

# Hot Topics IN PLAN AUDITS



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# Who Audits the Auditor?



- Department of Labor
- AICPA Peer Review program
  - Review by another firm every 3 years
  - Review requirement each year (can be internal)

## Why Important?

- Drives what auditors should test
- Identifies DOL priorities

# Two Peer Review Themes



## 1) Risk Assessment

- Audit must not be mechanical
- Audit should be adaptive
- Understand & re-assess plan risks

## 2) Auditor's File Documentation

- “If not documented, then not done”

# Audit Priority Areas



## Client Acceptance

- 1 Any Issues/ Know What You Are Auditing

## Support of Opening Balances in Initial Audit

- 2
  - a. Balance Sheet Accounts
  - b. Participant Account Balances

## Risk Management

-understand plan & its risks

- 4 Evaluate Specialists  
(i.e. – Actuaries, Valuations)



# Audit Priority Areas (cont.)



**5**

## **IT Considerations/ Cybersecurity**

**6**

## **Documentation**

Correlation between  
detailed testing and IT risk  
assessment

**7**

## **Evaluate Service Auditor Reports**

- Assess Company User Controls Relied  
Upon by Service Organization

**8**

## **Test Employer & Employee Contributions**

# Audit Priority Areas (cont.)



**9**

## Testing Employee Salary Deferrals

- Late deposits of employee contributions remains an issue
- Assess if any prohibited transactions

**10**

## Test Benefit Payments

**11**

## Test Participant Census Data for DB & HW Plans as Provided to Actuary

**12**

## ESOP Testing Requirements

- Participant allocations
- Leveraged plans

**13**

## Proper Audit Opinions

- Full Scope
- Limited Scope
- Proper Report Modifications

# Audited Landscape per DOL



- ✧ 77,825 plans with audits
- ✧ 120 million participants
- ✧ \$7.4 trillion in assets subject to audit
- ✧ 66% of the firms (5,320) audit 5 or less plans
- ✧ Top 25 firms audit 64% of assets



# Audit Quality – By the Numbers



- ◆ Per DOL – nearly 40% of audits have an audit deficiency
- ◆ 40% deficiency rate doesn't tell the whole story
- ◆ Firm's with largest EBP practices – 12% error rate
- ◆ Firm's with smallest EBP practices – 76% error rate

# Auditor Selection Considerations



- ✓ Be Members of Employee Benefit Plan Audit Quality Center (EBPAQC)
- ✓ Utilize Resources of EBPAQC
- ✓ Receive Annual Specialized Training in EBP Auditing
- ✓ Have EBP Audits Reviewed Annually by Independent Expert(s)

# DOL Alerts



## Hot Topics

- ⚙ Timeliness of Contributions and Loan Payments
- ⚙ Reasonable and Transparency of Fees
- ⚙ Fiduciary Responsibilities
- ⚙ Compliance with Plan Documents

# Audit Risk Alert

## 2018 EBP Industry Developments



### Hot Topics

- ⚙ Identification of Investment Contracts
- ⚙ Plan Expenses
- ⚙ Cybersecurity
- ⚙ Safeguarding Financial Reporting (see Exposure Draft)

# Cybersecurity



## Cybersecurity is a “front page” issue






- Major IT security breaches every day in the news

## How does this relate to employee benefit plans

- ERISA requires plan administrators to maintain adequate books and records
- Many plan administrators contract out records management to third party providers
- Need to review cyber-security policies of third party service providers
- See EBPAQC Alert #365, dated April 15, 2016

# Cybersecurity



-  Review written information security policies, including those regarding encryption
-  Conduct periodic audits to detect threats
-  Perform periodic testing of backup and recovery plans
-  Determine responsibility for losses, including adequacy of cybersecurity insurance coverage
-  Establish training policies to reinforce data security and incident response plans



# 2017 AICPA Exposure Draft



## “Forming an Opinion and Reporting on Financial Statements of EBP’s subject to ERISA”

- Order and content of audit opinion paragraphs will change
- The “opinion” paragraph will come first
- Required procedures on certified investment information
- Required to report on audit findings

# Most Recent Accounting Pronouncements



- 1) **Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (Accounting Standards Update {ASU No. 2015-07})**
  - a) Removes requirement to categorize investments within the fair value hierarchy when using net asset value per share practical expedient
  - b) Effective for 2017 Plan audits

# Most Recent Accounting Pronouncements (cont.)



## 2) Plan Accounting, Plan Investment Disclosures and Measurement Date Practical Expedient (ASU No. 2015-12)/ Now Effective

- a) Contract value is appropriate for fully benefit responsive investment contracts
- b) Elimination of requirements for the following:
  - Individual investments representing 5% of net assets
  - Net appreciation in investments by general type of investments
  - Disclosure of investment strategy for Form 5500 Direct Filing Entities
- c) Investment reporting at month end allowed even if mid-month fiscal year end

**Designed to reduce complexity in EBP financial reporting.**

# Most Recent Accounting Pronouncements (cont.)



## 3) Plan Accounting – Master Trust Reporting (ASU No. 2017-06)

- a) Investment in Master Trust allowed single line reporting in prior years.
- b) New standard requires more detail for other assets and liabilities associated with the master trust.
- c) Investment disclosures related to 401(h) Plans are no longer required.
- d) Effective for fiscal years beginning after 12-15-18.



**For more information  
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