

A Good Auditor

These accountants are crucial in preventing plan errors

We've spent the last couple of columns discussing the difference between investment advisers and investment managers and how to select and monitor each type. Here, we consider the fiduciary obligations when selecting and monitoring the plan's auditor, as this process raises unique issues and has been highlighted by the Department of Labor (DOL) in recent years. Because human resources (HR) is the most likely department to deal with auditors, it may receive the task of selecting them; still, the final decision remains a fiduciary one.

Generally, retirement plans with 100 or more participants must submit an auditor's report prepared by an independent qualified public accountant with the plan's annual Form 5500 filing. In 2015, the DOL's Employee Benefits Security Administration (EBSA) issued a report, "Assessing the Quality of Employee Benefit Plan Audits," noting that the fewer plan audits an accounting firm performed, the higher its percentage of audits with deficiencies. When an auditor's report is deficient, the plan's Form 5500 may be rejected or filed improperly, which can result in DOL filing penalties. Further, an insufficient audit may result in a plan having ongoing uncorrected errors. A good auditor's review can help uncover any such issues and enable the sponsor to correct them before they're discovered by the Internal Revenue System (IRS) or result in costly corrective measures.

If the auditor misses big issues, this jeopardizes the plan and its qualified status. Given these risks, it is important that the committee perform a thorough evaluation of an auditor's qualifications and monitor performance on a regular basis.

Selecting and Monitoring the Auditor

As for other service providers, the committee should periodically go through a request for proposals (RFP) process to review the plan's existing auditor and consider whether a change is appropriate. Besides the report on audit quality, the DOL has issued a guide for selecting an auditor, which provides a good overview of what to consider. In any event, the RFP should present a description of the plan and any unique issues that apply to it. Information the committee should consider requesting includes the following:

- What qualifications does the auditor have? To perform the plan audit for the annual filing, the individual must be licensed or certified as a public accountant by the applicable state.
- What experience does the auditor have with employee benefit plans? These present unique issues, and having experience

with the range of them is vital. How many employee benefit plan audits has the firm performed? How many each year?

- How will audits be staffed? How much Employee Retirement Income Security Act (ERISA) plan training do the field auditors who will work on the plan have each year? In our experience, clients can get frustrated when junior employees new to the audit world and lacking experience with retirement plans handle the plan's audit. That also may increase the risk of a deficient audit unless senior, experienced auditors provide oversight. Some training each year can be good evidence of an audit firm's expertise in the plan context.

- What internal processes does the auditor have for purposes of maintaining quality reviews?

- Will the auditor supply a copy of its peer review report? Auditors must undergo a peer review process, which may provide insight as to the quality of the auditor's client reports.

- Is the auditor a member of the AICPA [American Institute of Certified Public Accountants] Employee Benefit Plan Audit Quality Center?

- What references does the auditor have?

- What is the auditor's fee? As with other service providers, least expensive is not always best. The fee should be reasonable relative to the services—including their quality—provided.

Reviewing the Auditor's Report

The committee should review the RFP responses and consider the information supplied by the auditor in order to make a prudent selection. This process should be documented in the committee minutes. If the process is not documented, it becomes difficult to prove what was done and to protect the committee.

If the auditor discovers a significant issue on audit, this needs to be addressed. While a correction may be costly, taking care of it always costs less for the sponsor than if the IRS discovers it. However, even when no real errors are found, the auditors may uncover minor or potential issues that can be addressed through process change. The sponsor can then take advantage of the auditor's review to discuss ways to improve records or processes and to avoid potentially costly errors in the future.

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