

Seeing the benefit

How to understand employee benefit plan audits **Interviewed by Matt McClellan**

While most companies understand that an annual financial statement audit is required, many companies are surprised when they find out their employee benefit plans also need to be audited. Companies may not think they really need to pay attention to the audit requirement, but these types of audits are important, and are something the IRS and Department of Labor take very seriously.

“This is the time of year when companies should start looking at whether or not their plans need an audit,” says Danielle B. Gisondo, CPA, the principal-in-charge of the benefit plan audit group at Skoda Minotti.

From a timing perspective, once you get through your year-end accounting and tax work — around April/May — that is when you should start thinking about your benefit plan and Form 5500 filing requirement.

Smart Business spoke with Gisondo about how employers can tell if their plan will require an audit, and what to expect from the process.

When is a benefit plan audit required?

What actually triggers the plan audit requirement is the number of eligible employees a company has. Generally, when a company has more than 100 eligible employees, an annual audit is required. However, you can't just count all the people participating in the plan. Eligible employees are those currently participating as well as those who elected not to participate in the plan.

Companies with less than 100 eligible employees only need to file the Form 5500 as a small plan, they do not need an audit. But companies with more than 100 eligible employees have to file the tax return along with the annual audited financial statements.

In order to abide by IRS regulations, you are required to file a Form 5500 for most benefit plans. For a calendar year-end plan, this should be filed by July 31, or you can file for an extension, which gives you until October 15. Typically, April or May is when people start to get questionnaires and draft Form 5500s from their TPA, so it is a good time to address the audit requirement question.

The Department of Labor imposes strict financial penalties when Form 5500 either isn't filed at all or is filed im-



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properly. These penalties are assessed per day and can be as high as \$50,000 per report per year for a deficient filing.

Once the audit requirement is triggered, what is the next step?

The next step would be to find a firm to perform the audit work. Many companies look at the firm that does their annual accounting and tax work to see if they perform employee benefit plan audits as well. Some accounting firms have separate employee benefit plan audit departments with dedicated staff; others do not. Once you find a firm to handle the audit, ask questions: How many other plans does the firm handle? Does it handle all types of benefit plans?

There are three types of benefit plans — one is a defined contribution plan, an example of which is a 401(k). There is also a defined benefit plan where the participants don't contribute but the company does — the most common example of which is a pension plan. Lastly, there are health and welfare plans that offer health insurance and disability-type insurance to employees.

Companies will also want to find out if the accounting firm is a member of the American Institute of Certified Public Accountants Employee Benefit Plan Audit

Quality Center. Firms that are members of the Center are held to a higher standard, and also have access to additional training, literature and best practices.

They should also ask what the audit process is going to entail. How much assistance is going to be required on the company's part? They should know going forward how much time their employees would spend assisting the firm with getting the audit completed.

Are there any advantages to using the same firm that performs your regular audit?

There can be if your firm has experience performing plan audits as well. Your current firm is already familiar with your business and the people involved in the process. Some companies like to keep the same relationships; other companies want to go with a company that specializes in benefit plan audits, even if their current firm offers those services.

Firms that specialize in employee benefit plan audits have dedicated staff that work on the audits and go through specialized training, and usually have a streamlined audit process.

Who will be involved on the company side?

Human resources and/or the accounting department will work closely with the auditors since they handle payroll and benefits and have all the documentation for what people choose to contribute, personnel records and payroll information. Those people are the ones who will put the most effort into getting the documentation ready for the auditors.

How long does the audit process take?

It depends on how quickly the auditors can get the information. Typically, the actual fieldwork, where the firm is on-site reviewing original documents, takes anywhere from a day to a week, depending on the size of the benefit plan. Many times the auditors will leave, but have points they want to follow up on. The whole process, from fieldwork to getting the financial statements issued to getting the open items cleared, is usually a four- to six-week process. <<

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