Benefit plan audits

Finding an auditor, being prepared are key steps to a smooth experience

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Federal law requires employee benefit plans with 100 or more participants to have an audit as part of their obligation to file an annual return (IRS Form 5500 Series) — and that involves calling in an independent qualified public accountant.

But not just any auditor will do, says Dani Gisondo, CPA, partner, Skoda Minotti.

"An employer typically wants to look for a firm that specializes in doing employee benefit plan audits," she says. "The employer should make sure it is dealing with a firm that has specialized training.

"There are different nuances that go along with benefit plan audits, and a firm really needs to be trained in that area to know what to look for."

A quality audit helps protect the assets of the benefit plan's financial integrity and helps ensure that the necessary funds will be available to pay retirement, health and other promised benefits to employees.

Smart Business spoke with Gisondo on employee benefit plan audits, what to look for in an auditor and what to expect during the process.

Along with a specialty in employee benefit plan auditing, what else is important in finding a reputable auditor?

A company should determine if the auditing firm belongs to the American Institute of Certified Public Accountants. The AICPA has an audit quality center specifically for employee benefit plans —Employee Benefit Plan Audit Quality Center (EBPAQC). The EBPAQC helps CPAs meet the challenges of performing quality employee plan benefit plan audits. Accounting firms receive benchmarking information, industry information and other assistance. Also, there are various webinars and training sessions for accounting firm members relating directly to the benefit plan arena.

What should a company expect as it undergoes its first benefit plan audit?

A company going through an audit for the first time should expect the auditor to educate them on what information will be sought and why. The auditor should walk the client through the various items to be reviewed and the timing required.

Then the auditor should let the client know that each year afterward, the auditor will provide a request list so the business knows what information to provide directly, what information should come from the third-party administrator that keeps track of plan activity and what data is needed from the trustee or custodian that holds the assets.

What are the consequences if an audit is not performed?

Not only do companies report to the IRS, but the Department of Labor also oversees the employee benefit plan arena, so it has stringent guidelines on how the plan should be operated.

The Department of Labor will impose strict penalties if companies don't file the audits. The penalties for non-filing, as well as for late filing of the 5500 forms with attached audits, are $300 per day up to $30,000 per year per plan. If there is no audit report attached or the audit report is deficient, the company can be assessed $150 a day, up to $50,000 per year per plan.

What documents need to be furnished?

There is a wide range, but they revolve around employee and employer contributions being deposited into the plan, payroll records as well as personnel documentation to ensure the plan is including what the participant wanted in terms of contributions and deferrals.

The auditor will also request documentation referring to distributions and loans. The auditor needs to ensure that employees were properly vested, taxes were properly withheld, requests for loans were valid and loans were being paid back appropriately.

The trustee and custodian will be asked to supply the trust statements so the auditor can review the actual dollars held in the plan. The third-party administrator will be asked for participant statements to make sure the money reported in the plan matches what the trustee or custodian is actually holding.

How often are the audits done?

The federal law requires annual audits. The 5500 form due date, for a calendar year-end plan, is July 31. But the majority of employers take an extension. Then calendar year-end plans are due Oct. 15.