ERISA Audits: Know the Basics and Avoid DOL Deficiencies

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ERISA Audit

LONG BEACH, CA, UNITED STATES, June 4, 2024 /EINPresswire.com/ -- It is essential for companies that offer employee benefit plans to maintain ERISA compliance. The Employee Retirement Income Security Act of 1974, or ERISA, is a federal law establishing basic standards for qualified retirement plans and defining plan providers' fiduciary duties.

Certain companies are required to have an employee benefit plan audit, while many private sector companies opt to have one to identify and address deficiencies and prevent potential fines or penalties. Independent auditors conduct these ERISA audits under Department of Labor (DOL) requirements to help companies maintain compliance.

Understanding the basics of an ERISA audit and its advantages can help a company mitigate the risk of costly penalties from the DOL.

What is an ERISA Audit?

An ERISA or employee benefit plan audit is an independently conducted inspection of a private business's employee benefit plan. It is performed by certified public accountants (CPAs) who have ERISA-specific training and focus their practice on ERISA Audits.

ERISA Audits have three main objectives:

- Ensure the company's benefit plan complies with ERISA requirements and DOL guidelines
- Verify the benefit plan's financial statements are presented accurately and fairly
- Check whether the company has DOL deficiencies or issues that could indicate non-compliance

Benefit plan audits should ensure the following plan elements comply with DOL and ERISA requirements:

- Participant eligibility and participant data
- Employer and employee contributions
- Benefit payments
- Legal obligations and liabilities
- Administrative expenses
- Participant loans
- Investments and investment income

Who Must Undergo an ERISA Audit?

ERISA audits are mandatory for specific benefit plans to ensure compliance with federal regulations. These audits apply to plans based on their size and participant count. If a company meets the following requirements, they must have an ERISA audit conducted:

- Plans with 100 or more participants with account balances. Generally, benefit plans that have 100 or more participants with account balances on the first day of the plan year are subject to an ERISA audit. This rule is in place to ensure that larger plans, which have a more significant impact on participant retirement and welfare, adhere to ERISA guidelines for financial and operational conduct.

- Annual filing requirement. ERISA mandates that private companies file yearly reports for their benefit plans. This requirement involves submitting DOL Form 5500, a detailed report of the plan's financial condition, investments, and operations. The filing requirement applies to all plans, but only those with 100 or more participants with an account balance are subject to the audit requirement.

- Transition to large plan status. When a benefit plan grows to over 100 participants with an account balance at the beginning of a Plan year, it triggers the requirement of an ERISA audit. This ensures that plans crossing the threshold into 'large' status are properly reviewed for compliance with ERISA standards.

- The 80-120 participant rule. Allows plans with 80 to 120 participants with an account balance to file the same Form 5500 as the previous year. This flexibility means a plan can continue to be treated as either small or large, based on the previous year's status, without changing its audit requirements, as long as it remains within this participant count range.

What Happens During an ERISA Audit?

The audit process involves thoroughly assessing your company's employee benefit plan to understand its operational integrity and compliance with regulatory standards. A benefit plan administrator typically chooses a qualified ERISA audit team to conduct the review.

During the audit process, expect the following:

- Initial meeting. The process starts with a meeting between the company's managers, plan administrators, and the ERISA auditors. This discussion will outline the audit's scope and objectives.

- Collecting information. The ERISA auditors will ask for all relevant benefits plan documents. This includes plan documents, records of transactions such as contributions and loans, and other pertinent documentation.

- Analyzing the plan. The auditor examines the benefit plan's operation, including its processes and controls. They will investigate how eligibility is determined, benefits are calculated, contributions are managed, and administrative procedures are effective.

- Testing transactions. The auditors will select a sample of transactions from the year under audit to test for accuracy and compliance with ERISA and the plan's own rules specified in the plan documents. This will likely involve checking if contributions are correctly calculated and remitted to the Plan.

- Assessing internal controls. This step involves evaluating the effectiveness of the company's internal controls over financial reporting and plan operations.

- Compliance review. Finally, auditors check that the benefit plan adheres to ERISA's regulations. They review fiduciary responsibilities, reporting and disclosure requirements, and look for any prohibited transactions. They also verify that plan participant data is accurate and that eligibility rules are followed correctly.

Benefits of an ERISA Audit

An ERISA audit benefits both the company and its employees. Key advantages of an audit include:

- Compliance assurance. The DOL's Employee Benefits Security Administration found deficiencies in 70% of plan audits completed by CPA firms that only completed one or two ERISA audits. Selecting a CPA firm that specializes in ERISA audits is more likely to result in a quality audit.

- Operational improvement. The audit highlights inefficiencies and inaccuracies in plan administration, offering recommendations for streamlining processes such as enrollment, contributions, and benefit distributions. This leads to a more efficient management system.

- Building trust. Demonstrating commitment to regulatory compliance and plan integrity, the audit builds trust among employees, reassuring them that their benefits are managed responsibly and transparently.

- Risk management. Auditors assess and identify risks related to fiduciary duties and plan operations, providing a roadmap for mitigating risks before they become issues.

- Strategic insights. The audit offers insights into how the plan's design and administration can be enhanced, suggesting adjustments that could improve employee benefits and participation while aligning with the company's financial and strategic goals.

A recent article from the Journal of Accountancy stated that firms who are members of the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) performed higher-quality work than nonmember firms. Furthermore, the DOL confirmed that firms that performed very few employee benefit plan audits per year have the highest deficiency rates.

Look for a firm that offers ERISA Section 103(a)(3)(C) (formerly limited-scope) and full-scope audits for all major benefit plans, including 401(k)s, ESOPs, health and welfare, MEWA, profit-sharing, defined benefit, defined contribution, short-term disability, and VEBA. With valuable insights, specialized expertise, and a commitment to benefit plan compliance.

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