**Annual Allocation Review Checklist**

|  |
| --- |
| **Cover Letter/To Do List/Action Items/Items to Note** |

* Read the letter or list that accompanies the report that lists actions you must take or important information for you to note, this may include:
  + Corrections for failed compliance tests
  + Notification of distributions due to participants
  + Accrued contributions to be deposited into the ESOP trust
* Take the actions as noted

**TIPS**:

* Ask TPA if there is anything for which you are uncertain what to do or if you need more information
* Do not assume another party is addressing any to do items

|  |
| --- |
| **Census Report** |

* Check total compensation on the report and verify it tie back to the total on the census file you provided
* Check that all termination dates and rehire dates are properly shown
* Check that all name changes are properly shown
* Check to see if any employee is shown as ineligible that you thought was going to be eligible
* Check that deceased or disabled employees are reflected as such
* Check that employees on an approved leave were not improperly reported as terminated
* Check that the compensation reported for allocation purposes is correct, especially regarding any special inclusions or exclusions
  + Please note your TPA does not have access to your payroll records and relies on you to provide the compensation information that conforms to the definition in your plan document.
* Check hours reported and make sure that any employee who switched from hourly to salaried has the correct total hours
* Check that all employees who worked at any time during the plan year are included on the report

**TIPS**:

* Usually these reports come to you electronically, often in a PDF format. If you have a large number of employees, ask your TPA for the report in Excel so you can more easily sort through it and do your double checks
* If the TPA doesn’t already do so, before the final allocation is done ask for a file that reflects the computation of employees eligible to participate in the plan and receive allocations
* Once a participant’s hours exceed 1,000, reporting the correct total is minimally important.

|  |
| --- |
| **Trust Reconciliation** |

* Verify the employer contributions, cash and/or stock, match your records
* Verify ESOP loan payments match your records
* Verify that Dividends (S-Corporation Income Distributions or C-Corporation Dividends) are shown as such and match your records. (Remember the ESOP gets the same Dividend as other shareholders)
* Verify that any accrued contributions are reflected on the trust reconciliation
* Verify the total ending share balance matches your records and the total ESOP stock certificate(s)
* Verify that the correct stock values are used
* Verify the stock basis adjustment if an S Corporation (if applicable)

**TIPS:**

* Ask for a copy of the trust reconciliation prior to when the allocation is run so you can verify information
* Provide copies of all trust bank statements to your TPA
* Your ESOP trustee should be able to provide the balance of stock certificates

|  |
| --- |
| **Distributions Paid** |

* Check the account of each participant who was paid a distribution during the plan year and make sure that the amount shown as paid ties to your records
* Check to see that any distribution checks issued during the plan year but that cleared the trust account after plan year end are reflected on the report
* Verify that the plan’s policy of redemption or recycling is properly reflected in participant accounts
* Check to see that any stock distributions to participants were properly accounted for

**TIPS:**

* Your report may include a separate list of distributions paid to participants during the plan year; if not, you most TPAs can provide this list.

|  |
| --- |
| **Amortization Schedule/Share Release Calculation** |

* Make sure the loan payment date(s) for the plan year match your records of the date(s) the payments were made
* Make sure the payment amounts agree to your records
* Verify that if dividends were used for loan payments and there is more than 1 loan, they properly tracked
* Review the share release calculation

**TIP:**

* Ask your ESOP trustee review the amortization schedule

|  |
| --- |
| **Allocation Summary** |

* Scan the summary, which lists every participant who had an account balance at the beginning or end of the plan year, to see if anything pops out as unexpected, such as a participant who received a contribution allocation that you think was not eligible
* If there was a 1042 election, check for allocations to owners, former owners and family members and question the TPA if there are any
* Review for proper handling of forfeitures (amount, stock vs cash, reallocated vs other)

**TIP:**

* Review your own account in depth for accuracy and reasonableness

|  |
| --- |
| **Distribution Eligible Report** |

* Check the list to see if there is anyone you expected to be there that is missing or if someone is listed that you did not think was eligible
* Check for any terminated participants listed have been rehired since the plan year ended and are no longer eligible for distribution
* Check the Required Minimum Distributions that must be paid, especially first year ones that must be paid by April 1 of the current year
* Check for any participant who attained age 70.5 during the plan year terminated after the plan year end

|  |
| --- |
| **Compliance Testing Results** |

* For an S-Corporation, look at the Code Section 409(p) testing; verify that family groups have been properly identified and that the test includes information on synthetic equity, if any. Synthetic Equity includes phantom stock, stock options, warrants, stock appreciation rights and deferred compensation.
* If there is another plan, verify that tests that require amounts from both plans (404, 415, top-heavy) have been or will be done

|  |
| --- |
| **Participant Statements** |

* Look through the statements; this is another way you may find an employee who is missing a statement that you thought should be in the plan or vice versa so you can ask the TPA for an explanation.