-plan fees or in the time frame required by the Internal Revenue Service.
9. **Improper tax withholdings when employees take distributions**
   People can take distributions from employer-sponsored plans prior to age 59 ½, but these early-withdrawals must be made in accordance with IRS rules in terms of penalties and any income taxes due.
10. **Confusion over service provider contracts**
    Sometimes, there's a disconnect between the company and its service provider. Responsibilities should be crystal clear, especially in the areas of hardship withdrawals and informing employees of eligibility.

SOURCE: http://www.employeebenefitadviser.com