

What We're Seeing This 401(k) Audit Season

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As we move through this year's audit cycle, we've identified a few recurring issues worth highlighting. To help you stay ahead and avoid potential compliance headaches, here are the top five pitfalls to keep on your radar:

1. Late Remittance of Employee Deferrals

The DOL requires that employee contributions be deposited into the plan as soon as they can reasonably be segregated from the employer's general assets – often within a few business days. Late deposits can result in prohibited transaction issues and require lost earnings calculations and correction filings on Form 5330. If late remittances are identified, it is critical they be corrected in a timely manner.

Tip: Establish a consistent payroll-to-deposit timeline and document internal procedures to help ensure timely remittances.

2. Incorrect Compensation Used for Deferral or Match Calculations

Using the wrong definition of compensation is a leading cause of operational failures. Whether it's excluding bonuses, commissions, or pre-tax deductions, mismatches between payroll processing and the plan document can lead to incorrect deferrals and employer matches.

Tip: Review your plan document's definition of compensation and coordinate with payroll providers to ensure accuracy across all systems.

3. Plan Operational Failures (Not Following Plan Document Terms)

Even minor deviations from the plan document like missed eligibility windows, failure to enroll participants, or incorrect vesting calculations are considered operational failures. These can trigger corrective action under IRS and DOL guidance.

Tip: Conduct periodic self-checks and internal audits to ensure all plan provisions are being followed as written.

4. Improper Use or Accumulation of Forfeitures

Forfeiture accounts should be used annually and in accordance with the plan document typically to offset employer contributions or pay plan expenses. Unused forfeitures or inconsistent usage can be a red flag during an audit.

Tip: Regularly review your forfeiture account balance and document how and when funds are applied, including the correct order of how balances should be used.

5. Incomplete or Inaccurate Participant Census Data

Missing or inaccurate data such as hire dates, termination dates, rehire status, and hours worked can affect eligibility, vesting, and nondiscrimination testing. These errors often arise when HR, payroll, and third-party administrators are not fully aligned.

Tip: Ensure your census files are reviewed for accuracy and completeness before submitting them to service providers or auditors.

If you're unsure whether any of these issues may affect your plan, we'd be happy to help you evaluate them and identify next steps. Please let us know how we can support your team this audit season.

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