

# 401(K) AND 403(B) PLAN AUDITS: CHECKLIST FOR A SUCCESSFUL PROCESS

Business leaders and HR executives continue to face challenges when having their 401(k) or 403(b) plans audited. Changing regulations, complicated guidance and running up against the deadline are just some of the common concerns among employers. To help make your audit as smooth as possible, we compiled a fillable checklist of items to cover during this crucial process.

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## 1. UNDERSTANDING RECENT REGULATORY ISSUES THAT CAN IMPACT YOUR PLAN

**Are your HRIS, payroll and recordkeeping systems equipped to implement the provisions of the SECURE 2.0 Act?**

*The SECURE 2.0 Act provides a number of provisions to incentivize retirement planning. It is important for plan sponsors to understand the required timing of adoption of the various provisions (both required and optional) and to also work with their service providers to help reduce the administrative burden of implementing the provisions.*

**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 all participant contribution and loan remittances during the plan year for timely remittance in accordance with DOL rules and regulations?**

*DOL rules state that participant contributions and loan repayments must be deposited into the plan as soon as they can be reasonably segregated from the employer's assets, and no later than the 15th business day of the month after the pay date. Note that the 15th business day of the following month is not a safe harbor. Late deposits may result in lost earnings and interest for participant accounts.*

**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 reviewed your plan document to ensure the compensation definition aligns with treatment of paycodes utilized during the plan year (i.e., which compensation codes may be excluded from employee deferrals and other company contributions)?

Does your treatment of irregular pay (i.e., bonuses or commissions) align with your plan document?

Did your organization provide any non-cash compensation (i.e., gifts, gratuities, company-provided vehicles, educational assistance, share-based awards, etc.) during the plan year? If so, does treatment of this compensation align with your plan document?

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

During this meeting, you should:

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 (including those to be received from the plan's custodian, recordkeeper and/or TPA) are provided based on the agreed upon timeline.

Determine who from plan management or governance will be accepting responsibility for the management representation letter, financial statements and required supplemental schedules and Form 5500 filing.

Acknowledge your review and formal documentation thereof related to the service organization controls (SOC) reports from your recordkeeper and payroll service providers.

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## 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 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 employee benefit plan service line leader:*



**Karen Sanchez, CPA, QPA**, is the principal 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.

**[karen.sanchez@sikich.com](mailto:karen.sanchez@sikich.com)**

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