

# Diary of an Employee Benefit Plan Auditor: Dreams and Nightmares

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## Symposium

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# Session Overview

- What Do the Auditors Do?
- Case Study #1: Dude, Where's My Plan?
- Case Study #2: Cast of Characters
- Case Study #3: Don't Be a Maverick

# What Do the Auditors Do?

- Have exposure to a broader plan universe
- Work with all parties (employer, service providers, etc.)
- Understand and document plan processes
- Identify areas for improvement (best practices)
- Provide peace of mind for plan sponsors

# Case Study #1: Dude, Where's My Plan?

## The Scenario:

ABC Company is a brand new client and is eager to get the annual independent audit "over with" so they can focus on more important business matters. The auditor requests copies of the plan documents, summary plan description and contracts with all service providers to familiarize themselves with the plan and design the audit procedures. The auditor also requests an overview of how the plan operates and a list of ABC Company personnel who are involved in processing plan transactions.

# Case Study #1: Dude, Where's My Plan?

## Dream Audit Client

- Quickly locates all plan documents (signed copies), including amendments and restatements
- Provides documentation for internal processes related to the plan (recently updated)
- Identifies personnel involved in plan transactions

# Case Study #1: Dude, Where's My Plan?

## Dream Audit Client

- Provides schedule of plan committee meetings and related minutes
- Provides current copies of service provider agreements along with updated fee schedules
- Provides comprehensive listing of all parties in interest

# Case Study #1: Dude, Where's My Plan?

## Nightmare Audit Client

- Provides binder of documents received when plan was established (none signed)
- Forgets that plan assets were transferred to new custodian during year
- Directs auditor to TPA for plan document information

# Case Study #1: Dude, Where's My Plan?

## Nightmare Audit Client

- Cannot recall investment advisor contact person
- Documentation of plan processes = tribal knowledge
- Company personnel only understand what they directly handle (no one understands big picture)



# Case Study #1: Dude, Where's My Plan?

## Best in Class Plan Sponsors:

- Know their plan inside and out
- Read the plan document and amendments
- Maintain updated service provider agreements
- Document internal processes over plan transactions
- Maintain listing of personnel involved and parties in interest
- Conduct regular plan meetings
- Take ownership of their plan

## Case Study #2: Cast of Characters

### The Scenario:

XYZ Company is a long-term client and the plan is handled by the human resources function, who routinely admits they are “horrible at anything involving numbers.” Until recently, they have utilized the same custodian and third party administrator. With increased pressure from management to fully understand plan operations (stemming from prior comments from the auditor), the human resource manager decided to outsource nearly all plan operations activities to a new payroll service provider and add a new provider for auto rollovers.

## Case Study #2: Cast of Characters

### Dream Audit Client

- Understands roles and responsibilities of each service provider
- Determines exact point of delegation to service provider
- Performs routine checks on plan transactions for accuracy

# Case Study #2: Cast of Characters

## Dream Audit Client

- Monitors service provider performance
- Reviews service provider SOC 1 report (SSAE16) annually
- Exercises prudence when adding or changing service providers

# Case Study #2: Cast of Characters

## Nightmare Audit Client

- Overreliance on outside service providers
- Outsources responsibility for plan transactions whenever possible
- Failure to monitor plan service providers against service standards and agreements

# Case Study #2: Cast of Characters

## Nightmare Audit Client

- Has no idea what a SOC1 report (SSAE 16) is
- Is easily sold additional services by provider without careful analysis of impact to plan
- Refuses to take ownership over the plan

## Case Study #2: Cast of Characters

### Best in Class Plan Sponsors:

- Understand scope of work of service providers
- Review service provider SOC1 reports
- Regularly spot-check transactions handled by third parties
- Review fees charged by service providers against agreements
- Carefully/cautiously add or replace service providers
- Understand that delegation does not remove responsibility

## **Case Study #3: Don't Be a Maverick**

### The Scenario:

ABC Company is a current client who has sponsored a defined contribution plan for many years. While Company management enjoys the tax deductions associated with offering the qualified plan, they oftentimes make decisions "on the fly" without contemplating whether or not such decisions are allowable under ERISA. For example, hardship distributions are approved by the Company owner, who meets with employees privately and decides whether they "deserve" the hardship distribution. The CFO also routinely requests changes to the plan based upon a single participant's request.



## **Case Study #3: Don't Be a Maverick**

### **Dream Audit Client**

- Realizes the importance of maintaining tax qualified status
- Stays up to date on new plan rules and regulations
- Has regular contact with service providers about changes in company operations

## **Case Study #3: Don't Be a Maverick**

### **Dream Audit Client**

- Recognizes mistakes happen and brings forward such items for correction
- Utilizes available correction programs through IRS and DOL
- Discusses preventive measures to mitigate future occurrences

# Case Study #3: Don't Be a Maverick

## Nightmare Audit Client

- Believes they exercise significant discretion over plan provisions
- Fails to consider or follow IRS and DOL regulations
- Attempts to change plan to meet the requests of every employee

# Case Study #3: Don't Be a Maverick

## Nightmare Audit Client

- Thinks DOL and IRS can be negotiated with after the fact
- Fails to properly correct errors in a timely manner
- Fails to consider cost of plan disqualification when evaluating corrective action

## **Case Study #3: Don't Be a Maverick**

### Best in Class Plan Sponsors:

- Place importance on maintaining plan's tax qualified status
- Work in partnership with service providers
- Stay updated on new rules and regulations
- Establish processes to detect/mitigate against plan errors
- Quickly and thoroughly correct any detected plan errors
- Carefully consider modifications to plan (not reactive to employee requests)

# Question and Answer Session