

Employee benefit plan audits

How to choose a firm to handle IRS 5500 Form filings

INTERVIEWED BY ROGER VOZAR

The Internal Revenue Service (IRS) requires companies to file a 5500 Form to provide information about their benefit plans. If the company has 100 or more eligible participants that also means the benefit plan has to be audited.

“The 5500 Form is an informational return filed with the Department of Labor (DOL) on an annual basis. It includes not only plan-specific information but financial information, which is where the benefit audit comes in,” says Danielle B. Gisondo, CPA, a partner at Skoda Minotti.

Companies are required to have an independent accounting firm conduct the benefit plan audit. *Smart Business* spoke with Gisondo about the audit process and how to choose a firm for the work.

What should you look for in selecting an accounting firm?

Find a firm that has benefit plan experience. There are accounting firms that audit only one or two plans throughout the year, but you want someone with a wide variety of experience auditing plans. Some firms don't have a specific department for these audits, doing them as part of the overall accounting and auditing practices. Firms that specialize in this arena have a separate department and dedicated professionals.

Ask how many plans the firm audits, and the size of those plans. Check for membership in the American Institute of Certified Public Accountants Employee Benefit Plan Audit Quality Center. This ensures they have the required education and access to benchmarking and industry data that can be helpful for the audit work and throughout the audit process.

There are specific continuing professional education requirements from a benefit plan industry perspective, and the accounting is

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unique and definitely different than for a regular audit of a financial statement.

What do accountants look for in the audit?

They're testing for contributions coming into the plan, making sure participants have proper amounts withheld from paychecks and money is deposited in a timely manner into the plan. Investment elections are reviewed; if contributions are to be deposited into five different mutual funds, accountants ensure money goes into the right funds.

Distributions also are tested, whether it's money rolled over into a new plan or making sure a loan is repaid over the proper time period.

It's really about testing samples of transactions into and out of the plan. Then financial statements are prepared for filing along with the 5500 Form.

Where do problems usually arise?

Many times it's on the contributions side — a participant wanted 3 percent withheld but the plan sponsor or third-party administrator (TPA) withheld 5 percent. Some employers do not deposit employee withholdings on a timely basis with the trustee or custodian that handles the funds.

On the distribution side, there are situations where participants took out more money than they had vested in the plan and it didn't get approved by the proper party at

the TPA or plan sponsor.

What manpower commitment is required for the audit?

Depending on the company's size, the firm will work with the human resources director or accounting department. If the accounting firm has a specific audit process, it should only require a few hours of pulling information together on the company's part, while having someone available for questions when the audit work is being performed. Depending on the size of the plan, field work runs from one day to a week.

The entire process, starting with the request for information and ending with a completed financial statement, takes about four to six weeks.

Does the firm you use make a difference?

Both the IRS and DOL conduct independent plan checks, and could randomly look at completed 5500 filings and audits. If an accounting firm missed something — maybe the plan wasn't compliant or didn't have the proper amendments — those plans could be disqualified. Then all contributions going to the plan could be taxable, even though the plan is tax-exempt.

You definitely want a reputable accounting firm with experience doing benefit plan audit work; any mistakes could be costly. ●