



# 401(k) Audits

Resource Manual – Be Prepared



Summit  
C P A G r o u p

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Adam Hale is a Partner with Summit CPA Group. Adam focuses his efforts on making the 401(k) Audits run smoothly and efficiently. Adam oversees every Audit that goes through our office. Adam has authored many blogs for Summit CPA Group that can be seen at [www.summitcpa.net/blog](http://www.summitcpa.net/blog).

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# TABLE OF CONTENTS:

Who is Required to Have a 401(k) Audit.....4

Why Choose Summit CPA Group to Perform  
Your Audit.....8

Documents Needed For the Audit.....10

How Much Does the Audit Cost.....12

# CHAPTER 1:

## Who is Required to Have a 401(k) Audit?



An annual Audit is required to be performed by a qualified Third Party CPA firm when certain conditions are met, primarily when total eligible participants reach 100 and the plan is deemed a "large" plan.

### Definition of a Large Plan

A Large Plan is a pension (profit sharing, 401 (k), money purchase, etc.) plan that includes over 100 **eligible** participants at the beginning of the Plan year. A participant is defined as follows:

▲ **Active participants** - those individuals currently employed with the plan sponsor and who are covered under the plan and are receiving credited service. An active participant would include those employees who have elected to participate in the Plan ***as well as those who are eligible to participate but, have elected not to defer.***

▲ **Retired or separated participants** - those individuals who are no longer employed by the employer but who are receiving benefits or are entitled to receive benefits under the Plan. A common example would be a former employee who maintains an account balance in the Plan.

▲ **Deceased participants** - those individuals who are deceased and have one or more beneficiaries receiving or entitled to receive benefits.

If the Plan qualifies as a Large Plan, it must file Schedule H to form 5500 and have the Plan audited by a qualified independent public accountant. If the Plan has under 100 participants at the beginning of the Plan year, it will file Schedule I Small Plan with its 5500 and forego the required audit. If the Plan is a new Plan, then you must determine the number of participants as of the first day participants were eligible to participate in the Plan.

### **Two Exceptions to the Audit Requirement**

▲ **Short Plan Year** - If the Plan would qualify as a large Plan and its Plan year is seven months or less, the Plan sponsor may elect to defer the audit requirement to the following Plan year. In the subsequent year, if the Plan qualifies as a small Plan, the Plan sponsor will nevertheless be required to have the Plan audited for the short Plan year.

▲ **The 80 to 120 Participant Rule** - If the number of participants reported in Part II, line 6, of Form 5500 is between 80 and 120 and a Form 5500 was filed in the prior year, the filer may elect to complete the current year's Form 5500 in the same category (large or small Plan) as was filed in the previous year. For example, if the number of participants at the beginning of the Plan year is 110, and a Form 5500 was filed in the previous year as a small Plan

(Schedule I was filed instead of Schedule H), the filer may elect to continue to file Schedule I and forego the audit requirement. However, if the participant count is 121, then regardless of what category of Plan was filed in the previous year, the current year's form 5500 must include Schedule H and the Plan must be audited.

Since the audit requirement is solely dependent on the number of participants, an accurate participant count is critical. A Plan sponsor has the option of distributing participant account balances for inactive participants providing their vested account balance is \$5,000 or less. Accordingly, if your participant count is such that you may be required to have the Plan audited, you may consider distributing inactive account balances under \$5,000 to the participants prior to the end of the Plan year.

**How do you tell if you have over 100 eligible participants? Check your 401 (k) Form 5500 as filed. If the total number of eligible participants at year-end are over 100, your 401 (k) Plan is required to have an independent CPA Firm audit for this year. If you start at less than 80 you do not need an audit until you have 120 participants.**

# CHAPTER 2:

## Why Choose Summit CPA Group to Perform Your Audit?





## **We Specialize in 401(k) Audits.**

401(k) plans are governed by ever-changing rules and regulations issued by the IRS, DOL, ERISA, and the Social Security Administration. These audits are complex. We will "guide you through" rather than "stumble through" the process. We offer the following:

- ▲ [Help you determine if you qualify for a 401\(k\) Audit](#)
- ▲ Experience with the rules and regulations of 401(k) plans.
- ▲ Experience in working with your third party administrator.
- ▲ The same audit team from year to year.
- ▲ Quick turnaround to enable you to timely file form 5500.

## **We Perform the Audit at OUR Location, Not Yours, Using YOUR time efficiently.**

Our audits are **performed off-site in our office**. We don't believe in you paying for our "Face Time". Furthermore, this allows for very little interruptions with you and your staff.

Starting the audit too early and/or without the proper documents generally results in rescheduling, audit delays, and unnecessary costs. We recommend that the items located in the Document List referenced in Chapter 3 be available at the start of the engagement. The turnaround time from the start of the audit to issuance of your report can be completed in as little as 3 weeks provided we receive the audit information on a timely basis. Critical audit information must be received prior to start date of the audit.

# CHAPTER 3:

## Documents Needed for the Audit



The majority of these reports are furnished to us by the custodian of the investments. Once we are engaged to perform the audit, we will contact the custodian to request that these reports be sent to us. We will also request from the employer selected copies of its reports generated from its HR and Payroll department as it relates to the 401(k) plan participants. These types of reports can be scanned and uploaded to our secure web portal, mailed or faxed to us.

- ▲ Information questionnaire
- ▲ Current year census
- ▲ Plan document, adoption agreement and all amendments
- ▲ IRS determination letter or opinion letter
- ▲ Type II SOC I Report, formerly SAS 70 report
- ▲ Summary plan description
- ▲ List of all parties in interest.
- ▲ Plan sponsor financial statements
- ▲ Discrimination tests
- ▲ Form 5500 with all supporting schedules
- ▲ Participant trial balance for the Plan year.
- ▲ Distribution forms for distributions during the plan year
- ▲ Loan documents for all participant loans
- ▲ A schedule of deposits to the plan on a pay period basis
- ▲ Forms W-2 or other annual payroll registers and reports
- ▲ Form 1099 for distributions
- ▲ Certification report for the Plan custodian
- ▲ Participant statement and trust reports

# CHAPTER 4:

## How Much Does the Audit Cost?



## **Our Pricing Structure is a Low Flat Fee (Not an Estimate)**

Our pricing is simple - Our 401(k) Audits are priced on a Low Flat Fixed Fee Basis. Our Fees are not an Estimate. Unlike many firms who charge on an hourly basis or give an estimate on how much they think the audit will cost, we base our fees on the SIZE OF THE PLAN (Plan Participants). That is it – no exceptions. The Fee Structure for Limited-Scope audits range as low as \$6,500 for plans that fall below 500 participants to as high as \$9,500 for plans that fall between the range of 1,000 and 1,500 participants. Plans with greater than 1,500 participants are determined on a case-by-case basis. See our Fee Structure below. Please note that we offer a 10% discount if the Fee is paid in full when the engagement letter is signed or prior to commencement of the audit.

# Flat Fee Pricing Model

## Limited- Scope Audits (Certified)

| Plan Size   | Fixed Fee        | Discounted Fee   |
|-------------|------------------|------------------|
| 100-499     | \$6,500          | \$5,850          |
| 500-999     | \$8,000          | \$6,750          |
| 1,000-1,500 | \$9,500          | \$8,550          |
| 1,500 +     | Call For Pricing | Call For Pricing |

\*\$1,500 additional fee applies to the fixed fees listed above for each plan size when a **full-scope** audit is required. A full-scope audit is required when trustee or custodian does not or cannot certify both the accuracy and completeness of the information submitted as it relates to the investment information. We find that most audits tend be Limited-Scope Audits (assets are certified by the custodian/trustee).

\*\*\$750 additional fee applies to the fixed fees listed above for each plan size if the current year audit is the **plan sponsor's first required audit**. When a prior year audit is not prepared, the current year auditor is required to test prior year balances and compile the prior year financial statements.

\*\*\* \$500 additional fee applies to the fixed fees listed above for each plan size if the plan sponsor has **changed it's custodian/trustee during the current audit year**.

### **Payment Policy:**

▲ 10% refundable security deposit is required with the signed engagement letter.

▲ 50% down payment due upon commencement of the audit with the remainder due upon completion of the audit and prior to the release of the final draft of the audit.

\*To qualify for **discounted pricing (10% discount)**, the full audit fee must be paid prior to commencement of the audit.

For Instance, if your company has 175 eligible plan participants as stated on Part II, Line 5 of Form 5500 then its fixed fee would be \$6,500 for the current plan year being audited. Upon engagement acceptance a signed engagement letter and a 10% security deposit of \$650 is required ( $\$6,500 \times 10\%$ ). At commencement of the audit, 50% or \$2,925 would be due ( $\$5,850 \times 50\%$ ). The final amount due of \$2,925 would be due upon completion.

If the company would prefer to take advantage of the Discounted Fee listed in the chart above then it would have paid the full \$5,200 ( $\$5,850 - \$650$ ) upon commencement of the audit. **That's it! No additional fees! No hidden charges!**

Calendar Year Audit's Extended due date is October 15<sup>th</sup>.

Call today to reserve a spot in our schedule.

(866) 497-9761