

HICKS NOTES

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Legal and Pension Consultants
(800) 310-4975 | www.nhhicks.com

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By Tom Hicks, Attorney At Law

PROCESS, DOCUMENT, MONITOR, REVIEW GREAT ADVICE FOR SPONSORS AND ADVISORS

When a retirement plan is audited by either the IRS or DOL, they are looking for the effectiveness of the internal controls to decide on whether to expand or decrease the scope of the audit. Internal controls are the systems a sponsor uses to manage risk of mistakes and malfeasance within the plan administration. Good controls provide checks and balances to catch mistakes made by others who help operate the plan.

Good controls start with a "Segregation of Duties". By documenting whose job is it to do what we are able to cross check each other's work. The main areas are custody of the assets, authorization for approval of transactions, reconciliation and reporting and security of data. By segregating these functions, an employer will provide the checks and balances needed to assure the proper operation of the plan.

There are three basic areas that internal controls should address:

REPORTING AND RECONCILIATION OF THE ASSETS

Having and using fair market value ensures that participant reports and annual trust accounting is accurate. In addition, the objectives should ensure accurate reporting of the value of assets, expenses and distributions. This is usually done by the plan administrator, the company itself and the independent auditor in the case of a big plan.

REPORTING AND RECONCILIATION OF PLAN CONTRIBUTIONS AND DISTRIBUTIONS

Controls should provide for the reconciliation of eligibility, enrollment, timeliness of contributions, and limits. In addition, benefits and claims should be paid timely and accurately. Notices, loan payments and other areas that operate in the administration of the plan should also be addressed. The TPA and employer are given responsibility for the oversight of these areas.

OUTSOURCING OF ADMINISTRATION AND INVESTMENT FUNCTIONS

This is the area where the fiduciaries need to do their work. They should review investment policies and procedures and their contracts to determine how much and to who fees and

commissions are being paid and for which services. Are they acting as Co-fiduciaries? Are the investment options reasonable? Are the fees reasonable? Who else is getting paid by the plan and are those fees reasonable. Are our employees being educated and informed about the investment choices and the fees involved? The financial planner and trustees should be reviewing these areas and document their findings.

For a link on the various roles of plan advisors, [click here](#).

For Financial Planners, nobody expects you to be perfect. But by documenting and following your written procedures, you will shield yourself and your clients from potential liability. The basic document is the Investment Policy Statement (IPS). By either creating or helping to create the IPS, you are giving your plan a road map to the investment strategy for the plan. This should be written with enough flexibility to allow changes and should be followed. It is about the process, and if it is written too narrowly or not followed, it will provide no protection for your fiduciaries.

Your second duty is to provide education for the plan participants. You should educate participants on asset allocation models, risk and diversification theories. You need to provide prospectuses and fees and investment information as well. Some financial planners will take on a co-fiduciary role and make investment or allocation recommendations to participants. Education is the key and documenting the meeting is critical to providing 404(c) protection for your plan clients.

Finally, when working with providers, you are the quarterback and need to surround yourself with good players. Have a good TPA, Attorney and Auditor in place to help ensure your plans are getting the best service at the best price. All the parts need to coordinate and by being the point man, you are helping everybody make sure the plan runs smoothly and accurately.

BOTTOM LINE

These plans provide a great benefit and can be run effectively. Hire good people, develop written procedures, document and monitor so when the IRS or DOL come knocking, you will be ready for them! Need more information, contact us [here](#).