



Benefit Plan Audits: What Your Plan Auditors Wish You Knew

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Your Responsibility to the Plan

- Plan sponsors – You have a lot on your plate!
 - Plan design and documentation
 - Timely and accurate administration and record keeping (including record retention)
 - Trustee services
 - Ensuring the plan is in compliance with its tax exemption
 - Employee communication and education
 - Investment management (i.e., investment mix and offerings)
 - Filing annual Form 5500 with audited financials (as applicable)

Why is an Audit of My Benefit Plan Required?

- Generally, an ERISA covered plan (i.e., defined contribution, defined benefit, and fund health and welfare plans) with over 100 participants as of the first day of the plan year must file the Form 5500 as a large plan (i.e., Schedule H, rather than Schedule I).
- Large plans must have an audit completed by an independent qualified public accountant.
- Small plans – exempt as long as certain requirements met

Audit Process

- Planning
 - The audit plan and expectations are set between management and the auditor
 - Prepare a detailed audit timeline
 - Information gathering phase

- Fieldwork
 - Execution of the audit plan and completion of a majority of the audit work/testing
 - Review, recalculation, and reconciliation at the plan and participant level
 - Review/analysis of plan financial reporting, disclosures, and supplemental schedules
 - Resolving questions and reconciling items

- Wrap-Up, Review and Finalization
 - Auditor works with plan management to finalize the audit

How can you make each phase more effective and efficient?

Tips for a Successful Audit: Planning

- Keep your plan's books and records in order:
 - General ledger records, trial balance, trust reporting (interim & annual)
 - Contribution schedules, including date remitted and deposited and record of proper authorization
 - Copies of wire transfers or other documentation showing date and amount of deposits
 - Copies of all paper documents as applicable (such as disbursement, investment allocation, contribution deferral percentage election, participation, etc.)
- Maintain files with the **current, executed** documents regarding governance and oversight of the plan, such as the following:
 - Plan documents, adoption agreements, trust agreements, determination letter/opinion letters
 - Communication with DOL/IRS
 - Support for VFCP and Form 5330 filings
 - Oversight committee charter and minutes
 - Annual compliance testing results

Tips for a Successful Audit: Planning

- Internal Controls: Establish and document plan controls
 - Narratives for how plan transactions are authorized
 - Understanding investment valuation methodology (ASC 820)
 - Obtain and review the SSAE 16 reports from your plan's service providers (e.g., payroll processor, record-keeper, trustee/custodian, etc.). Document the review including user controls.
 - Retain support for management's review of plan records, such as distribution reports, loans, overall trust reporting, and other documents – perform timely (monthly, quarterly).
 - Review company census data regularly and make sure information provided to third party administrators (and actuaries, for DB plans) is accurate.
 - Retain minutes for committee meetings that support the above or other oversight activities

Tips for a Successful Audit: Planning

- Communicate: If you had a plan merger, changed key plan terms, changed providers, or are undergoing a DOL or IRS audit of the plan, let your auditors know **early** in the process.
- Designate one individual with the primary responsibility for the audit, as well as a team that can respond to the auditors' requests regarding:
 - payroll
 - plan administration
 - plan governance
 - financial accounting
- Designate a point person on the audit team side
- Provide auditor direct access to service provider site, if available

Tips for a Successful Audit: Planning

- Setting a Timeline:
 - Contact your custodian or third-party administrator and any other third parties that may have information needed for the plan audit early. Set dates for them to provide the audit package, draft Form 5500, final Form 5500, and any other key deliverables.
 - Plan your timeline internally as well, taking into account what will work with your schedule so that tasks remain on track and manageable.
 - Detail out a timeline with your auditor – identify all milestones – must have clear ownership and accountability
 - Work out a plan to monitor the timeline
- Coordination:
 - Have a planning call or planning meeting with your auditor ***and*** third-party providers to coordinate the audit. Make sure everyone knows what is expected of them regarding data delivery and fieldwork timing.
 - Schedule audit fieldwork for dates when you and your staff can be available for questions and additional requests.
 - Periodic check-in calls: help keep all parties on track.

Tips for a Successful Audit: Planning

Information Gathering – what method works for you?

- Prepared by Client (PBC) letter
- Excel file list of requests
- Email
- FTP site
- Web-based system

Key components to successful data gathering:

- List must be accessible to all responsible parties
- It must be kept current
- Effectively track items received to avoid duplication of requests
- Proper assignment of tasks
- Due dates should be mutually agreed upon and reset as needed
- Security of data is critical

Tips for Successful Audit: Fieldwork

- Ensure you and your team are prepared for fieldwork, including individuals in the human resources and payroll departments. Have a meeting a few days prior to fieldwork to discuss outstanding requests.
- Make sure your point person is available for periodic meetings with members of the audit team to resolve open items promptly – minimize open items at close of fieldwork
 - “Point person” to coordinate and obtain assistance from others in your organization or from your service providers as needed
- Closing meeting – set deadlines for outstanding information and work this into the timeline and the audit request list.

Tips for Successful Audit: Fieldwork

Identify Common Testing Issues Early

- Participant data testing
 - Electronic records – how to audit
 - Lost records
 - Census – tie out for completeness
 - Compensation used for contributions
 - Eligibility requirements not being applied correctly

Tips for Successful Audit: Fieldwork

Identify Common Testing Issues Early

- Deposit timeliness
 - The DOL wants all withholdings from employees (i.e., employee deferrals, participant loans, catch-up and Roth contributions) deposited with the trustee and into participant accounts as soon as possible.
 - Establish and monitor controls in the payroll department: ensure that they are remitting contributions into the trust and investing them in participants' accounts as soon as possible.
 - Timing of the withholdings **must be consistent** – otherwise, this will raise questions from both the auditor and the DOL.

Tips for a Successful Audit: Wrap up

- Schedule weekly or bi-weekly calls following fieldwork to ensure all parties are continuing to move the audit forward
- Make sure your auditor knows when your board meeting or audit committee meeting is scheduled and define the delivery date of the plan's financial statements and communications to management
- Ensure the auditor has an understanding of your internal review requirements – timing, parties involved, and availability of required signers as the due date nears
- Don't hesitate to contact the plan's service providers to hasten delivery of requested documents, or your auditor to check on the status of the audit

DOL: Focus on Audit Quality

Letter to all plan sponsors from the DOL:

Plan Administrator

Re: Tips for Selecting and Monitoring a Plan Auditor

Dear Plan Administrator:

We are sending you this email because you may be in the process of selecting or working with a CPA firm to audit the [Plan's name] 2015 financial statements that will be submitted to the Department of Labor (DOL) as part of the Plan's Form 5500 filing. Selecting a qualified CPA who has the expertise to perform an audit in accordance with professional auditing standards is a critical responsibility in safeguarding your plan's assets and ensuring your compliance with ERISA's reporting and fiduciary requirements.

Substandard audit work can be costly to plan administrators and sponsors. It both jeopardizes plan assets and can result in significant civil penalties being imposed on the plan administrator by the DOL. A recent study conducted by the Department of Labor found serious problems with nearly 40% of employee benefit plan audits. (You may read this study on our website at: www.dol.gov/ebsa).

A quality audit will help protect the assets and financial integrity of your Plan and help to ensure that the necessary funds will be available to pay the benefits promised to your Plan's participants and their beneficiaries. It also helps make sure your Plan is in compliance with the law.

DOL: Focus on Audit Quality

Employee benefit plan audits have unique audit and reporting requirements and are different from other financial audits. Care should be taken by the plan administrator to select a CPA who possesses the requisite knowledge of plan audit requirements and expertise to perform the audit in accordance with professional auditing standards. To ascertain the qualifications of a CPA firm to perform your Plan's audit you might want to consider the following factors:

- The number of employee benefit plans the CPA audits each year, including the types of plans;
- The extent of specific annual training the CPA received in auditing plans;
- The status of the CPA's license with the applicable state board of accountancy;
- Whether the CPA has been the subject of any prior DOL findings or referrals, or has been referred to a state board of accountancy or the American Institute of CPA's for investigation; and
- Whether or not your CPA's employee benefit plan audit work has recently been reviewed by another CPA (this is called a "Peer Review") and, if so whether such review resulted in negative findings;

Additional tips for selecting an auditor and monitoring your auditor's work can be found in our pamphlet "*Selecting an Auditor for Your Employee Benefit Plan*" found at:

<http://www.dol.gov/ebsa/publications/selectinganauditor.html>.

We are eager to discuss with you the importance of a quality audit for your plan, and welcome your comments and questions at PlanForAuditQuality@dol.gov.

Office of the Chief Accountant
Employee Benefits Security Administration
U.S. Department of Labor

Find A Qualified Independent Plan Auditor

- When selecting an auditor for your plan ensure that your auditor has prior experience with benefit plans and can perform a quality audit. The audit firm should have substantial practice of auditors that perform benefit plan audits, where the auditors spend half or more of their time working on benefit plans.
- The auditor should be a member of the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC)
- For assistance with selecting a qualified auditor to audit your plan, consult the following:
 - The United States Department of Labor website “Selecting An Auditor For Your Employee Benefit Plan” (<http://www.dol.gov/ebsa/publications/selectinganauditor.html>)

Why Does a Quality Audit Matter?

- The EBPAQC states that a quality audit is necessary for the following reasons:
 - It helps ensure the financial integrity of a plan and protects plan assets.
 - It helps the plan administrator carry out its legal responsibilities to file a complete and accurate annual return/report for the plan each year.

- A quality audit can also lead to recommendations that improve the operation of the plan.

- Department of Labor Report on Benefit Plan Audit Quality
 - Read the full report at www.dol.gov/ebsa/pdf/2014AuditReport.pdf

What's New?

- Accounting Standards Updates (ASU) 2015-07 and 2015-12
- Believe it or not – Simplifications!
- Early adoption is allowed
- Changes are generally to be made retrospectively

What's New?

- Changes to fair value table presentations and disclosures
- Fully benefit responsive investment contracts
- Elimination of disclosures:
 - Investments that are 5% or more of net assets available for benefits
 - Net appreciation (depreciation) for each significant type of investment
 - Net change in fair value of each significant type of investment of a master trust
 - For investment funds that file a U.S. Department of Labor Form 5500 as a direct filing entity (DFE) and are measured using NAV (or its equivalent) as a practical expedient: Significant investment strategies of the fund (as discussed in ASC paragraph 820-10-50-6A) are no longer required to be disclosed.

What's New?

- Copies of the full ASU's can be found at: <http://www.fasb.org/home>
 - Including example financial statements

Resources

- Below is a list of resources available to help you prepare for and further understand the audit of your plan:
 - Employee Benefit Plan Audit Quality Center: <http://ebpaqc.aicpa.org/>
Plan sponsor resources from EBPAQC:
<http://www.aicpa.org/INTERESTAREAS/EMPLOYEEBENEFITPLANAUDITQUALITY/RESOURCES/PLANSPONSORRESOURCECENTER/Pages/default.aspx>
 - *Understanding Auditor Communications*
 - *Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions*
 - *The Importance of Internal Controls*
 - *RFP and Auditor Evaluation Process Checklist*
 - *Audit Quality and Auditor Selection*
 - United States Department of Labor
<http://www.dol.gov>

Top 5 Things You Can Do to Improve Your Audit Experience

1. Insist on a detailed timeline
2. Structure frequent and open communication
3. Require completion of planning in advance of fieldwork
4. Utilize tools that efficiently keep track of requests and open items –
Project Management
5. Insist on an experienced & qualified audit team, and continuity of staff
year to year

Thank You!

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If you have any additional questions:

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