

Internal Controls

A Segment in Our Retirement Rescue Series

What are Internal Controls & Why does my Plan need them?

Internal controls are documented, formal procedures for reviewing plan operations and assessing compliance. They are formulated to prevent future errors and quickly detect any current errors that may threaten a plan's qualified status.

Having sound, effective procedures in place to prevent and detect errors is a requirement for the plan error correction programs through the Employee Plans Compliance Resolution System of the Internal Revenue Service (IRS). When plans are audited, the IRS first evaluates internal controls in place to ensure they are being utilized and are effective. The analysis of internal controls is a factor in determining the sanction amount in the Audit Closing Agreement Program (Audit CAP) if errors are found.

Examples of Internal Controls

- ⇒ Compare the elected salary deferral amounts from election forms with the amount deducted from employee wages.
- ⇒ Verify that service providers receive accurate information such as compensation amounts.
- ⇒ Monitor annual contribution limits to ensure deferrals are not in excess of the law.
- ⇒ Ensure participants are receiving minimum distributions required by law.

Common Mistakes occurring from a lack of Internal Controls

According to the IRS, the absence of internal controls can result in miscommunication between Plan Sponsors and Plan Administrators. Common errors include:

- ⇒ *Failure to timely amend the Plan or follow Plan terms*
During an audit, if the employer cannot provide documentation proving timely amendments to adhere to current law, an Audit Closing Agreement and sanction will occur. Had the error been found prior to the audit, the error could have been corrected using the Voluntary Correction Program (VCP) for a substantially lower fee. Internal Control procedures also include changing the summary plan description and informing participants and any applicable service providers of changes.
- ⇒ *Failure to count all eligible employees in testing*
If the Plan Sponsor fails to share employee information with the Plan Administrator or applicable service provider regarding employees eligible to make elective deferrals, including those terminated during the year, or employees of a company with common ownership interest, testing will be incorrect. Plan terms must be reviewed to ensure the proper definition of an eligible employee is being utilized.

Internal Controls Protect Your Retirement Plan. Internal Revenue Service. 25 November 2014. <http://www.irs.gov/Retirement-Plans/Internal-Controls-Protect-Your-Retirement-Plan>

Internal Controls are Essential in Retirement Plans. Internal Revenue Service. 03 December 2014. <http://www.irs.gov/Retirement-Plans/Internal-Controls-are-Essential-in-Retirement-Plans>