

# Is your retirement plan in shape for a federal audit?

It may be a good idea to ‘self-audit’ your retirement plan by hiring an experienced professional to determine if there are any problems --- *before* you hear from federal examiners. A quality audit will not only help protect the assets and the financial integrity of your plan and ensure that the necessary funds will be available to pay the benefits promised to your employees, but will also help you carry out your legal responsibilities.

The IRS and Department of Labor have compiled six common operational faults that could be easily avoided with the aid of an audit or review. Here they are:

1. **Late deposit of deferrals.** Many employers do not realize that deferrals must be deposited as soon as reasonably possible after the pay date.
2. **ERISA violations.** Section 404(c) of ERISA permits retirement plans to transfer the responsibility and liability for selecting investment options to participants if certain requirements are met. Many companies believe that they will be afforded protection for participants’ investment decisions under this provision. However, we have found that most plans do not comply with the requirements of §404(c).
3. **Employees vs Independent Contractors.** There are strict rules to determine whether a worker is an employee or independent contractor for tax purposes. The IRS looks at many factors in making a determination. If your company hires an independent contractor and the IRS later reclassifies the person as an employee, your firm can be hit with a tax bill for unpaid taxes, interest and penalties. You might also be liable for state taxes, unemployment taxes and employee benefits, such as retirement plan contributions.
4. **Services performed through a PEO.** Hiring employees through a Professional Employer Organization for long periods of time may not eliminate your obligation to make retirement plan contributions for these workers.
5. **Improper correction method.** Employers can correct compliance problems in qualified plans without requesting advance IRS approval. However, they must use the proper correction method.
6. **Default account.** Plans often specify a money market account or a GIC (guaranteed investment contract) as the plan’s default account. But the fiduciaries for 401 (k) plans must prudently invest non-directed participants’ accounts, even if the plan document provides for a “default” account.



Our professionals have extensive experience in employee benefit plan audits and understand the importance of making the audit process as quick and painless as possible. What distinguishes our firm from others is the blend of reasonable fees and dedication to maintaining a consistent service team. This allows our staff to become familiar with your organization’s nuances and develops a professional long-term relationship.

Please contact us. Our firm can audit your retirement plan and help you avoid costly penalties and time-consuming investigations. We can work with you to define the scope of a compliance review so that it conforms to your budget.



**Prochi Sheth, CPA** is a Partner in the Audit and Accounting Services Department. With over fifteen years of experience in public accounting, her responsibilities include advising and auditing publicly-held companies and private clients and providing due diligence services for mergers and acquisitions. Prochi's primary focus is on the distribution, medical supply, construction, biotech and technology industries with revenues between \$5 million and \$200 million. Additionally, she leads the firm's Employee Benefit Plan audit practice. To contact Prochi directly, please email her at [psheth@daszkalbolton.com](mailto:psheth@daszkalbolton.com) or call her at 561.953.1503.