

THE VALUE OF A SPECIALIZED 401(K) AUDIT

It can reveal hidden flaws and help you improve the plan.

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Why do companies request specialized audits of their 401(k)s? After all, the standard annual audit that large companies routinely attach to Form 5500s may seem adequate. Yet a specialized audit may reveal things that have gone unnoticed for years, or conditions that should be improved.

There are four types of specialized 401(k) audits: operational reviews, investment option reviews, compliance audits and governance audits.

Operational reviews. Sometimes the procedures of a plan aren't being followed - the plan document says something should be done one way, and in real life it is being done quite another way (or not at all). Maybe your plan document says that at the end of the plan year, any participant forfeitures of your company's discretionary 401(k) contributions are to be reallocated among other plan participants. Well, maybe that hasn't been done since 2007.

An operational review can help an HR officer uncover and fix these things before the Department of Labor or the IRS has to get involved. These audits are designed to make sure that recordkeeping goes according to the plan document, and they may even include analyses of employee investment patterns. That brings us to the next type of specialized audit ...

Investment option reviews. What kinds of account fees are plan participants being charged by the plan provider? Do they seem high? Do other plan providers present more investment choices with lower fees? Is it time to evaluate the current investment options in light of the original IPS (Investment Policy Statement)? This type of review can assess the investment scope (and financial potential) of the current plan.

Compliance audits. You don't want your plan to commit prohibited transactions or violate ERISA rules. So are payments and loans from the plan being made on time? Are account beneficiaries being named correctly? Have new hires been properly informed about the 401(k)? Are the vesting rules being correctly applied?

These audits confirm that a 401(k) is operating according to the plan document and federal regulations. If two plans have merged or a new plan has been adopted, or if one plan administrator has left and another has come in, these reviews may prove very illuminating.

Governance audits. Is the plan sponsor fulfilling its fiduciary responsibility? How well is the business managing and delegating the responsibility of running a 401(k)? That's what these reviews are all about. Who is the named fiduciary? What is the degree of transparency? How thoroughly do the owners and HR officer understand governance requirements? You don't want the IRS or Department of Labor to get the idea that you're playing things by ear.

Worth the cost? Yes. These specialized audits can bring flaws in a 401(k) to light - leading to a 401(k) that is more efficiently managed, more attractive to new hires and key personnel, and more in line with rules and regulations.

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