JO Knows the Common Issues Identified During 401(k) Audits



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It's no secret that 401(k) audits require a fair amount of compliance testing. While audit testing can vary from one plan to another, there are often common issues identified as part of the audit process. Identifying and addressing these errors early can help you avoid costly penalties and ensure that your plan remains compliant with federal regulations, such as those outlined by the Internal Revenue Service (IRS) and the Department of Labor (DOL). Below are key issues to watch for in 401(k) plan administration:

1. Failure to Make Timely Contributions

One of the most common mistakes is not making employee contributions to the plan on time. The DOL requirement is that the employer should remit the contributions as soon as they can reasonably be segregated from the employer's general assets but no later than the 15th business day of the month following the month in which the participant contributions were withheld. However, if an earlier precedent can be set, that should be applied consistently. All efforts should be made to ensure the Plan is being consistent with remittances based on the earliest precedent set. Failure to meet this requirement can result in lost earnings calculations to be deposited into participant accounts, and penalties imposed on the plan sponsor.

2. Improper Employee Eligibility and Plan Enrollment

Another frequent issue involves not properly administering eligibility rules or failing to enroll eligible employees in the plan in a timely manner. Plan sponsors are required to follow the eligibility criteria set out in the plan document, including minimum service requirements and age thresholds. Overlooking employees who should be included or delaying enrollment can lead to compliance issues and corrections to make the impacted participants' accounts "whole."

3. Incorrect Deferral Limits

401(k) plans have annual contribution limits set by the IRS. For 2025, the limit for employee deferrals is $23,500, with a $7,500 catch-up contribution allowed for participants age 50 and over (and special catch-up provisions for those age 60-63). Mistakes can happen if employees are allowed to exceed these limits, which can result in tax penalties for both the employer and the participant. Regular monitoring of contribution limits established within the payroll system is essential to avoid such errors.

4. Failure to Follow Plan Terms and Provisions

Each 401(k) plan has a unique set of rules outlined in the plan document, which must be followed consistently. Common mistakes include not adhering to the plan's definition of eligible compensation, vesting schedule, or not applying the correct matching formulas. Any deviations from the plan's terms can lead to corrective action and potential legal exposure.

5. Documentation of Fiduciary Responsibilities

To demonstrate the fulfillment of its fiduciary responsibilities, the Plan's designated fiduciaries should conduct regular meetings. The fiduciary guidelines of ERISA require the named fiduciaries of the Plan to carry out due diligence in monitoring and administering Plan operations. Without documented minutes of meetings held and decisions made, including decisions on discretionary employer contributions, it would be difficult, if not impossible, to demonstrate management's due diligence in this area.

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