

How to Prevent Costly 401(k) Audit Mistakes

A 401(k) plan audit can reveal a lot more than numbers. It can uncover gaps in payroll processes, employee data, plan administration, and internal controls. The good news is that many audit issues are preventable with regular review throughout the year.

One of the most common 401(k) audit issues is the late remittance of employee contributions. Auditors compare payroll dates to deposit dates to identify delays or inconsistencies and remittances. Employers should regularly review and consistently follow the remittance process, especially during staffing or payroll provider changes to help avoid corrections and additional reporting. Another area to watch is census data. Accurate census data is critical to keeping a retirement plan compliant and running smoothly. Errors in employee information, like birth dates, hire dates, termination dates, hours worked, or employee classifications, can lead to issues with eligibility, vesting, and non-discrimination testing. Before submitting census data to service providers or auditors, employees should review it against payroll or HR records to catch inconsistencies early.

Compensation definitions are another common source of mistakes, because plan documents control which types of pay are included for contributions and testing. Employees should regularly review payroll codes, especially when new earnings codes are added, or payroll responsibilities changed to ensure bonuses, commissions, overtime, severance, and other special pay types are handled correctly. Plans with auto enrollment or auto escalation also need close attention. Common errors include failing to enroll eligible employees on time, applying the wrong default deferral percentage, missing annual escalation increases or not properly processing and documenting employee opt-out elections.

Manual spreadsheets, such as employer match true-ups and eligibility tracking, can create hidden risks, including formulas, outdated data, and broken links. To reduce issues that may surface during an audit, employers should limit editing access, review spreadsheets regularly, and keep documentation supporting formulas and source

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data. Vesting errors often happen when employee service isn't tracked correctly, or when plan-specific vesting rules are misunderstood. Plans may define a year of service differently, such as using elapsed time or hours worked, and following the exact plan provision is critical. If service is calculated incorrectly, participants may receive the wrong vested percentage, leading to overpayments or underpayments.

At SVA, we help employers evaluate plan operations, identify risk areas, and improve processes before they become larger audit issues. By taking a proactive approach to compliance, documentation, and vendor coordination employees, can reduce audit surprises and support a well-managed retirement benefit.

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