

## **Tips for Hiring Your Next Employee Benefit Plan Auditor**

*By Darlene Finzer. CPA, CSA, QKA*

As an employer with more than 100 participants in your employee benefit plan, your retirement plan is required to have an employee benefit plan audit. One of the most important duties you have as the plan administrator is to hire an independent qualified public accountant to perform the audit.

### *Determining if you need an audit*

Generally, when your company has more than 100 eligible employees, an annual audit is required. However, “eligible” employees include those participating as well as ones who meet the eligibility requirements and yet elect not to participate. As a result of the Great Recession, many companies experienced a reduction in workforce and may have fallen below 100 eligible employees. Once this occurred, they filed the Form 5500 but were not required to have an employee benefit audit. As these companies return more employees to the workforce, it will be important to remember to hire an auditor when the number of eligible employees returns to 100 or more.

If you have a calendar year-end plan, your company is required to file a Form 5500 by July 31 to meet IRS regulations. If you file for an extension, the Form must be filed by October 15. As a result, plan sponsors typically receive questionnaires and draft Form 5500s from their third party administrators in April or May.

### *Why is the choice of auditor important?*

An employee benefit plan audit ensures that the necessary funds will be available to pay retirement, health and other promised benefits to your employees. A quality audit protects the assets and financial integrity of your plan and helps you carry out your legal responsibility to complete an accurate report for your plan each year.

Smart employers understand the significance of their fiduciary responsibilities to the plan. They know that cutting corners on the selection of a plan auditor can come back to haunt them should they become embroiled in legal issues with plan participants. Because the selection of an auditor for your employee benefit plan is an important decision to both you and the people who rely on the plan, you’ll want to choose carefully.

Here are some tips for hiring your next employee benefits auditor:

#### *Licensing*

Federal law requires an employee benefits auditor to be licensed or certified as a public accountant by a state regulatory authority. Unlicensed or unauthorized accounting professionals cannot perform an employee benefit audit.

As you consider auditing services, obtain references and discuss the auditor's work for other employee benefit plan clients. You can also verify the certified public accountant's current license or certificate with the state regulatory authority.

### *Independence*

The employee benefit plan auditor cannot have any financial interest in the plan or the plan sponsor. The auditor must be able to render an objective, unbiased opinion about the financial condition of the plan.

### *Experience*

An ERISA audit is very specialized, and the auditor should understand the unique tests and rules that apply to benefit plans. Ask potential auditors how many benefit plan audits they have performed in the past three years. One of the most common reasons for deficient accountants' reports is the failure to perform more complicated audit procedures on employee benefit plans. At the least, the lead auditor or partner in charge of the audit should have recent experience and ideally the staff members helping with the audit should also have plan audit experience. Just as you wouldn't want a family physician performing major surgery on you or a family member, you'll want a specialist who has expertise in benefit plan audits to perform your company's audit.

You can also ask potential auditors if the firm has undergone a peer review. Accounting firms that are members of the American Institute of CPAs are required to have their practice reviewed by an outside CPA firm every three years. Employee benefit plan audits are reviewed as part of this process. Each firm will have a Peer Review report letter that will ensure the firm has complied with professional and ethical standards. Ask to see the Peer Review report letter to ensure that you work with a high-quality, experienced CPA firm for your employee benefit audit.

Continuity of your team is also another consideration in the selection process. Ask potential auditors about turnover in their auditing staff. As the plan administrator, you don't want to be charged with training a new plan auditor each year.

### *Involvement in Professional Associations*

When accounting professionals are members of state and national organizations, they voluntarily agree to be bound by a rigorous code of professional conduct. They are often become more involved in their profession, interact with other CPAs performing the same services and have access to professional education programs. Plan sponsors should ask if the potential auditor is a member of the Employee Benefit Plan Audit Quality Center. The center is a national community of CPA firms that demonstrate awareness about the importance of ERISA audits. The organization requires compliance with rigorous standards and practices specific to employee benefit plan audits, including establishing a program to ensure all ERISA employee benefit plan personnel understand these standards and practices.

### *Competitive*

Part of your fiduciary responsibility as a plan administrator is to ensure that fees paid by the benefit plan are reasonable. The competitive bidding process is an important step in ensuring that your plan has reasonable fees, however it should not be the only consideration. Remember that many otherwise capable accountants may not have the necessary experience to perform a benefit plan audit.

### *Dedicated Department or Staff*

When a CPA firm has an employee benefit plan department, practitioners are able to utilize specialized knowledge and experience to perform a more meaningful audit and management letter for your plan. A dedicated employee benefits team may be more likely to stay up-to-date with laws, regulations and best practices for employee benefit plan management and auditing procedures, as well as operations and fiduciary responsibilities. During the selection process, be sure to ask potential auditors about the continuing education they and other members of the audit team attended over the past two years.

### *Why Quality Matters*

Although a quality audit can help ensure your plan is in compliance with ERISA regulations, the real benefit comes from the peace of mind that the audited financial statements provide reliable, accurate information that can be used to make future investment and retirement decisions.

A quality employee benefit plan audit can also help you and your company avoid costly fines and potential litigation. The Department of Labor has dramatically increased its enforcement of oversight with employee benefit plans, looking for prohibited transactions, delinquent contributions and other ERISA noncompliance. Both the Department of Labor and the Internal Revenue Service have developed audit programs that include sanctions of up to 20 percent of plan assets when plan sponsors fail to manage their plans in accordance with plan documents and DOL or IRS requirements.

However, there's much more that your benefit plan audit can do besides keep you out of trouble. A qualified CPA can advise you on improving internal controls, best practices in fiduciary responsibility, operational deficiencies, plan management including eligibility and timeliness of deposits or contributions, allocation of defined contributions and computation of benefit payments, withholding and IRS reporting, and even review of trustee meeting minutes to ensure decisions are accurately documented. These value-added benefits can only be provided by an auditor who is knowledgeable about employee retirement benefit plan design, management and audit procedures.

Selecting your benefit plan auditor is an important step in the fiduciary process. If you consider these factors when choosing your next auditor, you'll be well on your way to not just receiving an employee benefits audit that does more than meets your ERISA requirements, but helps you improve it. And that's what being a fiduciary is all about!

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