



D'AMICO WAWRIN
& Company CPAs

Employee Benefit Plan Audits **And More ...**

IMA
Hot Employee Benefit Plan Audit
Topics

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Partners

About DWC

- Specialty certified public accounting firm dedicated to employee benefit plan audits and consulting
- Founding partners each possess over 20 years of regional and national public accounting experience focusing primarily on employee benefit plan (EBP) audits
- Members of the AICPA Employee Benefit Plan Audit Quality Center 

About DWC

- Audit services include the following plans:
 - *Defined Contribution - 401(k), 403(b), profit-sharing*
 - *Defined Benefit – pension, cash balance*
 - *Health and Welfare*
- Consulting services include the following:
 - *Client audit and financial statement preparation services*
 - *Continuing Professional Education (CPE) presentations*
 - *Quality control or second review services for other accounting firms*
 - *Out-sourcing of staff*

What triggers an EBP audit?

- Employee Retirement Security Act of 1974 (ERISA) generally requires employee benefit plans with 100 or more participants to attach an independent financial statement audit to the Plan's tax return filing, the Form 5500

What triggers an EBP audit?

- Audit requirement is based on participant count at the beginning of the Plan year on the Form 5500:
 - *New plan audit requirement - 100 or more eligible participants at the beginning of the Plan year*
 - *Continuing plan audit requirement – More than 120 eligible participants at the beginning of the Plan year*
 - *Health & Welfare plan – Separate trust established for health and welfare plan and more than 120 eligible participants at the beginning of the Plan year*

Note: Eligible participants for a 401(k) plan include all employees in the plan AND employees eligible to participate in the plan that have opted not to participate.

Tips to managing participant counts

- Monitor participant count closely
- Consider paying out distributions to terminated vested participants according to the Plan document. Certain amounts can be distributed without the participants consent :
 - *Each plan has the option to set its own thresholds within certain parameters. The threshold selected must be written in the plan document*
 - *IRS regulations allow the cash-out threshold to be set as high as \$5,000*
 - Vested balances between \$1,000 and \$5,000 must be rolled over into an IRA established on behalf of the former employee. Amounts below \$1,000 can be cashed-out via a check to the participant.
 - Before processing an involuntary distribution, the plan sponsor must give former participants at least 30 days advance notice to elect to take a cash distribution or rollover into an IRA or new plan of his/her choice.

Limited versus full-scope audit

Limited-scope audit:

- ERISA section 103(a)(3)(C) allows the plan administrator to instruct the auditor not to perform any auditing procedures with respect to investment information prepared and certified by a bank or similar institution or by an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency, that acts as trustee or custodian.
- ERISA's independent audit requirements are administered and enforced by the U.S. Department of Labor (DOL). The DOL issued regulations in 29 CFR 2520.103-8, *"Limitation on scope of accountant's examination"*

Limited versus full-scope audit

Limited-scope audit:

- Only qualified institutions can certify information
- Information must be certified as both complete and accurate and signed by an authorized person
- Restricts testing of certified investment information, but **audit procedures need to be performed on other non-investment information**
- Disclaimer of opinion on the financial statements and supplemental schedules

Limited versus full-scope audit

Full-scope audit:

- Investments held by broker or dealer, or an investment company
- *Investment transactions and values tested on a detailed and plan level.*
- Unqualified opinion on the financial statements and supplemental schedules

Accounting & Auditing Standards

- EBP Statements on Auditing Standards (SAS) No. 136: *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
 - *Effective for ERISA audits for periods ending on or after December 15, 2020. Early implementation is not permitted.*
 - *Major changes:*
 - Enhanced transparency
 - *Nature of Plan*
 - *Responsibilities of plan management and plan auditor's*
 - Will no longer refer to as “limited-scope” audit. Will refer to as “ERISA section 103(a)(3)(c) audit”

Accounting & Auditing Standards

- EBP Statements on Auditing Standards (SAS) No. 136: *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
 - *Opinion changes:*
 - *Scope and Nature required to be presented 1st*
 - *Opinion Section required to follow Scope & Nature section*
 - *Basis of Opinion section required to follow opinion section*
 - *Expanded description of management's and auditor's responsibilities*
 - *Two-pronged opinion on the financial statements and supplemental schedules*

Accounting & Auditing Standards

- EBP Statements on Auditing Standards (SAS) No. 136: *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
 - *Most of the required procedures are already included as suggested procedures in the AICPA EBP audit guide; therefore, new requirements should not result in significant changes in audit procedures performed*

IRS “Top Ten” Most Common Issues Found in Plan Audits

1. Termination or Partial Termination – Potential vesting/distribution issues
2. Acquisitions
3. Deferral percentage tests
4. Correct definition of compensation
5. Timely adoption of plan document amendments required by law
6. Vesting errors for participants age 65 and over
7. Reporting distributions subject to the 10% premature distribution penalty
8. Misclassification of assets reported, including assets classified as “other”
9. Exceeding limits such as the Sections 415 contribution limit and 402(g) deferral limitation due to participants being in more than one plan
10. Miscellaneous items such as insufficient internal controls, inaccurate participant data, administrative problems resulting from decentralized payroll systems

Monitoring Your Plan's Service Providers

- Types of service providers
 - *Trustees*
 - *Custodians*
 - *Investment managers*
 - *Recordkeepers*
 - *Third party administrators (TPA)*

Monitoring Your Plan's Service Providers

- Why do you need to monitor?
 - *Sponsors of employee benefit plans are considered fiduciaries under ERISA*
 - *Plan sponsor fiduciary responsibilities include plan administration functions*
 - *Certain plan administration functions may be outsourced*
 - *Hiring of a service provider is a fiduciary function*
 - *Monitoring the plan's service providers is a fiduciary responsibility*

Monitoring Your Plan's Service Providers - Examples

- Read the monthly and annual reports
 - *Looking for consistency, completeness and reasonableness*
 - *Compare with prior-period reports*
 - *Do the reports reflect all relevant information?*
 - *Any unusual transactions?*
 - *Are the information and amounts reasonable?*
 - *Compare certain amounts to company data*
 - *Account reconciliations*

Monitoring Your Plan's Service Providers - Examples

- Review reports for overall reasonableness – analytical review
 - *Compare investment returns to published sources*
 - *Review participant head counts, compare to census*
 - *Review distributions*
 - Unusual items
 - Large in-service withdrawals
 - Terminated participants who previously were difficult to locate

Monitoring Your Plan's Service Providers - Examples

- Review the service provider's performance
- Review the fees and compare to the contract
- Participant complaints
 - *Maintain log of complaints received by plan sponsor*
 - *Request log of complaints received by service provider*
 - *Make sure complaints are adequately resolved*

Monitoring Your Plan's Service Providers – SOC 1 Report

- Request a copy of the service provider's Type 2 SOC 1 report
 - *Obtain and read a copy each year*
 - *Document your review and responses to testing errors*

- Type 1 vs. Type 2
 - *Type 1 includes description of controls and CPA's assessment that description is fairly stated and controls are suitably designed.*
 - *Type 2 includes the same as Type 1 but also includes tests of those controls and results of the tests.*

Monitoring Your Plan's Service Providers – SOC 1 Report

- Deviations
 - *Evaluate how significant and how the deviations effect your plan*
- Complementary user controls
 - *These are controls that the user (plan sponsor) should have in place.*
 - *If controls not in place or not operating then the service provider controls tested in the SOC 1 may not compensate for the weakness*

Monitoring Your Plan's Service Providers – SOC 1 Report

- What if service provider does not obtain a SOC 1 Report?
 - *You will be unable to determine if adequate controls and whether controls are operating effectively*
 - *You (and your auditor) will need to perform other procedures to assess controls*
 - *Your audit will be more expensive*
- Bottom line: Make sure your service provider(s) agree to obtain a Type 2 SOC 1 report before you hire them.

Monitoring Your Plan's Service Providers – Resources

- AICPA Audit and Accounting Guide, *Employee Benefit Plans* – examples of complementary user controls (see handout)
- AICPA Employee Benefit Plan Audit Quality Center, Plan Advisory Publication, *Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions* (see handout)
- Department of Labor, Publication, *Meeting Your Fiduciary Responsibilities* (see handout)

Questions?