

35TH ANNUAL ISCEBS
Symposium

A Cheap ERISA Audit May Cost More Than You Think—The DOL's Recent Study on Audit Quality

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International Society
of Certified Employee Benefit Specialists

International Foundation
OF EMPLOYEE BENEFIT PLANS



Session Overview

- Common Audit Myths
- Why You Should Care
- Debate Of Price Versus Quality
- Cheaper is Not Always Better

Session Overview

- The Changing Auditor Landscape
- DOL Audit Quality Study (2015)
- DOL Enforcement Initiatives
- Best Practices For RFP Process

Common Audit Myths

- Independent Audit is a “Necessary Evil”
- Limited Scope = Not Much Work
- Audit is Only a “Compliance Exercise”
- Service Providers Handle “Everything”

Why You Should Care

- Potential Assessment Of Civil Monetary Penalties (\$1,100 Per Day)
- Potential Rejection Of Form 5500 Filing Due To Deficient Audit Work
- Fiduciary Risk Associated With Lack Of Diligence In Selecting A Service Provider

Debate of Price Versus Quality

Cheaper Is Not Always Better



Changing Audit Landscape

- Number of CPA Firms Doing ERISA Audits
 - 95% of Firms Perform < 25 Audits
 - 50% of Firms Perform Only 1 or 2 Audits
 - 1% of Firms Perform Over 100 Audits
- DOL Mission to Put “Dabblers” Out of the ERISA Audit Business

DOL Audit Quality Study (2015)

- DOL Selected 400 Plan Audits from the 2011 Filing Year
- There Were 81,162 Form 5500 Filings That Contained Audit Reports
- There Were 7,330 Different CPA Firms Performing Those 81,162 Audits

DOL Audit Quality Study (2015)

DOL Divided CPA Firms Into 6 Strata

Number of Plans Audited	Number of CPA Firms	Number of Audits Performed
1 – 2	3,684	4,891
3 – 5	1,519	5,773
6 – 24	1,603	17,747
25 – 99	433	18,910
100 – 749	77	15,418
750+	14	18,423
Total Reviewed	7,330	81,162

DOL Audit Quality Study (2015)

Audit Deficiency Rates

Strata	Number of Audits Reviewed	Deficiency Rate
1 – 2	95	75.8%
3 – 5	95	68.4%
6 – 24	95	67.4%
25 – 99	65	41.5%
100 – 749	25	12.0%
750+	25	12.0%
Total Reviewed	400	38.8%

Common Audit Deficiencies

Deficiencies Related to Plan Contributions

- Failure to test timely remittance of employee contributions
- Failure to test compliance with plan compensation provisions
- Failure to reconcile contributions to payroll records, custodian records and employee records
- Failure to document recalculation of employer match

Common Audit Deficiencies

Deficiencies Related to Benefit Payments

- No/inadequate work regarding forfeitures
- No/inadequate testing or hardship/in-service benefit payments
- No/inadequate work regarding eligibility of individuals receiving benefit payment
- No testing of long outstanding benefit checks

Common Audit Deficiencies

Deficiencies Related to Participant Data

- No/insufficient testing of payroll data
- Failure to test payroll process
- Failure to adequately test eligibility, terminations and forfeitures
- Inadequate testing of participant deferral percentage
- No testing of participant accounts at time of change in trustee/custodian

DOL Audit Quality Study (2015)

“There Is A Clear Link Between The Number of Employee Benefit Plan Audits Performed by a CPA and The Quality of The Audit Work Performed”

DOL Audit Quality Study (2015)

“The Accounting Profession’s Peer Review and Practice Monitoring Efforts Have Not Resulted In Improved Audit Quality Or Improved Identification Of Deficient Audit Engagements”

DOL Audit Quality Study (2015)

“CPA Firms That Were Members of the AICPA’s Employee Benefit Plan Audit Quality Center Tended To Produce Audits That Have Fewer Audit Deficiencies”

DOL Audit Quality Study (2015)

“Training Specifically Targeted At Audits of Employee Benefit Plans May Contribute To Better Audit Work.

As The Level of EBP-Specific Training Increased, The Percentage of Deficient Audits Decreased.”

DOL Enforcement Initiatives

- Focus on Firms in the 25 – 99 Strata
- Work With State Boards of Accountancy to Discipline Those Performing Deficient Audits
- Amend ERISA to Assess \$1,100 Per Day Penalty Against the CPA Firm

DOL Enforcement Initiatives

- Establish Special Qualifications That CPAs Must Possess to Perform EBP Audits
- Repeal Limited Scope Exemption
- Give DOL Authority to Establish Accounting Principles and Auditing Standards for ERISA Audits

DOL Enforcement Initiatives

- Work With State Boards of Accountancy to Require Specific Licensing Requirements for CPAs Performing ERISA Audits
- Work With Industry Organizations (ASPPA) to Explain the Importance of Hiring Competent CPAs

DOL Enforcement Initiatives

- Reach Out to Plan Administrators Directly About How to Hire Competent Auditors
- Reach Out to CPA Firms Directly About Audit Deficiencies and How to Comply With Professional Standards

Best Practices For RFP Process

- Communicate Information About the Plan Along With 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

Best Practices For RFP Process

- Objectively Evaluate Proposals
- Separate Technical Ability From Price
- Conduct Finalist Interviews
- Document Decision-Making Process

Closing Remarks & Perspective

- Develop a Better Compliance Posture For Your Plan
- Make Your Auditor a True Partner and Not an Enemy
- Extract More Value and Best Practices from the Audit Process (Management Letters)
- Avoid Relying on Non CPA Service Providers to Tell You How Much an Audit Should Cost

Question and Answer Session