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## Scared vs. Prepared: Conducting an Operational Compliance Review

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Well, it arrived. On your desk is a white envelope with a return address to the Federal Government. Are you prepared for this day? Are your procedures up-to-date?

### Fortune Favors the Prepared

No one likes finding out that they are being audited by the Internal Revenue Service (IRS) or Department of Labor (DOL). But the fact of the matter is that all qualified retirement plans (defined benefit and defined contribution) may be audited. Prudent plan sponsors are proactive, have up-to-date procedures and guidelines, and periodically conduct an operational compliance review, or self-audit. Taking the initiative to do a self-review can help you avoid added costs and liabilities down the road.

Plan sponsors have a fiduciary responsibility to ensure their plans are operating according to the law and governing plan documents. This includes everything from documentation, to benefit calculations, to the day-to-day administrative processes. No matter what type of retirement plan you have, or whether it is administered in-house or outsourced to a professional recordkeeper, you should consider conducting an operational compliance review every few years.

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*Bonus: It's also the perfect time for plan sponsors to locate and organize all plan documents, Summary Plan Descriptions, administrative manuals, third-party service agreements, and meeting minutes.*

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A particularly good time to conduct a review is when a merger or acquisition takes place. If you are considering merging one plan into another, it is beneficial to correct errors in each plan before merging. Once the plans are merged, it is harder to isolate when and where the problem started and to calculate any corrections needed.



Start to finish, a self-audit can last from six weeks to six months depending on the size of the plan, depth of review, and findings. The review may be broad, focusing primarily on plan documents, annual filings, and compliance testing. It may be very detailed, structured to encompass everything from internal payroll processes down to spot checking select records or transactions from the recordkeeping system.

### How Do We Make Sure We're Prepared?

When considering an operational compliance plan review, it's tempting to think, "Nothing has changed with our plan, so we're good." However, just because your plan hasn't changed in your eyes doesn't mean you shouldn't review. New tax laws, legislative updates, and organizational restructure all affect retirement plans. Use these eight questions to help you pinpoint areas that may need to be addressed in your review:

- How long ago was the last internal review completed?
- Are there any recent laws or regulation changes affecting your plan, your company, and your employees?
- Does your plan document reflect the way the plan is currently being administered?

- When was the last time your benefits and payroll teams reviewed the wage types to confirm that they align with the plan document?
- Is there a committee that meets to discuss and make decisions regarding the retirement plan?
- Are the retirement plan committee decisions documented in meeting minutes?
- Have there been tax laws or internal company changes which may impact the plan's operation?
- Has your company made any acquisitions or changes in payroll systems?

## Where Is the Most Exposure?

The DOL and IRS periodically publish lists of the most common compliance issues they find when reviewing retirement plans. The most common issues include:

- Definition of compensation
- Updates to the plan documents for tax law changes
- Employee eligibility
- Loans
- In-service distributions
- Minimum required distributions
- Nondiscrimination testing
- Vesting
- Timing of payroll deposits
- IRC 410(b) coverage testing
- Qualified domestic relations orders
- Target date funds
- Revenue Sharing and 12b-1 fees
- Plan committee meetings
- Blackout participant notices

This list is not exhaustive; however, it is a good reference and cheat sheet for areas of focus for your plan review. Most recently, the DOL has been focused on the diligence of plan sponsors in locating missing participants.

## In Perspective

The day that letter arrives doesn't have to be scary. Performing an operational compliance plan review every few years can keep your plan up-to-date and compliant.

Questions? If you would like to learn more about conducting an operational compliance review of your plan, please contact the Findley consultant you normally work with, or contact Amy Kennedy at [amy.kennedy@findley.com](mailto:amy.kennedy@findley.com), 419.327.4102, or Beth Mattimoe at [beth.mattimoe@findley.com](mailto:beth.mattimoe@findley.com), 419.327-4416.