



Hiring the Right Auditor for your **Benefit Plan**



Plan Audits:
A Buyer's Guide



This guide provides a general outline of what to consider when hiring an auditor. Clark Schaefer Hackett advisors can provide additional insight into how a properly conducted audit, and an ongoing relationship with your audit firm, can benefit your organization.

Plan Audits: A Buyer's Guide
Hiring the Right Auditor for your Benefit Plan
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Published by Clark Schaefer Hackett
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Time To Evaluate

Clark Schaefer Hackett created this buyer's guide to help you and other plan fiduciaries make an informed decision when hiring a quality auditor for your employee benefit plan audit.

According to federal law, sponsors of large employee benefit plans are required to complete an audit as part of their fiduciary duties. However, a quality audit doesn't begin or end with this requirement. The auditor-sponsor relationship needs to be more comprehensive, going beyond problems identified via an audit by delving into the solutions.

A willingness to work year-round to solve the common problems of plan administration is the hallmark of a skilled auditor. This guide will detail the importance of a quality auditor, the risks associated with a poor quality audit, and how you can identify the best auditor for your plan.




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You Have Fiduciary Responsibilities

As outlined by the Employee Retirement Income Security Act (ERISA), plan fiduciaries include any individual named in the plan document as a fiduciary and those who have discretionary authority over plan management or plan assets. Plan fiduciaries have a standard of conduct and various responsibilities imposed by ERISA.

These responsibilities include:

- Acting in the best interest of the plan participants
- Acting with care, skill, prudence & diligence
- Avoiding prohibited transactions
- Following plan documents
- Hiring service providers
- Monitoring investments & fee reasonableness

When hiring a service provider for day-to-day operations, ask the provider for:

- An overview of the firm
- The firm's services & experience with benefit plans
- The firm's business practices
- Identity & experience of the team servicing the account
- Fee structure

When monitoring the service provider, your responsibilities include:

- Evaluating service provider performance
- Reading reports
- Comparing fees to the service agreement
- Following up on any complaints from participants

Note that the plan sponsors' responsibility is not always to find the lowest-cost provider. Instead, the responsibility is to evaluate the provider's quality and level of service and compare them against the fees. Hiring the right expert is paramount in order to protect the plan and the fiduciaries.

The U.S. Department of Labor has a number of guides and resources about fiduciary responsibilities and ERISA. *See Resources A and B, page 16.*

How do you protect the plan & the fiduciaries?



When Does A Plan Need An Audit?

In general, an audit is required when an employer has a qualified benefit plan with more than 100 active participants at the beginning of the plan year.

Active participants include:

- Eligible participants – those meeting eligibility requirements regardless of plan participation
- Termed & retired participants with account balances
- Beneficiaries of deceased participants with account balances

Plans with more than 100 participants are usually considered large plans, while those with fewer than 100 are considered small plans.

Qualified plans must file a Form 5500 annually and will file as either a large or small plan. ERISA requires large plans to attach audited financial statements to the Form 5500 filing.

However, plans that fluctuate over and under 100 participants aren't required to switch categories. This is called the 80-120 participant rule.

Plans that have within 80 and 120 participants can opt to stay in the same category as in the prior year, while plans under 80 participants file as "small" and plans over 120 file as "large."

The categorization of "large" or "small" plan isn't always set in stone. In fact, a plan sponsor has the ability to manage the number of plan participants. Certain plan provisions and hiring decisions can impact the categorization of the plan as "large."





Here are a few plan aspects to examine:

- **Terminated participants**

You can make automatic benefit payments to terminated participants with nominal balances to reduce the participant count. Follow plan document provisions or amend your plan to set a threshold of automatic cash-out balances (e.g., \$1,000 or \$5,000). Then, the participant's balance can be distributed, rolled into another qualified plan or placed in an IRA without having to track down the participant.

- **Eligibility requirements**

Consider a high-turnover workplace, where it's somewhat common for employees to leave within their first six months of employment. Even if they are not actively deferring into the plan, these employees can still count toward the size of the plan. One way to manage this is to consider amending your eligibility requirements so that employees must have six months of service before they can participate. This can reduce overall plan counts and administrative burden.

- **Count projections**

Use the 80-120 rule to your advantage. If you hover around 100 participants, it may be more cost effective to remain a small or large plan, instead of bouncing back and forth - needing an audit one year and not the next.



It's All About Quality

An audit provides a third-party, independent report summarizing the plan activity, investments and provisions, which enables the plan sponsor, participants and regulators to assess the plan's ability to pay future benefits to participants. A quality audit enables plan fiduciaries to execute fiduciary responsibilities and demonstrate plan oversight.

During a plan audit, the auditors gain an understanding of plan controls and conduct compliance tests of critical plan provisions such as eligibility, employee/employer contribution calculations, timeliness of contribution remittances, participant loans, benefit payments, as well as other critical plan provisions. Plan auditors also review tax filings and non-discrimination testing results that are required for the plan to maintain a qualified status.

Here are ways a qualified audit team can help a plan sponsor:

- Recommending plan control improvements or process efficiencies
- Identifying operational errors to ensure participants are receiving promised benefits
- Assisting with error correction
- Delivering regular accounting & regulatory updates
- Providing IRS or DOL audit assistance
- Presenting audit information at trustee meetings
- Offering access to national benefit experts

In short, a quality audit reduces risk and offers plan fiduciaries peace of mind.

Completing and attaching the audited financial statements to a large plan's Form 5500 filing is a fiduciary requirement. But plan sponsors need to be focused on more than just compliance. When you take your eye off of quality, you put yourself at risk.

Plan sponsors are at a higher risk of the following as a result of an incomplete, inaccurate or untimely audit:

- Fines (for which fiduciaries have personal liability)
- Unidentified plan operational failures
- Increased liability
- Fraud
- Missed cost savings

A poor audit can lead to rejection of the Form 5500 filing by the DOL or additional scrutiny of your plan by regulators due to the inaccurate reporting.

When you take
your eye off quality,
you put yourself
at risk.



Saving You From Errors

Plan administration can be complex and cumbersome, so it's not surprising that errors can surface. And if audited by the IRS or DOL, correcting identified errors is generally more costly and time consuming than having a qualified auditor discover – and help management correct – them at the outset.

Here are the four most common errors identified during plan audits:

1. Delinquent remittance of employee contributions

Delinquent remittance of employee contributions is a prohibited transaction and has to be reported separately to the DOL. Participant contributions must be remitted on the earliest date the funds can be segregated for a large plan, and on a consistent basis throughout the year. Plan sponsors can expect additional scrutiny by the DOL and possible penalties if delinquent.

2. Incorrect eligible compensation definition

It is fairly common that plan sponsors fail to follow the definition of eligible compensation as it is written in the plan document. This issue often arises when the definition is misinterpreted, if employees who are responsible for payroll are not informed of plan changes or if new earnings codes are added during the year. It is imperative to properly include and exclude specified earnings types. Be clear in your plan documents, and closely review eligible compensation for accuracy.



3. Exclusion of ineligible participants

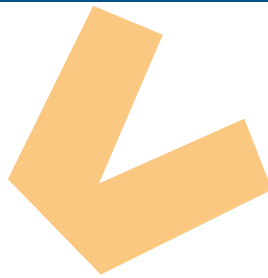
Your plan must have an accurate recording of eligible and ineligible participants. Maintain all participant enrollment, election and change forms and check to ensure documentation is accurate.

Unintentional errors are not unusual.

4. Incorrect documentation of employer contributions

Some plans allow for multiple types of employer contributions, and it can be difficult for plan sponsors to properly apply and document contribution provisions.

As a result, issues can arise with employer contribution calculations. Plan sponsors need to carefully review the plan document and record the annual approval of any discretionary employer contributions, including matching and profit sharing contributions.



Traits Of A Quality Auditor

Not all auditors are created equal. So then, what does a quality auditor look like?
The right professional will be:

Experienced

Experience is the factor that most influences an audit. The DOL has found that auditors who have devoted a significant portion of their time to benefit plans produce better audit results. These auditors are also the ones who will dedicate the most time and energy to your plan during the engagement so you can feel confident your plan is being operated as designed. Too many companies encounter auditors who don't fully understand crucial benefit plan provisions, compliance requirements and complexities.

Team oriented

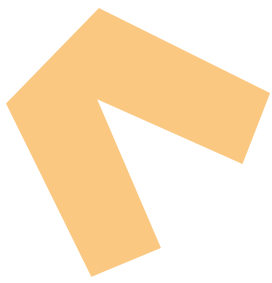
The right auditor doesn't just come in to find the flaws. They will bring in a team of experienced professionals who are regularly involved in benefit plan audits and are connected to the benefit plan community. Audit firms with third-party administration capabilities are available to help you assess the effectiveness of your plan design, discuss retirement plan design strategies, correct identified administrative issues and complete required testing or tax filings. The right team can also provide support during IRS or DOL examination.

Involved

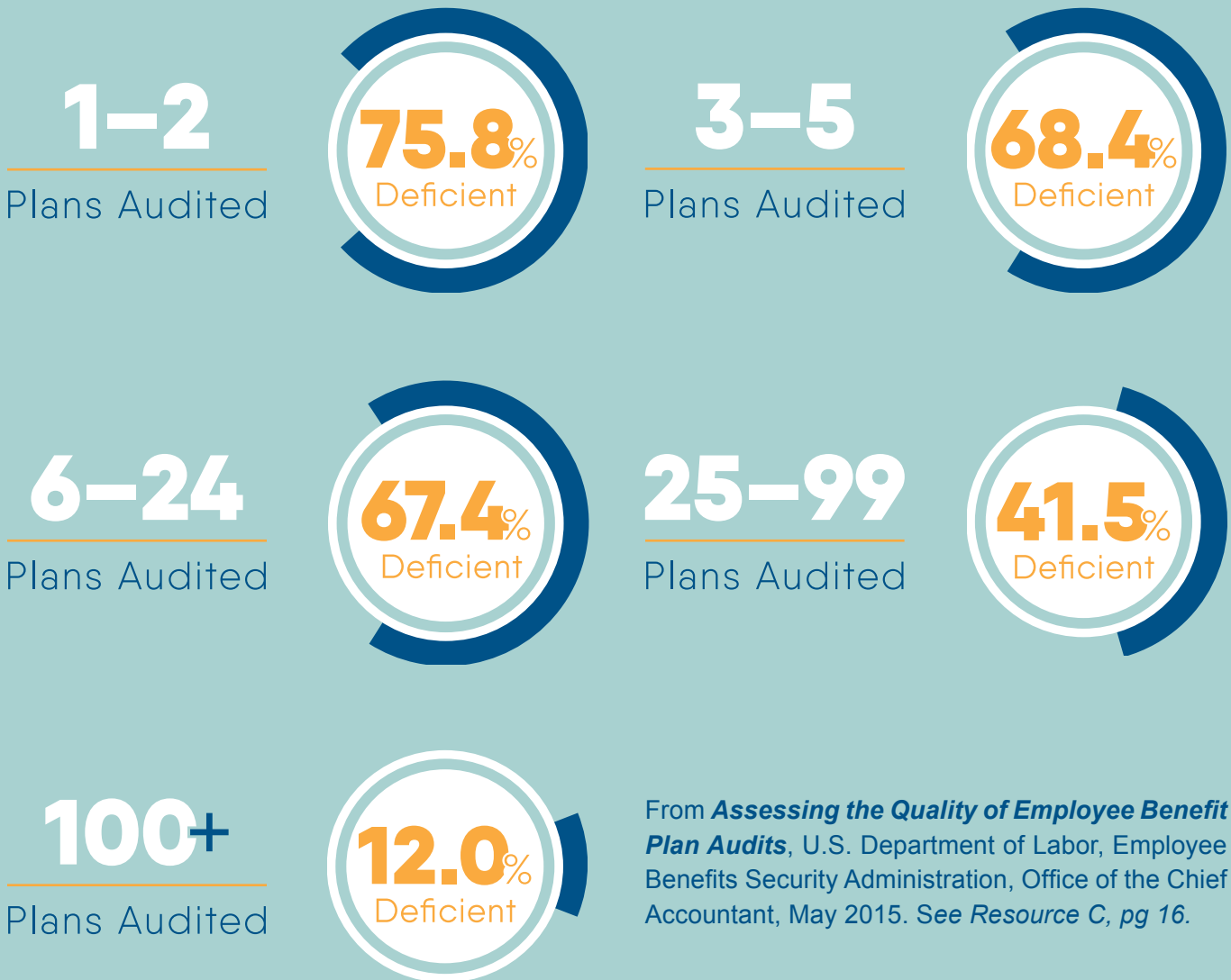
A plan audit won't take 12 months, but the right auditor will stay involved year-round. Your plan is complex, and the right advisors will provide ongoing counsel to reduce risk, maintain compliance and offer solutions. Keeping your auditor apprised of business changes, plan goals and other changes you encounter throughout the year is the best way to be proactive in assessing the impact to the plan.

**The right auditor
doesn't just find
the flaws.**





A Department of Labor Audit Quality Study found that experience counts. Specifically, they observed these deficiency rates, broken down by the number of plans audited annually by firms:





The better
option is to hire
the right auditor
from the start.

Finding The Right Auditor

One of the first steps toward finding a qualified plan auditor is developing and distributing the request for proposal (RFP). This document details your plan and its needs, and is used to obtain in-depth information on potential auditors.

Your RFP should cover:

- A description of the plan (e.g., plan type, year-end, service providers, covered participants, number of participants, investment types, etc.)
- The scope of the engagement & services desired
- Your goals & requirements
- All related facts that will help you decide
- Contact information, deadline & decision timeline

In addition, there are three considerations to keep in mind:

1. Skills

Your auditor should have skills that complement your plan administration, including knowledge of your plan(s) as well as experience working with the DOL and IRS. The right auditor will not take a one-size-fits-all approach. They will customize their services to fit your plan and focus on providing value - not just completing the audit.

2. Benefits

The right auditor should benefit your business, beyond just the compliance aspect of an audit. Their work can provide you with peace of mind and fraud protection. Skilled auditors can also identify weaknesses in your controls and make sure the plan is cost effective and efficient. Furthermore, the right auditor will make recommendations to improve your benefit plan and safeguard plan assets.

3. Fees

Fees are a primary concern for plan sponsors and fiduciaries, but monitoring fees and ensuring reasonable fees are not as simple as choosing the lowest cost provider.

Understanding how fees relate to the plan audit begins with a cost vs. benefit analysis. Hiring a low-cost provider solely based off of fees could mean hiring someone who is not qualified to audit your plan. This can lead to mistakes, errors, DOL intervention and more costs down the line. The initial costs of hiring the right auditor, while still reasonable, could be higher, but the benefits include:

- A skilled, comprehensive audit
- Knowledge of regulations
- Less risk
- Year-round service



What Sets CSH Apart?

There are a number of factors that set Clark Schaefer Hackett apart from other auditors, including:

1. **Experience**
2. **Third Party Administration (TPA)**
3. **Network**
4. **Internal Control Best Practices**
5. **Solutions**

1. **Experience**

CSH has decades of hands-on auditing and consulting experience with a national network of related resources – like the DOL, IRS and AICPA. We are one of the top 30 firms nationally that audit employee benefit plans – and our practice continues to grow. Auditing over 350 plans annually, our size puts us among the firms with the lowest deficiencies.

Each year, our auditors attend top-level conferences and provide thought leadership to our clients. At a time when the DOL speculates that 30% of employee benefit plan audits are deficient, our clients can feel confident. We are inspected regularly as part of the DOL inspection program.

2. TPA

Unlike many audit firms, CSH has a third-party administration practice, the Qualified Plan Administration and Consulting (QPAC) group. We don't just identify problems during an audit – we provide guidance and solutions.

We offer:

- Nearly 40 years of administration experience
- Premier compliance knowledge
- In-depth consulting
- Customized plan recommendations

Joining the TPA and CPA sides of the business means CSH can provide more value for clients.

3. Network

Our auditors have access to a wide range of national experts, including personal contacts at the DOL and the IRS. This keeps CSH and our clients at the forefront of regulations and audit guidance and helps ensure that each plan audit is completed accurately, and all related forms are filed correctly.

4. Internal Control Best Practices

Firms that aren't well-versed in retirement plans can miss warning signs of fraud, which include:

- Mistakes on account statements
- Unauthorized investments
- Unusual transactions

The retirement plan could seem fraud-free, but CSH can spot the warning signs under the surface.

5. Solutions

With CSH, the audit process is equally focused on providing solutions. More than just pointing out errors, our goal is to work with you to remedy, resolve and correct them. Our team can also assist with many benefit plan areas, including plan compliance, plan design, mergers and acquisitions.





Auditors Should Add Value

Your auditor needs to listen to your concerns, communicate effectively and respond quickly. The auditing process must also be tailored to your organization and your plan.

Above all else, an audit should not be solely a problem-finding mission. It should balance the identification of errors with the recommendation of solutions, and the best auditors work with you to create a viable strategy to improve your plan and protect your plan assets.

At CSH, we don't just audit your plan. We strengthen it.



Resources

- A. www.dol.gov/ebsa/publications/fiduciaryresponsibility.html
- B. www.dol.gov/dol/topic/health-plans/erisa.htm
- C. www.dol.gov/ebsa/pdf/2014AuditReport.pdf

Additional Resources

Clark Schaefer Hackett resources

- **Employee Benefit Plan Services Group** – For more information on our Employee Benefit Plan Services Group, please visit: www.cshco.com/services/employee-benefit-plan-services
- **Guidance** – CSH offers a wide range of articles on a variety of topics, including audits and employee benefit plans.
www.cshco.com/guidance/latest-articles

DOL resources

- **Selecting an auditor for your plan** – This guide provides more information on hiring a plan auditor, as well as additional steps that are required of plan sponsors.
www.dol.gov/ebsa/publications/selectinganauditor.html
- **EFAST2 Filing** – Form 5500 is an integral part of plan administration. This DOL overview highlights the EFAST2 electronic system for reviewing and submitting Form 5500.
www.efast.dol.gov/welcome.html

AICPA resources

- **Employee Benefit Plan Audit Quality Center** – The American Institute of CPAs has gathered a wide range of information on plan audits and fiduciary responsibilities.
www.aicpa.org/InterestAreas/EmployeeBenefitPlanAuditQuality/Pages/EBPAQhomepage.aspx

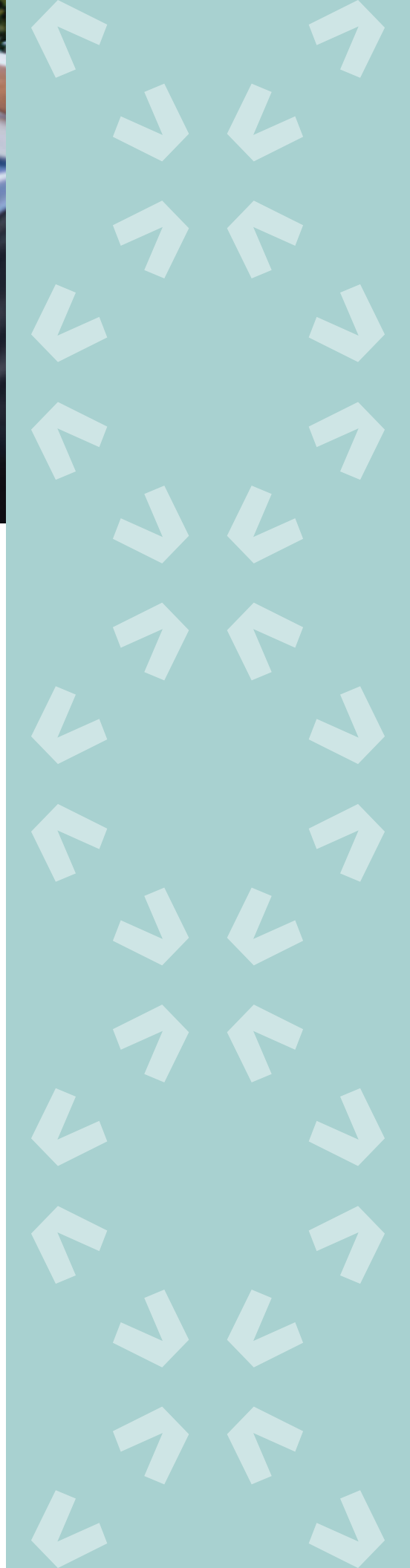




About CSH

Clark Schaefer Hackett is a Top 100 CPA and advisory firm offering expertise in audit and assurance, tax, business consulting, risk management, valuations, transaction services, and more. But we're more than a list of services. We're an organization of talented client service professionals who believe there's a difference between providing technical excellence and fully serving our clients. One is about numbers, the other is about relationships, and we strive to deliver both. In fact, we're so passionate about client service, we wrote a book on it, called *The CSH Way*.

Learn more at [cshco.com](https://www.cshco.com).





CLARK SCHAEFER HACKETT

BUSINESS ADVISORS

Interested in a **free** executive-level fiduciary assessment of your plan?

- Identify any existing gaps or vulnerabilities in your plan

- Understand your plan sponsor obligations

- Evaluate current management of your fiduciary responsibilities

- Receive specific improvement recommendations

 Contact us at ebp@cshco.com