Render Retirement Plan Audits Painless

Review plans periodically to catch and correct red flags

By Bertha Minnihan

Employee retirement plans are heavily governed by the Department of Labor (DOL)—no surprise there. But before benefit plan sponsors prepare for a plan audit, take a step back and consider what triggers an audit, such as the number of eligible plan participants and what the DOL will be looking for when reviewing Form 5500 filings and audited financial statements, including deposit timeliness, compensation deferrals and employee education.

Why is a correct audit filing so important? The DOL relies on Form 5500 filings to ensure that plan reporting is in compliance with the Employee Retirement Income Security Act (ERISA). In addition, the DOL and the Department of Health and Human Services derive from Form 5500s data used to analyze retirement plan trends and benefits. Both agencies examine these filings closely and may ask companies numerous questions when reviewing them.

Required vs. Option

To prepare for an audit, the first thing plan sponsors should do is determine if they are required to get one. An audit is based in part on the number of employees who are eligible to participate in the plan at the beginning of the year. Generally, the magic number is 100. If an employer has at least that many eligible participants, including terminated employees with account balances still in a retirement plan, they should plan on an audit. If an audit is required, HR representatives should work with their independent accountant to file Form 5500. Late forms and those filed incorrectly are red flags for the DOL, though these are two of the easiest things to fix.

Addressing Red Flags

For employee benefit plans that require an audit, it’s important to know what the DOL requires of plan sponsors. First up is deposit timeliness. The agency wants all withholdings from employees (i.e., employee deferrals, participant loans, catch-up and Roth contributions) deposited with the trustee and into participant accounts as soon as possible. Why? The DOL is checking to see that workers are accumulating their owed earnings. Therefore, plan sponsors should:

- **Watch payroll staff and review their internal procedures** to ensure that they’re remitting contributions into the trust and investing them in participants’ accounts.

- **Make sure the timing of withholdings is consistent,** because inconsistent withholdings will raise questions from both the independent auditor and the DOL.

In a similar vein as deposit timeliness is compensation deferrals. Compensation can be challenging, especially when different types of bonuses are paid or when the organization has multiple pay codes. The DOL looks at whether contributions (both employee and employer) are being calculated on the correct base wage and whether the right components are eligible, as noted in the plan documents.

Incorrect calculations can lead to big costs. For example, if plan sponsors are missing income components and deferrals are understated, there is a risk of an understated employer match. If the worker is shorted, the employer has to make up the entire shortfall, contributions and earnings.

Some *Fortune* 500 and 1,000 companies have miscalculated compensation and now owe their plans millions of dollars for deferrals, earnings and underfunded matching contributions. To keep a handle on this, sponsors should:

- **Review their plans** and look at distribution reports, loans, etc., every quarter.
- **Examine these documents** with some skepticism as well, to ensure nothing is missed.

In addition to plan details, the DOL is concerned with educating employees on saving for retirement. Employers have a fiduciary obligation to keep their plan participants informed about the general setup of their plan and investment options. Thus, the agency looks for evidence that HR representatives are continuing to think about how to (1) encourage employees to participate in the plan and (2) maximize their retirement savings. Plan sponsors need to ensure that participants understand how the plan works and that information is communicated in a timely and efficient manner.

One issue that has received a fair amount of coverage lately is fee disclosure. Because final regulations under ERISA section 408(b)(2) disclosure rules were issued in 2012, the DOL offers no leniency on this. Sponsors should have agreements in place immediately and communicate this information to all plan participants. Establishing or continuing an employee education program around plan benefits is a good way to guarantee that information will be passed along promptly.

Six Best Practices to Consider

So how can plan sponsors prepare for an upcoming audit and fulfill DOL requirements? Here is a six-point checklist for HR representatives to consider when reviewing plans:

1. Appoint a plan-oversight governing committee. Something to keep in mind: If the governing board of a plan does not delegate, the board is automatically the fiduciary. This can be ineffective because the board is often not up to speed on the plan and ERISA rules. A plan oversight committee, on the other hand, would be able to dedicate time, expertise and attention to overseeing the plan's administration.

2. Review plans and examine distribution reports, loans and other documents quarterly. Reviewing in a timely manner—and with some skepticism—loans and other distributions from plan assets enables the sponsor to ensure that plan activity is accurately recorded and reported and that fraudulent or erroneous distributions are not made.

3. Remit funds to the trust on a timely basis. Money that participants withhold should be invested in their accounts as soon as possible so that earnings can start accumulating.

4. Review company census data regularly and make sure databases are accurate. Changes such as a termination date and reporting someone's death or a wrong age need to be communicated to different departments. Maintaining accurate records will help the plan sponsor and service providers to manage the plan effectively and efficiently. Errors will be minimized, which, in turn, means fewer required corrections and better implementation of plan internal controls.

When workers are well-educated about retirement plan offerings, they are more willing to participate in the plan, which increases plan participation statistics and can help sponsors negotiate more competitive fees with their service providers.

5. Benchmark fees and review them regularly. New federal disclosures make transparency the law, so it's in the best interest of every plan sponsor to act accordingly.

It's never too early to begin preparing for an audit. Setting up a periodic-plan-review system can highlight potential red flags.

By keeping a regular eye on withholdings, plan deposits and employee education and ensuring nothing is out of the ordinary, HR representatives can save themselves big headaches later on.

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