DOWNEY & COMPANY, LLP

401(k) Audit Plan Common Deficiencies

1. Deposits of Employee Salary Reduction Amounts are not timely.

·You are required to deposit deferrals as soon as they can be segregated from employer assets. The department of labor has determined that this is most likely the same time that you make payroll tax deposits.

·This is the most common deficiency. You cannot combine pay periods.

·The person responsible for this must be supervised and monitored for compliance.

·If a plan sponsor demonstrates the ability to make deposits within a few days of the pay date, then they will held to this standard when making future deposits.

2. Eligible employees are not notified on a timely basis that they can enter the plan.

·Employees responsible for enrollment must understand eligibility rules outlined in plan document and provide eligible employees the opportunity to enroll.

·If an eligible employee declines enrollment, they should sign the enrollment form and indicate that they are declining.

3. Employers do not use the proper compensation when completing census and providing salary deferral, match, and profit sharing calculations.

·Employers should review the definition of compensation as outlined in the plan document and make sure they use the proper compensation in administering the plan.

·Items to consider, is it before or after the reduction for deferrals or section 125 plans. Do you include bonuses?

·Year end ADP and ACP tests will not be correct if TPA is not given the proper compensation.

4. Employers do not maintain adequate employee records.

·Items that are often missing; signed enrollment forms, including those that decline, signed beneficiary designation forms, signed loan, distribution, and hardship documents, and signed salary reduction forms that match the current withdrawal percentage or amount.

5. Employers do not maintain the required fidelity bond.

·Per DOL regulations, the dollar amount of the bond must be equal to 10% of the plan assets or $1,000,000, whichever is lower.

·Many sponsors do not have a bond.

6. Plan sponsors assign plan administration tasks to administrative employees and do not supervise their activities.

·Administrative employees are not familiar with the specifics of the plan document. In this situation the plan does not operate according to the plan document.

·The sponsor's management is often times unfamiliar with the specifics in the plan document.

If you have further questions regarding this topic, please contact Paul McGovern at **pmcgovern@downeycocpa.com** or 800-849-6022.