

34TH ANNUAL ISCEBS
Employee Benefits

Symposium

Best Practices for Hiring a Benefit Plan Auditor

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International Society
of Certified Employee Benefit Specialists

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OF EMPLOYEE BENEFIT PLANS 

Key Takeaways

- Understand the Department of Labor (DOL) Audit Quality Study
- Understand the common audit deficiencies
- Prepare for the audit process using best practices

First, the basics

- ERISA Audit Requirement
 - Over 100 participants at beginning of plan year
 - 80-120 rule
 - Short plan year rule
- Type of Audits
 - Defined Contribution Retirement
 - Defined Benefit Retirement
 - Health and Welfare (both)
 - Other
- Scope of Audits
 - Limited
 - Full

ERISA Plan Audit Universe

- **82,579 Plan Audits**
- **7,358 CPA firms performing audits**
- **\$6.3 trillion in plan assets subject to audit**



Tale of Two Worlds

50% of Plan Auditors:

Audit 1 or 2 plans

6% of all plans audited

2 million participants



1% of Plan Auditors:

Audit 100 or more plans

42% of all plans audited

91 million participants

DOL Audit Quality Study

DOL Audit Quality Study

- Statistical sample
 - 2011 Form 5500 filings
 - One audit in lower 2 strata and 5 in others
- 6 Strata based on size of EBP practice
 - 1-2
 - 3-5
 - 6-24
 - 25-99
 - 100-749
 - 750+

DOL Audit Quality Study

- Sample included 400 audits/232 firms
 - 80% limited scope audits
 - 89% DC plans
 - 6% DB plans
 - 5% HW plans
 - 95% single employer audits
 - 55% were AICPA EBPAQC members

DOL Audit Quality Study

- Overall 39% deficiency (unacceptable/major) rate
- Decrease in quality from 2004 study (33% deficiency rate)
- 24% of audits had >10 deficiencies
- 38% of audits had 5-9 deficiencies

DOL Audit Quality Study

- Deficiency rates by number of audits
 - 1-2 (75%)
 - 3-5 (68%)
 - 6-24 (67%)
 - 25-99 (42%)
 - 100+ (12%)

DOL Audit Quality Study

- Correlation between size of EBP practice and number of deficiencies
 - 75% of firms that audit 1-2 plans had deficiencies
 - 12% of firms that audit >100 plans had deficiencies
 - Higher # of deficiencies in lower strata
 - Less specialized EBP training in lower strata

DOL Audit Quality Study

- Practice monitoring (peer review) not useful identifiers of quality EBP audits
 - Firms had clean peer review reports when DOL identified deficient audits
 - ◇ 52% in 1-2 strata
 - ◇ 58% in 3-5 strata
 - ◇ 68% in 6-24 strata

DOL Audit Quality Study

- EBPAQC members had lower deficiency rate than non-members (30% vs. 82%)
- Problem areas are general auditing procedures and EBP specific
- No meaningful correlation between fees and quality of audit

DOL Audit Quality Study

- DOL referred 131 deficient audits to the AICPA Professional Ethics Division
 - Technical Standards Subcommittee review
 - Remediation and Sanctions
- 13 referrals made to State Boards of Accountancy

Common Audit Deficiencies

Which Areas Continue To Be The Most Problematic?

- Participant Data
- Investments
- Contributions
- Plan Obligations
- Party-In-Interest Transactions
- Benefit Payments

Participant Data

- 65% of audits with deficiencies
- Common audit deficiencies include:
 - Insufficient payroll testing
 - No work performed
 - Failure to test participant eligibility
 - Failure to test allocations to participant accounts

Participant Data

- Should Expect to See:
 - Demographic data (e.g. hire and birth dates)
 - Payroll data
 - For DB plans—test data used for actuarial calculations
 - Allocation testing
 - Reconciliation of sum of participants accounts to total assets available for benefits
 - Use of SOC 1 reports to reduce—not eliminate—testing

Investments

- 50% of audits with deficiencies
- Common audit deficiencies include:
 - Failure to test year end asset values
 - No audit work performed
 - Inappropriate reliance on SOC 1 reports
 - Insufficient audit work performed

Investments

- Should Expect to See:
 - Testing of year end values for plan investments
 - Sample of purchases and sales transactions—review for proper authorization, pricing, gain/loss
 - Testing of income (e.g. unrealized gains/losses)
 - Limited-scope audits—obtain proper certification
 - Participant loans—properly authorized and re-payments being made

Contributions

- 50% of audits with deficiencies
- Common audit deficiencies include:
 - Insufficient audit work performed on contributing employers
 - No audit work performed
 - Failure to test compliance with collective bargaining agreement
 - Failure to test timeliness of employee contributions

Contributions

- Should Expect to See:
 - Complete list of contributing employers (multi-employer plans)
 - Testing of salary deferrals, matching, discretionary contributions
 - Don't forget forfeitures
 - Re-compute contribution amounts
 - Allocations to participants
 - Timeliness of contributions

Plan Obligations

- 40% of audits with deficiencies
- Common audit deficiencies include:
 - No audit work performed
 - Inadequate audit work performed
 - Failure to assess the actuary's qualifications

Parties In Interest

- > 30% of audits with deficiencies
- Common audit deficiencies include:
 - No audit work performed
 - Inadequate audit work performed

Parties In Interest

- Should Expect to See:
 - Every employee benefit plan has parties-in-interest
 - Inquiries of plan management
 - Review of documents such as meeting minutes, correspondence, invoices, accounting records
 - Delinquent employee contributions are considered prohibited transactions

New Initiatives

Peer Review

- Are CPAs complying with state peer review licensing requirements?
- Practitioners in states with peer review requirement
- Provide evidence that an acceptable peer review was performed
- CPAs performing audits (in the Form 5500 database)—that are not in the AICPA's peer review records
 - AICPA has found numerous CPAs performing attest engagements that have not been enrolled in the peer review program

Licensure

- Are firms properly licensed where they practice?
- Rules vary by state
- NASBA website—auditor mobility
- NASBA provided list of plan auditors to states
 - States reviewing to see if CPAs are properly licensed

DOL Current Focus

- High Risk Audit Engagements
 - Health and Welfare
 - ESOP
 - Hard to value assets
- Re-inspection of CPA firms that audit less than 100 plans annually
- Outreach to EBP stakeholders
 - Fiduciary investigations for process used to hire competent service providers

Best Practices in Preparing for the Audit Process

Selecting a Plan Auditor

- The Importance of a Quality Plan Audit
- Finding a Qualified Audit Firm
- The Request for Proposal
- Proposal Evaluation and Auditor Selection
- Documenting the agreement

The Importance of a Quality Plan Audit

- Required by law
- Important accountability mechanism
- Hiring service provider is fiduciary function
- Protect the assets and financial integrity
- DOL enforcement and penalties
- Reasonable compensation of auditor

Finding a Qualified Audit Firm

- The DOL's Employee Benefit Security Administration
 - *Selecting an Auditor for Your Employee Benefit Plan* to assist plan administrators in selecting an auditor.
<http://www.dol.gov/ebsa/publications/selectinganauditor.html>
- The AICPA Employee Benefit Plan Audit Quality Center
 - *RFP and Auditor Evaluation Process*
 - http://www.aicpa.org/InterestAreas/EmployeeBenefitPlanAuditQuality/Resources/PlanSponsorResourceCenter/DownloadableDocuments/Plan_Sponsor_Guidelines_preparing_RFP.pdf

AICPA Employee Benefit Plan Audit Quality Center

- 2300+ member firms
- Center membership requirements
 - Training
 - Quality Control
 - Self-monitoring
 - Public Peer Review Report
- Other Benefits of membership
 - Center webinars,
 - EAlerts
 - Primers on EBP topics

The Request for Proposal

- Communication with firms
- State your objectives and requirements
- Be specific about the information needed to properly evaluate the proposal.
- Require the proposal to be presented in a common format to allow for efficient and effective evaluation and comparison.

The Request for Proposal

- Administrative matters
- Scope of the audit
- Firm information
- Personnel information
- Engagement information
- Proposal evaluation
- Appendices and attachments

Proposal Evaluation and Auditor Selection

- Licensing and Certifications
- Independence and Objectivity
- EBP Specific training and experience
- Qualifications of engagement team
- Responses to RFP questions
- Presentation to Governance
- Evaluation of firms

Documenting the Agreement

- Engagement letter signed by both parties
 - Names and parties to the contract
 - Audit scope, objectives, and purpose
 - Audit schedule and deadlines for work to be performed
 - Audit cost
 - Reporting package and its format
 - Type and timing of audit evidence to be provided by the auditee
 - Professional standards to be followed for the audit
 - Management's responsibilities

Planning Meeting

- Understand internal controls
- Fraud Inquiries
- Risk Assessment
- Information needed for the audit
- Confirmations
- Sample selections
- Timeline for fieldwork and completion

Fieldwork

- Be available for questions
- Transmit requested information electronically
- Access to service provider records
- Have Personnel and payroll files available
- Respond to identified issues timely
- Discuss other benefit issues or concerns with experienced personnel
- Review Form 5500 and compliance testing

Completion of audit

- Financial statements
- Supplemental schedules
- Governance communication
- Internal control letter
 - Material Weakness
 - Significant Deficiency
 - Management Comments
- File audit report with DOL

Questions?





DOL Study of Plan Audits Suggests Size Impacts Quality

by Anita Baker



This week at the AICPA's Employee Benefit Plan (EBP) Conference, the Department of Labor Employee Benefit Security Administration (DOL EBSA) revealed the results of the DOL Audit Quality Study conducted in 2014. The EBSA is charged by law with protecting the retirement, health, and other related workplace benefits of private sector workers and retirees nationwide. The DOL's study sample included 400, 2011 Form 5500 filings and EBP audits by 232 public accounting firms.

Quality of audit related to size of practice

The overall findings in the study indicate that there is a 39 percent deficiency rate in plan audits. However, the DOL noted that the size of a firm's employee benefit plan audit practice has a significant impact on the quality of the practice.

Number of EBP Audits	Percentage of Deficient Audits
1-2	75
3-5	68
6-24	67
25-99	42
100+	12

Firms that audit less than 100 plans had higher deficiency rates. Firms that audit 100 or more benefit plans had only a 12 percent deficiency rate, suggesting the importance of using EBP auditors with dedicated personnel with training and experience in the EBP industry.

Results and recommendations

The DOL's study offers several recommendations. It will be sending a letter to plan administrators who hire independent auditors who audit less than five plans annually to communicate the importance of hiring a plan auditor that has the appropriate EBP experience.

In addition, the DOL may recommend legislative changes regarding EBP auditor qualifications and enforcement powers over service providers (CPAs, actuaries, plan administrators), including the ability to assess monetary penalties. And last, the DOL expects to change the EFAST filing system and Form 5500 reporting to include questions related to material weaknesses, significant deficiencies, and other internal control deficiencies identified during the audit process.

How does this affect plan sponsors?

Plan sponsors who hired deficient auditors were notified by the DOL and could be subject to penalties if the audit deficiencies are not corrected. The DOL has the right to reject plan filings and assess penalties of up to \$1,100 per day, without limit, on

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plan administrators for deficient filings. Because an incomplete, inadequate, or untimely audit report may result in a rejection of the filing and penalties being assessed against the plan administrator, it is important to select an experienced and reliable auditor. Plan administrators should make the careful selection of the plan auditor a high priority.

AICPA EBP Audit Quality Center

In 2004, the AICPA established the EBP Audit Quality Center (EBPAQC). The center helps employee benefit plan sponsors find auditors that are committed to quality. In addition, it provides best practices, tools, and resources for audit firms to help them perform quality audits and raise the awareness about the importance of quality audits. Today, the center has over 2,300 member firms dedicated to providing quality employee benefit plan audits.

The DOL Audit Quality Study demonstrated that EBPAQC members, no matter how many audits they performed, had a lower deficiency rate than their peers. This is partially due to the requirement that members demonstrate their commitment to audit quality and require EBP-specific training for auditors. Plan sponsors can find member firms, resources, and articles such as "The Importance of Hiring a Quality Auditor to Perform Your Employee Benefit Plan Audit" on the AICPA website.

Commitment to quality benefits clients

CliftonLarsonAllen joined the EBPAQC in 2004 and is the second largest auditor of employee benefit plans in the United States, according to the DOL. CLA designates a managing principal to oversee the EBP industry group, which includes professionals who are 100 percent dedicated to providing EBP audit, tax, and consulting services to our clients. Our firm provides EBP-specific training and has engagement teams whose primary focus is auditing employee benefit plans.

CLA supports our professionals' involvement on the AICPA EBPAQC and EBP Expert Panel. In 2004, I was appointed as Chair of the Executive Committee of the EBP Audit Quality Center and continue to serve on the Executive Committee. In addition, I am Chair of the AICPA Ethics Division Technical Subcommittee that reviews deficient EBP audits referred to the AICPA by the DOL.

The AICPA conducts an independent ethics investigation of members to determine whether or not the auditor complies with auditing and accounting standards. If deficiencies are found, it imposes sanctions on members, including continuing professional education, required oversight and peer review. Our participation on these committees ensures our involvement in the standard setting process and keeps us informed on current regulatory issues that impact audit quality.

Our firm has been inspected by the DOL and was a participant of the Audit Quality Study. We are proud that CLA has demonstrated to the DOL that we perform high-quality EBP audits. The DOL report clearly demonstrates the importance of a high-quality EBP audits. It also reinforces our belief that an overarching commitment to quality benefits our clients.

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SELECTING AN AUDITOR FOR YOUR EMPLOYEE BENEFIT PLAN

Generally, 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/report (Form 5500 Series).¹ If your employee benefit plan is required to have an audit, one of the most important duties of the plan administrator is to hire an independent qualified public accountant. The sponsor of the plan is the plan administrator under the law unless another individual or entity is specifically designated to assume this responsibility. The following material will assist you, as plan administrator, in selecting an auditor and reviewing the audit work and report.

SELECTING AN AUDITOR

Why is the choice of an auditor important?

A quality audit will help protect the assets and the financial integrity of your employee benefit plan and ensure that the necessary funds will be available to pay retirement, health, and other promised benefits to your employees. A quality audit also will help you carry out your legal responsibility to file a complete and accurate annual return/report for your plan each year. Because an incomplete, inadequate, or untimely audit report may result in penalties being assessed against you as the plan's administrator, selection of an experienced and reliable auditor is very important.

Is a plan auditor required to be licensed or certified?

Federal law requires that an auditor engaged for an employee benefit plan audit be licensed or certified as a public accountant by a State regulatory authority.

Is a plan auditor required to be independent?

Auditors of employee benefit plans should not have any financial interests in the plan or the plan sponsor that would affect their ability to render an objective, unbiased opinion about the financial condition of the plan.

¹ Some pension plans with fewer than 100 participants also may be required to have an audit if they fail to meet certain conditions relating to their plan investments, bonding, and disclosure requirements. For more information you should consult with your attorney, plan advisor, or accountant. See www.dol.gov/ebsa/faqs/faq_auditwaiver.html

Should a plan auditor have experience in auditing employee benefit plans?

One of the most common reasons for deficient accountants' reports is the failure of the auditor to perform tests in areas unique to employee benefit plan audits. The more training and experience that an auditor has with employee benefit plan audits, the more familiar the auditor will be with benefit plan practices and operations, as well as the special auditing standards and rules that apply to such plans.

In some instances, a less experienced auditor may be assigned to perform routine audit procedures in order to reduce audit costs. When this happens, you should confirm that an experienced employee benefit plan auditor will review his/her work, as well as perform the more complicated audit procedures.

The AICPA's Employee Benefit Plans Audit Quality Center maintains a directory of employee benefit plan auditors who have agreed to meet specific experience, training and practice monitoring requirements. See Resources section.

Should I request references and check licenses?

When engaging an auditor, you may wish to obtain references and discuss the auditor's work for other employee benefit plan clients. If you have additional questions, you may also wish to verify with the appropriate State regulatory authority that the provider holds a valid, up-to-date license or certificate to perform auditing services.

WHAT YOU SHOULD KNOW ABOUT THE AUDIT

What is an engagement letter?

In preparation for the audit, the auditor will prepare a contract, referred to as an "engagement letter," describing the audit work to be performed, the timing of the audit, and fees. This letter also should describe the responsibilities of the auditor and the plan administrator. You should review this letter carefully and resolve any questions with the auditor prior to engagement.

Can I limit what the auditor reviews?

Federal law permits the administrator of an employee benefit plan to limit an audit when plan assets are held by banks or insurance companies and written certifications are provided by the institutions holding those assets.

You should consult with your accountant, attorney, or plan advisor to determine whether limiting the scope of an audit is appropriate for your plan.

Will I have to furnish or prepare documents for the auditor?

It is generally the responsibility of the administrator to maintain plan financial and other records. Many of these records will need to be made available to the auditor for review in the course of the plan audit. If a third-party service provider maintains plan records, you will need to arrange for auditor access to these records.

REVIEWING THE AUDIT REPORT

What happens when the audit is complete?

At the conclusion of the audit, the auditor will issue a report and state an opinion on the plan's financial statements as well as any schedules required to be included as a part of the plan's annual report filing. Auditors will also report on significant problems, if any were found. The auditor may also suggest ways for you to improve internal controls and plan operations. This is a good time for you to ask questions about the auditor's work.

What questions should I ask the auditor about his/her work?

Frequently audits are found to be deficient because of the failure of the auditor to conduct tests in areas unique to employee benefit plans. Accordingly, you should make sure that your auditor considered the following areas:

- Whether plan assets covered by the audit have been fairly valued;
- Whether plan obligations are properly stated and described;
- Whether contributions to the plan were timely received;
- Whether benefit payments were made in accordance with plan terms;
- If applicable, whether participant accounts are fairly stated;
- Whether issues were identified that may impact the plan's tax status;
and
- Whether any transactions prohibited under ERISA were properly identified.

A well performed audit is a vital protection for your employee benefit plan. It is in your best interest and that of your plan's participants to maximize the results of the audit process.

RESOURCES

Employee Benefits Security Administration
Office of the Chief Accountant: (202) 693-8360 (not a toll-free number)

Web sites: www.dol.gov/ebsa

www.efast.dol.gov (view the Form 5500 at this site)
EFAST2 Help Line: 1-866-463-3278

Reporting and Disclosure Guide for Employee Benefit Plans
(View this publication at www.dol.gov/ebsa. (Click on *Publications and Reports*.) Or order a copy: 1-866-444-3272)

The American Institute of Certified Public Accountants, Employee Benefit Plan Audit Quality Center: www.aicpa.org/ebpaqc/homepage.htm
This link does not represent an official EBSA endorsement of AICPA or its members; in addition, EBSA does not guarantee or warranty the services of the auditors appearing in this AICPA-maintained directory.



U.S. Department of Labor
Employee Benefits Security Administration

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Obtaining Quality Employee Benefit Plan Audit Services: The Request for Proposal and Auditor Evaluation Process

The AICPA Employee Benefit Plan Audit Quality Center has prepared this document to assist plan sponsors and other stakeholders in the proposal and evaluation process to obtain quality audit services for employee benefit plans. This tool addresses each step of the proposal and evaluation process. It describes the Request for Proposal (RFP) contents and contains a checklist of items that should be considered in preparing an RFP. It also discusses the proposal evaluation and auditor selection process, and provides information about how to find an auditor. As a generic model, it should be used for reference purposes only. For more information about the AICPA Employee Benefit Plan Audit Quality Center and employee benefit plan audits, visit the Center's website at <http://www.aicpa.org/ebpaqc>.

The Importance of a Quality Plan Audit

Generally, 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/report (Form 5500 Series). Independent audits of employee benefit plan financial statements are an important accountability mechanism. If your employee benefit plan is required to have an audit, it is the plan administrator's duty to hire an independent qualified public accountant, and to ensure that the plan has obtained a quality audit in accordance with Employee Retirement Income Security Act of 1974 (ERISA) and U.S. Department of Labor (DOL) requirements. The sponsor of the plan is the plan administrator under the law unless another individual or entity is specifically designated to assume this responsibility.

You should be aware that the hiring of a plan auditor is considered a fiduciary function. As such, plan administrators should use the same care and prudence in hiring a plan auditor that they use when hiring any individual or entity that provides services to the plan.

A quality audit will help protect the assets and the financial integrity of your employee benefit plan and help you determine whether the necessary funds will be available to pay retirement, health, and other promised benefits to your employees. The higher the quality of a plan's financial statement audit, the more reliable the information used to manage and administer the plan. A quality audit also will help you carry out your legal responsibility to file a complete and accurate annual return/report for your plan each year. As such, selection of an experienced and reliable auditor is very important.

ERISA holds plan administrators responsible for ensuring that plan financial statements are properly audited in accordance with generally accepted auditing standards (GAAS). There is a significant amount of risk to plan sponsors associated with the audits of their ERISA plans. Recent DOL studies of audit quality have identified significant deficiencies in plan audits. Accordingly, the DOL has implemented various enforcement strategies with respect to audit deficiencies. The penalties for such audit failures can be substantial. The DOL can assess penalties on *plan sponsors* of up to \$1,100 a day capped at \$50,000) per annual report filing where the required auditor's report is missing or deficient. Plan sponsors should make the selection of the plan auditor a high priority and exercise due care during every phase of the auditor selection process.

While ERISA requires plan fiduciaries to ensure that only "reasonable" compensation is paid for services when selecting an auditor, the reasonableness of fees must be analyzed in comparison with the quality of the required services to be provided. Hiring a firm that lacks knowledge of the specialized nature of the industry and skills necessary to perform plan audits conflicts with the stated goal of ERISA to protect plan participants. Only after the technical evaluation is complete and the qualified respondents have been identified should you review the prices offered by the qualified respondents.

Finding an Audit Firm

The DOL's Employee Benefits Security Administration (EBSA) has developed a booklet titled *Selecting an Auditor for Your Employee Benefit Plan* to assist plan administrators in selecting an auditor. It also provides information about reviewing the audit work and report. You can find this booklet at <http://www.dol.gov/ebsa/publications/selectinganauditor.html>.

AICPA Employee Benefit Plan Audit Quality Center member firms show their commitment to providing quality audit services to ERISA plans by voluntarily adhering to higher standards of audit quality in their policies, procedures and training related to the performance of benefit plan audits. Those standards are the benchmark of their commitment to quality performance and client service. You can find audit firms in your area on the Center's website at <http://ebpaqc.aicpa.org/Memberships/Find+a+Member+Firm.htm>.

The Request for Proposal (RFP)

General Information about the RFP

The preparation of a sound RFP is an important part of the proposal process. A quality RFP will determine the quality of the respondents and will help reduce the time and effort expended in the overall RFP and selection process. It is critical that you as a plan sponsor ask informed questions during the proposal process in order to obtain adequate information on which to base your final decision to hire an audit firm. In addition, it is important that you provide audit firms with sufficient information about the nature of the plan and the engagement to allow them to make a meaningful and comprehensive proposal that addresses your specific needs. The RFP should outline the proposal and selection process, as well as summarize the background, objectives, expectations, and requirements of the engagement to be undertaken. Therefore, the following should be remembered when preparing the RFP:

- Communicate the facts and conditions surrounding the engagement to be completed.
- State your objectives and requirements clearly and thoroughly.
- Be specific about the information needed to properly evaluate the proposal.
- Require the proposal to be presented in a common format to allow for efficient and effective evaluation and comparison.

General Information about the RFP

The introduction section of the RFP should provide a general description of the nature and scope of the engagement to be performed. It should:

- Describe why the RFP is being released. Discuss in general terms the objective to be achieved and the reason professional CPA services are being sought.
- Discuss the term of the engagement, such as the length of time the contemplated contract covers (for example, an annual or a multi-year engagement), along with renewal options.
- Provide an overview of how the RFP is structured and describe what information or supporting documents are contained in the appendixes, attachments, or the body of the RFP document.

The introduction section also should include the following **procedural information**:

- Whether there will be a pre-proposal conference for firms interested in responding to the RFP
- Name of the contact person if further information is needed to respond to the RFP
- Number of copies of the proposal that must be provided
- Due date of the proposal
- Timeline for each stage of the process, including selection of finalists, firm interviews, and award of engagement (this information is often presented in a table format for easy reference)

Administrative Matters

The RFP should provide a description of the nature of the plan and the information that will be available to plan auditors. The following information should be included in this section:

- Type of plan
- Plan year end
- Size of plan (number of participants, total assets)
- Name of the auditor's principal contact with the plan
- Name of custodian(s), recordkeeper(s), investment manager(s), and investment monitor(s), if applicable
- Name of third party administrator(s), if applicable
- Name of actuary, if applicable
- Trust arrangements (e.g., master trust investment arrangement)
- Name of the individual (or firm) who prepares the plan's financial statements, including interim financial statements, if applicable
- Name of the individual (or firm) who prepares the plan's Form 5500, and Form 990 where applicable
- Name of the individual (or firm) who prepares the Summary Annual Reports
- Size of the plan's office and the number of personnel, if applicable
- The various locations covered by the plan, and the location of personnel files and payroll information related to each location
- Locations of key company contacts assisting with the audit
- Whether SOC 1[®] reports are available from service organizations
- Type(s) of SOC 1 reports issued
- Date(s) when SOC 1 reports are available
- Name of party that performs SOC 1 engagement, if known
- If the plan has ERISA counsel, the names of the law firm and the attorney who provide legal services
- Information regarding the availability of prior year auditor's work papers, including where they are located, how access will be provided, and when during the process the predecessor auditor may be contacted
- Expected due dates for completion of each service to be rendered.
- Whether the proposed fee should be determined on a flat fee, flat fee plus expenses, hourly fee, or hourly fee plus expenses basis

Scope of the Engagement

The RFP should describe the services to be provided. It should describe the scope of the work and any special considerations, including a discussion of specific requirements and parameters to ensure the auditor's proposal is submitted successfully. From this information, the respondent should have a clear understanding of what should be included in the proposal, and what steps and timelines must be met for proposal consideration.

- Number of years that should be covered by the proposal
- First year covered by the proposal
- Whether the audit is a full scope audit or a limited scope audit in accordance with DOL regulation 29 CFR 2520.103-8
- Types of investments held by the plan, whether there are any hard to value investments, and the respective custodians for each investment holding
- Whether any work is performed by an internal audit function
- State that the audit must be performed in accordance with generally accepted auditing standards as well as ERISA and DOL requirements
- Whether any other services are expected of the CPA firm (such as preparation of Form 5500, Forms 940, 941, 945, 990, 1099, Summary Annual Report, or performance of payroll audits)
- Whether the financial statements and auditor's report will be part of an 11-K filing with the SEC

- Whether the CPA is expected to attend regular or special meetings with plan trustees, governance committees, or the plan administrator
- Description of any plan changes or significant issues not described above (for example, unique accounting circumstances, consolidations needed, and known areas of difficulty such as hard-to-value investments and discovery of fraud)

Proposal Content and Other Submission Requirements

The RFP should include questions that address what is important to you. Possible questions or information requests to consider include:

Firm Information

- Size, location, and history of the CPA firm
- Whether the firm is a member of the AICPA Employee Benefit Plan Audit Quality Center
- Number of employee benefit plan (EBP) clients
- Number of similar type plan audits
- States in which the firm is licensed to practice
- Firm references—especially from similar type plans—and specific contact information
- The firm’s latest Peer Review Report, and the firm’s response, if any (Note: This information also is available for AICPA Employee Benefit Plan Audit Quality Center member firms at <http://www.aicpa.org/ebpaqc>)
- Whether the firm is subject to any current litigation
- Whether the firm has been the subject of any DOL findings or referrals, or any AICPA or State Society Ethics referrals
- Whether the firm meets the independence standards of the AICPA and the DOL (and SEC if 11-K filing)
- The firm’s working paper retention and access policies and requirements
- If the plan’s financial statements will be included as part of an 11-K filing with the SEC, whether the audit firm is registered with the PCAOB
- Whether the firm has insurance coverage (errors & omissions, workers’ compensation, etc.)

Personnel Information

- Managing partner of the CPA firm (control person or entity)
- Partner in charge of the CPA firm’s employee benefit plan audit practice
- Partner in charge of the audit
- Expected levels of staffing and supervision
- Prior EBP experience and training of the partner in charge and in-charge of the engagement and other key firm personnel pertinent to the engagement

Engagement Information

- Audit approach
- A detailed fee schedule for each service to be rendered
- Reports to be issued
- Expected completion dates for each portion of the engagement
- Expected level of plan staff assistance to the audit firm
- Information that is expected to be provided by the plan to the CPA
- Work space requirements of the firm
- Tax or other professional services the firm is able to provide

Proposal Evaluation

The RFP document should clearly outline the proposal evaluation process. A properly defined evaluation process promotes consistency and fairness in the selection process and will reduce the time spent assessing the respondents' qualifications and experience. This section should describe:

- Elements of the proposal that will be specifically evaluated (for example, whether the firm is a member of the AICPA Employee Benefit Plan Audit Quality Center, technical experience, industry expertise)
- Methodology for scoring the proposal
- Steps involved in the selection process
- A right-to-reject clause

Appendixes and Attachments

Appendixes and attachments can be used to accompany the body of the RFP for the purpose of providing relevant information to prospective respondents. Following is a list of information that should be provided to all respondents as appendixes or attachments to the RFP:

- Copy of last audited financial statements, including the auditor's report
- Copy of last 5500 with all attachments
- Copies of interim financial statements, if applicable
- Copy of the Summary Plan Description

Proposal Evaluation and Auditor Selection

The Proposal Evaluation and Auditor Selection Process

The following information should be considered during the proposal evaluation and selection process:

- Federal law requires that an auditor engaged for an employee benefit plan audit be licensed or certified as a public accountant by a State regulatory authority. You may wish to verify with the appropriate State regulatory authority that the provider holds a valid, up-to-date license or certificate to perform auditing services.
- Auditors of employee benefit plans should not have any financial interests in the plan or the plan sponsor that would affect their ability to render an objective, unbiased opinion about the financial condition of the plan.
- One of the most common reasons for deficient accountants' reports is the failure of the auditor to perform tests in areas unique to employee benefit plan audits. The more EBP-specific continuing professional education and experience that an auditor has with employee benefit plan audits, the more familiar the auditor will be with benefit plan practices and operations, as well as the special auditing issues unique to, and rules that apply to such plans.

A properly defined evaluation process promotes consistency and fairness in the selection process. After the due date for proposal submission has passed, you can begin the technical evaluation process. The technical evaluation is important because it provides a systematic framework for selecting an auditor based on the requirements contained in the RFP. The review of the auditors' proposals and qualifications should be thorough, uniform, and well documented.

Before beginning your technical review of the document, you should check to see that the firm has addressed all items mentioned in your RFP. For those proposals that are complete and have addressed all relevant areas, you should determine a level of minimum standards for evaluating the information provided by the respondent. Using minimum standards is an effective and efficient tool to limit the number of proposals that will be reviewed. If certain respondents do not address all relevant issues or do not possess the minimum standards, you may wish to eliminate their proposals from the evaluation process.

It is recommended that you perform separate evaluations of the proposals based on technical criteria and price. While the price for the work to be performed is a factor in the selection process, the plan is likely to get a high quality audit at a fair price if both price and technical ability are taken into consideration in selecting a successful respondent. *Remember, the lowest price does not guarantee a quality audit.* As mentioned previously, only after the technical evaluation is complete and the qualified respondents have been identified, the plan sponsor should review the prices offered by the qualified respondents.

Once you have selected the finalists, you should invite each firm to present and discuss its proposal letter. An oral presentation allows for questions to be asked and answered, which promotes better understanding of the proposal. This is your opportunity to see the proposal team demonstrate insight into the employee benefit plans industry and its ability to work well with you and others involved in the audit. Should you feel you need more information or explanations from certain respondents before a decision can be made, you should contact those respondents that are contenders to obtain the necessary information (be careful during this phase of the process to not discuss or reveal proprietary information submitted by other respondents).

Documenting the Agreement

The auditor is required by professional standards to document the agreement to provide services in writing and, as such, will send you an engagement letter which documents the agreed-upon terms of the audit engagement. A signed written agreement represents a contract and is binding upon your organization and the auditor. For that reason, you should consider seeking the advice of legal counsel on the form and substance of the document when drafting the agreement. At a minimum, the written agreement should contain the following:

- Names and parties to the contract
- Audit scope, objectives, and purpose
- Audit schedule and deadlines for work to be performed
- Audit cost
- Reporting package and its format
- Type and timing of audit evidence to be provided by the auditee
- Professional standards to be followed for the audit
- Management's responsibilities

In addition, you should consider including the following items about the auditor/auditee relationship, changes in the scope and quantity of work required, and access to and ownership of audit products:

- A statement that the auditor is an independent contractor.
- A statement that the auditee has the right, by written notice, to make changes or additions to the work within the general scope of the agreement and that, in such cases, an equitable adjustment to the price of the audit will be made using specified rates.
- A description of how the auditor should handle situations in which the auditor does not agree with changes and additions in work to be performed, including how the auditor is to communicate this to the auditee. For example, disagreements should be in writing and communicated within a specified time period. A description of the dispute resolution process also should be included.
- A statement that the auditor owns its audit documentation and a specified period for which that documentation must be retained by the auditor.
- A statement that addresses access to audit documentation and copies that may need to be provided to regulatory reviewers, such as the DOL EBSA or the DOL Office of Inspector General (OIG).
- A statement that the audit reports rendered by the auditor to the entity are the exclusive property of the auditee for use subject to applicable laws and regulations.

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