



Springfield Public Schools

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Final Audit Report 403(b) Compliance Audit

Objective

The IRS recently passed new regulations regarding 403(b) plans. The IRS has also released Revenue Procedures 2007-71, which provides sample plan provisions that public schools can use to adopt a written plan, or amend an existing plan, to comply with the written plan requirements. These Revenue Procedures also address key issues such as contracts and corrections for improper contract exchanges.

While most of the changes included in the IRS regulation changes do not take effect until January 1, 2009, there are some provisions that have an effective date of September 25, 2007.

The objective of this compliance audit is to determine if the district is meeting or will be meeting all changes of the IRS regulation changes to 403(b) plans.

The effective date of the following IRS regulation changes is September 25, 2007:

- 1) No New Life Insurance contracts – Recommendations include:
 - a) Notification of employees that 403(b) funds may not be used to purchase a separate new life insurance contract
 - b) The district contact current 403(b) providers to request assurance that no new life insurance contracts will be included in their plan.
- 2) Tax Free 90-24 Transfers and Contract Exchanges Limited as of September 25, 2007 – Recommendations include:
 - a) Requesting a certification from each of the district's current 403(b) product providers that the provider will enter into an agreement

with the district on or before January 1, 2009 to share information necessary to ensure compliance

- b) Advising employees that employee requests to make contract transfers or exchanges among specific product provided may be suspended until that product provider has certified its willingness to enter into an information sharing agreement with the district.

The new IRS regulations also stress that these 403(b) plans are employer-sponsored, so all disbursements to participants must be centrally coordinated. The district must now review and approve: 1) whether an employee's circumstances qualify for taking a hardship withdrawal, distribution, or a loan; 2) whether a transfer is permitted under the terms of the 403(b) plan and IRS rules and 3) whether a domestic relations order is sufficient information to enable benefits to be set aside for an alternate payee under a Qualified Domestic Relations Order (QDRO).

Scope

The Internal Auditor contacted the Human Resource and the Finance departments to research the district's compliance. In order for the district to be in compliance with these new IRS regulations, the district signed a contract with a third-party administrator on May 24, 2007. A review of this contract was conducted.

Discussions were also held with the Human Resource and the Finance departments to obtain information on the district's compliance.

Work Performed

The reviewed contract with the third-party administrator describes their responsibilities. This third-party administrator has developed a common remitter system combined with a participant service center designed to assist in the administration of retirement plans with multiple vendors.

The delivery date of the deployment of the third-party administrator's remitter system has been delayed until approximately July 1, 2008.

Conclusion

With the new contract with a third-party administrator and the implementation of their common remitter system, the district should be in compliance with the new IRS regulations regarding 403(b) plans. The estimated deployment date of July 1, 2008, has allowed the district to be at a low risk of non-compliance between the effective date (September 25, 2007) of some of the IRS regulations and this deployment date. This could result in taxable consequences to the district's employees.

However, the new IRS regulations pertaining to 403(b) plans do not require notification to employees that 403(b) funds may not be used to purchase a separate new life insurance contract. In addition, administration does not believe that the district needs to notify employees of this provision because 1) no employees are currently using 403(b) funds to purchase life insurance and 2) 403(b) providers are aware of the new regulations and would not allow employees to purchase life insurance contracts.

The district has been requesting certification from each of the district's current 403(b) product providers that the provider will enter into an agreement with the district. At the time of this response, certifications have been received from 15 of the district's 18 providers.

Administration agrees that the district should notify employees about the new regulations pertaining to contract transfers or exchanges, however, administration will wait until the district deploys the new system so that employees can be informed of all the new regulations, including those mentioned above, in one communication.