Employee Benefit Plans

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As the Chief, Division of Accounting Services, Employee Benefits Security Administration, Mr. Auerbach’s responsibilities include providing ERISA related accounting and auditing technical expertise within the Employee Benefits Security Administration. He is also the liaison with the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB) and other professional organizations.

Mr. Auerbach is a CPA and earned his B.S. in accounting from the University of Maryland.
Marilee Lau, CPA

Marilee Lau is a founding member of the AICPA Employee Benefit Plan Audit Quality Center which was established in 2004. She was the chair of the Center’s Executive Committee from 2007-2010. This committee works closely with the Department of Labor in order to provide guidance to plan sponsors and their auditors. Marilee is also chair of the Audit Guide Task Force which updates the EBP Guide for Audits of Employee Benefit Plans and the Audit Risk Alert.

Marilee, a retired Partner with KPMG, was KPMG’s National Partner in Charge of the Employee Benefit Plan Practice until her retirement in 2009. Currently, she is consulting on various employee benefit plan matters.

Thomas J. Parry, CPA

Tom is a shareholder of Benson & Neff, a local firm located in San Francisco, California. He is responsible for the system of quality control applicable to all accounting and audit services provided by the firm and the engagement partner for audits of employee benefit plans performed by the firm. Tom specializes in reviewing quality control policies and procedures for other AICPA member firms and acts as the quality control reviewer for audit and accounting services provided by other firms to both public and privately held clients.

He was a member of the quality control task force of the AICPA Auditing Standards Board charged with rewriting the quality control standards for U.S. firms and engagement personnel. He is also former member of the AICPA Peer Review Board and Chair of the California Peer Review Committee. He continues to serve on the California Peer Review Committee and AICPA Peer Review Board Oversight Task Force and also chairs the Peer Review Practice Monitoring Task Force for Employee Benefit Plans.
Overview

- Current Audit Risks for 2012 Audits
- Audit Quality History/Plan Auditor Universe
- Department of Labor Audit Quality Initiatives
  - Firm reviews
  - Individual audit engagement reviews
- High Risk Audit Engagements
- Where Are the Audit Deficiencies
- How to Avoid the Audit Deficiencies
- Audit Guide Overhaul

Current Audit Risks for 2012 Audits

- Continued uncertainty over pension and health reform
- In spite of stock market gains continued volatility in certain financial markets
- Defined benefit plans still facing sizable funding obligations and uncertain future
- Focus on plan expenses by DOL and new disclosure rules
- Soft economic recovery opens the door for fraud
New Plan Expense Disclosure Rules

■ “Plan” Disclosures to Participants
  • ERISA § 404
  • Give workers information about plan fees and expenses
  • Initial disclosures were required by August 30, 2012

■ Service Provider Disclosures to Plans
  • ERISA § 408(b)(2)
  • Covered service providers are required to disclose services provided to plan and fees received for those services
  • If proper disclosures are not made, it will be viewed as “not reasonable” – a prohibited transaction
  • Possible audit and reporting implications

Trends in Benefit Plans

■ Plan design changes
  • Hybrid plans (DB/DC)
  • Multiple employer plans

■ Defined benefit plans
  • In “maintenance mode”
  • Frozen plans
  • Terminating plans
  • Going concern and liquidity issues

■ Defined contribution plans
  • Life cycle or target date funds increasing
  • Changes in asset classes, stable value funds, fixed income
Trends in Benefit Plans

- **Investments**
  - More separately managed funds
  - Fair value continues to be difficult to obtain
  - Valuations are inaccurate
  - ESOP issues

- **Other**
  - Opening balances
  - Participant loans
  - Hardship and other withdrawals
  - Employees working past retirement resulting in additional administrative and reporting burdens for the employer
  - Increased fraudulent activity—external and internal

Audit Quality History

  - Concludes employee benefit plan audit quality is poor
  - 23% of plan audits fail to meet professional standards

- **1997 – EBSA Assessment of Audit Quality**
  - No statistically valid change in audit quality
  - 19% of plan audit failed to meet professional standards

- **2004 – EBSA’s 2nd Assessment of Audit Quality**
  - Audit quality is getting worse and spreading to largest CPA firms

- **2004 – AICPA creates the Employee Benefit Plans Audit Quality Center**
ERISA Plan Audit Universe

- 80,000 Plan Audits
- 9,242 CPA firms performing audits
- $5.5 trillion in plan assets subject to audit

Less than 100 EBP Audits

- 9,148 CPA firms
- 50,000 audits
- $1.3 trillion in plan assets audited (24% of assets audited)
More than 100 EBP Audits

- 94 CPA firms (less than 1% of firms)
- 30,000 audits (38% of audits)
- $4.2 trillion in plan assets audited (76% of assets audited)

Firms Auditing <100 Plans

9,148 CPA Firms

- 1 or 2 Audits
- 3 - 5 Audits
- 6 - 24 Audits
- 25 - 49 Audits
- 50 - 99 Audits
DOL Audit Quality Initiatives

- **CPA Firm Inspection Program**
  - Review EBP practice of firms that perform significant number of plan audits or that audit significant amount of plan assets
  - Similar to PCAOB Inspections
  - Review policies and procedures
  - Review audit workpapers of selected audit engagements
  - Most like the Peer Review process
  - Rolling two – three year review cycle

- **Focus on CPA firms that perform between 100-199 employee benefit plan audits**
  - No initial onsite visit
  - Questionnaire to CPA firm
  - Assess overall firm structure and control environment
  - Select a sample of audit engagements for detailed review

- **Review of Individual Audit Engagements**
  - Focus is on firms performing a small number of EBP audits
  - Reviews performed in-house
  - Risk based targeting
Referrals of the Most Egregious Work

**AlCPA Ethics Division**
- More than 700 referrals
- AICPA’s focus is on rehabilitating the practitioner
- EBSA receives status updates of referrals

**State Boards of Public Accountancy**
- Nearly 100 referrals
- Referrals made when AICPA has no jurisdiction
- Resources vary widely among states to handle referrals

Recidivism – Prior Referrals to AICPA Ethics Division/State Boards

Project to Determine If Practitioner’s Current Audit Work Has Improved:

- **104 = Reviews completed**
  - 56 = Acceptable
  - 48 = Deficiencies
    - 9 cases = one deficiency
    - 12 cases = two deficiencies
    - 7 cases = three deficiencies
    - 10 cases = four deficiencies
    - 10 cases = six or more deficiencies
New Initiatives

Peer Review
- Are CPAs complying with state peer review licensing requirements?
  - Sample of practitioners in states with peer review requirement
  - Provide evidence that an acceptable peer review was performed

Audit Quality Study
- Statistically based, nationwide study
- Provide status of audit quality
- Sample will probably be stratified based upon CPA firm population

DOL Inspection Activities

High Risk Audit Engagements

Multiemployer Plans
- Defined Benefit Pension Plans
- Defined Contribution Pension Plans

Single Employer Defined Benefit Pension Plans

Health and Welfare Plans

ESOPs

403(b) Plans

Repeat Offenders
Employee Benefit Plan Audits

What Audit Areas Should Peer Reviewers Target?

- Opening Balances
- Participant Data
- Investments
  - Valuation
  - Disclosures
- Contributions
- Plan Obligations
  - Actuarial Information
- Benefit and Claim Payments
- Party-in-Interest Transactions

Participant Data

What Should Peer Reviewers Focus On:

- 63% of audits with deficiencies

Common audit deficiencies include:

- Insufficient payroll testing
- No work performed or no documentation of work performed
- Failure to test participant eligibility
- Failure to test participant salary deferrals or investment elections
- Failure to test allocations to participant accounts

Audit Guide Chapters 5, 6, & 7
Participant Data

Peer Reviewers Should Expect to See:

- Demographic data (e.g. hire and birth dates)
- Payroll data
- For DB plans – test data used for actuarial valuations
- Allocation testing – allocations to participants’ accounts
- Reconciliation of sum of participants accounts to total assets available for benefits
- Use of SOC-1 reports to reduce – not eliminate testing

Participant Data
PRP 20,700 Bolded Questions

- For participant data, did the audit procedures appropriately consider and test demographic data, payroll data for one or more pay periods and for a number of participants, and benefits data?
- For defined benefit plans, did the auditor compare participant data with information given to the actuary to compute the benefit obligation?
- For defined contribution plans, is the testing of company and individual contributions, demographic data used to determine eligibility and vesting, and terminations to individual participant accounts appropriate?
Investments

What Should Peer Reviewers Focus On:

- 36% of audits with deficiencies
- Common audit deficiencies include:
  - Failure to test year end asset values
  - No audit work performed
  - No documentation on why certain assets are not tested
  - Inappropriate reliance on SOC-1 reports
  - Insufficient audit work performed
  - Insufficient audit work performed on third party appraisals or other investment specialists
- Audit Guide Chapters 2, 4, & 8

Investments

Peer Reviewers Should Expect to See:

- Testing of year end values for plan investments
- Sample of purchases and sales transactions – review for proper authorization, pricing, gain/loss
- Testing of income (e.g. unrealized gains/losses), dividend and interest income
- Limited-scope audits – obtain proper certification
- Full scope audits – obtain a written confirmation
- Participant loans – properly authorized and repayments being made – no longer an investment but a receivable
- Analysis prepared on the appraisal results
Investments
PRP 20,700 Bolded Questions

- Did the auditor obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements (including appropriate leveling) and disclosures in the financial statements are in conformity with GAAP?
- In a full scope audit, was there evidence regarding the existence and ownership of investments, such as direct confirmation (including securities in transit), and review for liens or other security interest?

Investments
PRP 20,700 Bolded Questions (continued)

- In a full scope audit, was there testing of investment transactions, including accrued income?
- In a full scope audit, was there testing of the fair value of investments at the end of the plan year, including the net change in appreciation or depreciation?
Contributions

What Should Peer Reviewers Focus On:

■ 32% of audits with deficiencies

■ Common audit deficiencies include:
  • Insufficient audit work performed on contributing employers (multiemployer plans)
  • No audit work performed
  • Failure to test compliance with collective bargaining agreement
  • Failure to test timeliness of employee contributions
  • Failure to verify receipt of contributions after year end

■ Audit Guide Chapters 5, 6, & 7

Contributions

■ Peer Reviewers Should Expect to See:
  • Complete list of contributing employers (multiemployer plans)
  • Testing of salary deferrals, matching, discretionary contributions
  • Don’t forget forfeitures
  • Re-compute contribution amounts
  • Allocations to participants
  • Timeliness of contributions
  • Participant loan test work
Plan Obligations

What Should Peer Reviewers Focus On:

- 18% of audits with deficiencies
- Common audit deficiencies include:
  - No audit work performed
  - Inadequate audit work performed
  - Failure to assess the actuary’s qualifications
  - Failure to determine if actuary’s assumptions are reasonable
- Audit Guide Chapters 2, 6, & 7

Party-In-Interest Transactions

What Should Peer Reviewers Focus On:

- 41% of audits with deficiencies
- Common audit deficiencies include:
  - No audit work performed
  - Inadequate audit work performed
  - No audit program or audit program marked N/A
- Audit Guide Chapters 2 & 9
Party-In-Interest Transactions

Peer Reviewers Should Expect to See:
- Remember, every employee benefit plan has parties-in-interest
- Inquiries of plan management
- Review of documents such as meeting minutes, correspondence, invoices and accounting records
- Delinquent employee contributions are considered prohibited transactions

PRP 20,700 Other Bolded Questions

Auditor’s Report
- If the audit was a limited scope audit permitted by DOL rules and regulations with respect to investment information, was this stated and a disclaimer issued?
- Does the report identify and include an appropriate opinion on supplemental schedules required by ERISA and DOL regulations?
- Has the report been appropriately modified for a U.S. GAAP departure, GAAS departure, or non-disclosure of prohibited transactions?
- Is the report appropriately modified for financial statements presented on a basis other than GAAP that is acceptable under ERISA or DOL regulations?
- If the entity has made the decision to terminate a plan, has the auditor considered the implications of that decision for the auditor’s report?
PRP 20,700 Other Bolded Questions

**Benefit Payments**
- For selected participants receiving benefit payments, did the auditor apply adequate procedures regarding examining the participant’s file for type and amount of claim and propriety of required approvals including tracing approval of benefit payments to board of trustees or administrative committee minutes, if applicable. For health and welfare benefit plans, examining service provider statements or other evidence of service rendered and application of stop loss reimbursements?
- For selected participants receiving benefit payments, did the auditor apply adequate procedures regarding evaluating the participant’s or beneficiary’s eligibility, recomputing benefits based on the plan instrument and related documents, option elected, vesting provisions and pertinent service or salary history?

**Other Considerations**
- Did the auditor appropriately consider the effect of a service organization on the internal control structure of a user organization and the availability of audit evidence, including correct usage of a SOC 1 report if applicable?
Single Employer DB Pension Plans

What Audit Areas Should Peer Reviewers Target:
- Party-In-Interest transactions
- Participant Data
- Benefit Payments
- Plan Obligations
- Use of Specialists
- Investments
- Contributions

Health and Welfare Plan Audits

What Audit Areas Should Peer Reviewers Target:
- Participant Data
- Investments
- Contributions
- Plan Obligations
- Use of Specialists
- Benefit Payments
- Party-In-Interest Transactions


**ESOPs**

**What Should Peer Reviewers Focus On:**
- **Over 50% of audits contained deficiencies**
- **Common audit deficiencies include:**
  - Failure to identify valuation of employer stock in the risk assessment
  - Review of the work of the appraiser (full scope audits)
  - Testing the release of shares from the suspense account
  - Testing benefit payments
  - Obtaining and reviewing documentation of stock purchases

**Audit Guide Chapters 2 & 5**

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**403(b) Plans**

**What Audit Areas Should Peer Reviewers Target:**
- Opening account balances
- Participant counts
- Existence of investment contracts prior to 2009

**Audit Guide Chapters 2 & 5**
Where to Go For Help?

- **Technical Aids for Peer Reviewers:**
  - AICPA Accounting and Auditing Guide for Employee Benefit Plans
  - AICPA Employee Benefit Plans Audit Risk Alert
  - Employee Benefit Plans Audit Quality Center
    - Online resources
    - Member-to-member discussion forum
    - Webcasts
  - AICPA Employee Benefit Plans National Conference and Annual Update Conference
  - State society employee benefit plan conferences

New EBP Audit Guide

- **Guide last issued over 20 years ago**
- **Has not been revised or amended other than for conforming changes**
- **Significant changes have occurred**
  - Types of retirement plans offered
  - Plan administration
  - Types of investments
  - Numerous changes to the rules and regulations by the DOL, IRS and PBGC
  - Professional Standards

- **ERISA—GAAP vs. GAAP—GAAP**
  - Divergence in practice
  - Lack of consistency
New EBP Audit Guide

- Guide issued as an E-Book, subscription service and hard copy
- Hard copy book approximately 250 pages longer than 2012 guide
- Chapters 5-7 have some repetition so that each chapter stands on its own
- Electronic versions able to toggle back and forth between accounting and auditing
- Decreased the number of example financial statements but enhanced the disclosures

New EBP Audit Guide

- General guide overview
  - Overall order of chapters
  - Highlights
    - General
    - Audit planning and risk assessment
- Format of core plan chapters (DC, DB & H&W)
  - Unique accounting considerations (including "FinREC recommends")
  - Relevant assertions for each type of account
  - Examples of risks of material misstatements ("what could go wrong")
  - Example audit procedures
  - New chapter appendices
- Investment guidance
- Practice Tips
- Clarified auditor reports
- Illustrative financial statements
Clarity Standards – Significant Changes

- AU-C 210—Terms of Engagement—new engagement letters
- AU-C 220—Quality Control for an Engagement
- AU-C 240—Consideration of Fraud
- AU-C 250—Consideration of Laws and Regulations—formerly illegal acts
- AU-C 265—Communicating Internal Control Related Matters

Significant Changes

- AU-C 402—Using a Service Organization
- AU-C 510—Initial Audit Engagements
- AU-C 550—Related parties
- AU-C 560—Subsequent Events
- AU-C 580—Written Representations—new letters
- AU-C 620 and AU-C 500—Using the Work of a specialist—auditor’s and management’s specialists
- AU-C 700 series—Auditor’s reports and supplemental schedules
### Order of Guide

**Chapters**

<table>
<thead>
<tr>
<th>Chapter</th>
<th>2012 Guide</th>
<th>2013 Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction and Background</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Defined Benefit Pension Plans</td>
<td>2</td>
<td>6</td>
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<tr>
<td>Defined Contribution Retirement Plans</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Health and Welfare Benefit Plans</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Planning and General Auditing Considerations</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Internal Control</td>
<td>6</td>
<td>4</td>
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<td>Audit Risk Assessment</td>
<td>Included in 5</td>
<td>3</td>
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<tr>
<td>Auditing Investments and Loans to Participants</td>
<td>7</td>
<td>8 (loans to participants moved to 5)</td>
</tr>
</tbody>
</table>

### Order of Guide

**Chapters**

<table>
<thead>
<tr>
<th>Chapter</th>
<th>2012 Guide</th>
<th>2013 Guide</th>
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</thead>
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<tr>
<td>Auditing Contributions Received and Related Receivables</td>
<td>8</td>
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<tr>
<td>Auditing Benefit Payments</td>
<td>9</td>
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<tr>
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<td>10</td>
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<tr>
<td>Party-in-Interest Transactions</td>
<td>11</td>
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<td>12</td>
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<td>9</td>
</tr>
<tr>
<td>The Auditor's Report</td>
<td>13</td>
<td>11</td>
</tr>
</tbody>
</table>
Order of Guide
Appendices

<table>
<thead>
<tr>
<th>Appendix</th>
<th>2012 Guide</th>
<th>2013 Guide</th>
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<tbody>
<tr>
<td>ERISA and Related Regulations</td>
<td>A</td>
<td>A</td>
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<tr>
<td>Examples of Controls</td>
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<td>Illustrative F/S's- DB Pension Plans</td>
<td>C</td>
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<td>G/H/I</td>
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<td>Mapping and Summarization of Changes—Clarified Auditing Standards</td>
<td>J</td>
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</tbody>
</table>

General highlights

- Includes authoritative guidance issued through January 1, 2013
- Applicability to governmental entities
- Guide has grown in length due to
  - Extensive rewrite of core plan chapters
  - Updated for Clarity throughout (including auditor reports!)
  - Practice Tips added throughout
- Updated illustrative financial statements
General Guide Overview
Key Take-Aways

- Ordered similar to how an audit progresses
- Audit risk assessment procedures have been separated from planning and general auditing considerations
- Enhanced planning and risk assessment guidance
- Substantive procedures formerly shown in separate chapters moved into applicable chapters in new Guide
- Investment guidance found in investments chapter and core plan chapters
- Example Controls Appendix includes controls over claims (Exhibit B-3)

Chapter 2, Planning and General Audit Considerations

Highlights

- Client acceptance and continuance - risk factors to consider
- Audit scope
  - Examples of matters that could affect audit scope
  - Auditor considerations when agreeing upon the terms of the audit engagement
  - Updates to several of the audit decision trees
  - Updated illustrative engagement letter
- Considerations for
  - Coordinating plan sponsor and plan audits
  - Testing payroll and demographic data
- Enhanced guidance related to
  - Using the work of a specialist
  - Related party and party-in-interest transactions
  - Initial audits of plans
Chapter 3, *Audit Risk Assessment*

**Highlights**

- **Audit Risk**
  - List of potential pervasive risks for employee benefit plan audits at the financial statement level and areas that may present particular risks of material misstatement at the assertion level for classes of transaction, account balances, and disclosures

- **Planning Materiality**
  - Benchmarks for employee benefit plans

- **Understanding the Entity and Its Environment**
  - Risk assessment procedures
  - Discussion among the engagement team

- **Risk Assessment and the Design of Further Audit Procedures**
  - Identifying and assessing the risks of material misstatement

- **Evaluating Misstatements**

- **Audit Documentation**

- **Consideration of Fraud**

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**Core Plan Chapter Format**

**Key Take-Aways (Overall)**

- **Accounting topics broken down by financial statement caption**
  - FinREC recommendations

- **Financial statement disclosures include**
  - FinREC recommended disclosures
  - Reference to where in Appendix A the listing of disclosures required by ERISA can be found

- **For each accounting subtopic, there is a corresponding auditing subtopic with**
  - Relevant assertions
  - Examples of risks of material misstatements ("What Could Go Wrong" (WCGW))
  - Audit procedures to consider based on risk assessments

- **Each core chapter has certain investment related guidance for investments more common to that plan type**

- **Numerous practice tips added**
Core Chapter Format
Key Take-Aways (DC Plans)

- **Description of the various types of DC plans**
- **Additional guidance specific to ESOPs**
  - How a leveraged ESOP plan works
  - ESOP financial statements for leveraged ESOPs—FinRec recommends using columnar format
- **Additional guidance specific to Multiemployer plans**
  - Payroll testing
- **New subtopics for 403(b) plans or arrangements, plan mergers and spin-offs, terminating plans, and change in service providers**

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Core Chapter Format
Key Take-Aways (DC Plans (continued))

- **New appendix – Operations and administration**
  - Documents and agreements
  - Key roles and responsibilities
  - Key plan provisions
  - Reports and records
Core Chapter Format
Key Take-Aways (DB Plans)

- Minimum financial statement presentation requirements table
- Matrix for recognition of plan amendments
- Enhancements regarding
  - Minimum funding standards & adjusted funding target attainment percentage (AFTAP)
  - Funding waivers
  - Assumptions related to accumulated plan benefit obligation
  - Beginning of year valuations (should be presented as of the end of the proceeding year)
  - Plan freezes (soft, partial, hard)
  - Work of a specialist, including
    - Testing the reliability and completeness of census data
    - Testing hypothetical accounts in cash balance and pension equity plans

Core Chapter Format
Key Take-Aways (DB Plans (continued))

- New subtopics for plan mergers and spin-offs, terminating plans or frozen plans, and change in service providers
- New appendix – Operations and administration
  - Key plan provisions
  - Key roles and responsibilities
  - Reports and records
Core Chapter Format

Key Take-Aways (H&W Plans)

- **Enhancements regarding**
  - Various types of trust arrangements
  - Defining the reporting entity
  - Other receivables (refunds, rebates & subsidies)
  - Accrued liabilities vs. obligations
  - Recognition of postemployment benefits (COBRA)
  - Tax considerations
  - Confidentiality and indemnification agreements
  - Testing of health claims, welfare claims and premium payments
  - Testing of claims payable, claims IBNR and premiums payable
  - Testing accumulated eligibility credits and postemployment benefits
  - Work of a specialist, including testing the reliability and completeness of census data

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Core Chapter Format

Key Take-Aways (H&W Plans (continued))

- **Matrix for recognition of plan amendments**
- **Illustrative actuarial confirmation**
- **New guidance for plan mergers and spinoffs, terminating or frozen plans, terminating trusts and changes in service providers**
- **Several new appendices**
  - Appendix A—The Annual Health Care Process
  - Appendix B—Examples of Health and Welfare Arrangements
  - Appendix C—Risk Assessment and Internal Control Considerations – Claim Payments
FinREC Recommendations

FASB ASC is GAAP
- Required accounting from FASB ASC
- Authoritative

FinREC recommendations
- Found throughout the Guide
  - Describes FinREC’s understanding of prevalent or sole industry practice concerning certain issues
  - Identifies certain other, but not necessarily all, industry practices concerning certain accounting issues
  - May indicate FinREC’s preference or that they have no view on a matter
  - Provides guidance that has been supported by FinREC on the accounting, reporting, or disclosure treatment of transactions or events that are not set forth in FASB ASC
- Sponsors and auditors are encouraged to follow FinREC recommendations to create consistency in practice

What’s New – All Plan Types

Additional disclosures and discussion
- Cash
- Dividends and distributions
- Contributions receivable
- Master Trust arrangements
- Benefits paid
- Other income
- Other employer contributions
- Expense offset arrangements
- Transfers of assets to or from other plans
- Frozen or merged plans
- Full or partial terminations
- Changes in service providers
FinREC Recommendations

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<td>Claims</td>
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<td></td>
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<tr>
<td>Master trusts</td>
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<td>ESOPs</td>
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<tr>
<td>Plan mergers, spinoffs, terminated plans and changes in service providers</td>
<td></td>
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<tr>
<td>Defining the reporting entity</td>
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</tbody>
</table>

FinREC Recommendations

All Plans

- **Dividends and Distributions—reinvested**
  - Dividends should be considered investment income and shown separately from changes in fair value
  - Capital gain distributions should be considered either investment income and shown separately from changes in fair value or included as part of the net change in fair value

- **Cash balances**
  - Interest bearing cash to be shown as an investment
  - Since no cash flow statement is required there is no need to disclose cash equivalents

- **Expense offset arrangements**
  - Significant terms of such arrangements with third parties where expenses are netted against income
FinREC Recommendations
All Plans (continued)

- **Master Trust Arrangements**
  - Presentation of all master trust activity in the footnotes to the financial statements not just investments and investment income
  - Fees and expenses
    - Specific to the plan recorded in the plan’s financial statements
    - Allocated fees and expenses recorded in the master trust activity
  - Contributions and distributions reported in the plan’s financial statements and reported in the master trust activity as a transfer in or a transfer out
  - Disclosure of the plan’s percentage interest in each investment type where the plan has a specific interest and not an undivided interest (generally DC plans)
  - For undivided interests disclosure of those investments that are greater than 5% of the master trust
  - For specific interests disclosure of those investments that are greater than 5% of the plan’s investments
  - Master trust disclosures are not relevant for a H&W plan with a 401(h) account, but should be considered

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FinREC Recommendations
DC Plans

- **Contributions receivable**
  - Receivable recorded when the eligibility to receive the contribution is based on service or other criteria that existed as of the plan’s year end

- **Corrective contributions / Excess contributions**
  - Corrective contributions to be presented as other employer contributions and any associated receivable be presented as an other employer contribution receivable
  - Excess contributions to be netted against contributions received with disclosure of such accounting policy

- **Forfeitures**
  - Added discussion about forfeitures and use of forfeitures
  - Disclosure of amount of forfeitures available at the end of the year and amount used or allocated during the year
FinREC Recommendations
DC Plans (continued)

- **Rollover contributions**
  - Significant rollovers shown as a separate line item on the statement of changes

- **Presented separately in Statement of Changes In Net Assets Available for Benefits (if material)**
  - Other income, including fee income from securities loaned and reimbursements for lost income or operational defects
  - Interest earned on notes receivable from participants
  - Income tax expense
  - Other expenses
  - Transfers of items to or from other plans

FinREC Recommendations
DB Plans

- **Contributions receivable**
  - ERISA minimum required contribution be recorded as a contribution receivable and any excess amounts would be considered a non-recognized subsequent event unless there was evidence of a formal commitment

- **Funding waivers**
  - Expanded guidance on funding waivers and recommended that a receivable be recorded for the minimum contribution that is not received and consider whether an allowance for uncollectible amounts is necessary
FinREC Recommendations
H&W Plans

■ Defining the reporting entity
  • Added guidance that all transactions of the plan (whether paid through a trust or otherwise) should be recorded in the plan’s financial statements
  • Guidance for how to account for wrapped plans or programs

■ Flexible Spending Arrangements (FSAs), Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs)
  • Presentation and disclosure guidance if such programs are wrapped or a component of an audited health and welfare plan
    - FSAs and HRAs - amounts available to participants at year end, as well as associated activity, should be included in the plan’s financial statements
    - HSAs - disclosure that the arrangement exists but associated activity should be excluded from the plan’s financial statements as the plan is not obligated to pay benefits

FinREC Recommendations
H&W Plans (continued)

■ Contributions receivable
  • A receivable be recorded equal to the liability for claims IBNR if, as of the date of the financial statements, there is a legal or contractual requirement for the employer to fund the specific amount (generally does not exist in single employer plans)

■ Other receivables—refunds and rebates from service providers and certain subsidies
  • Added guidance on when a plan should record a receivable

■ Stop-loss arrangements
  • Capturing all activity associated with the plan is most meaningful
  • Amounts due from stop-loss insurers should be included in the plan’s financial statements
  • Stop-loss premiums paid generally should be recorded as an expense of the plan
  • Refunds recorded as reduction of benefits paid
  • Recognition that this is a complicated area
FinREC Recommendations
H&W Plans (continued)

- Claims
  • Regardless of the accounting policy established for recording claims, it should be disclosed and consistently applied

- Postemployment and postretirement benefit obligations—claims IBNR
  • Disclosure of where retiree IBNR is reported to ensure claims IBNR that obligation is properly reported (not double counted or omitted entirely), and consider disclosing where it is recorded

Auditing Subtopics in Each Core Plan Chapter

For each subtopic:

- Relevant assertions

- Examples of identified risks of what can go wrong (WCGW) at the relevant assertion level

- Example substantive audit procedures to consider based on risk assessments
  • Not considered required procedures
  • Not an all-inclusive list

*Note - does not include all risks or all GAAS and procedures that could apply in the applicable type of plan audit.*
What Could Go Wrongs (WCGWs)
Notes Receivable From Participants (DC Plans)

2.145 Examples of identified risks of what can go wrong at the relevant assertion level relating to notes receivable from participants include the following:

a. Loans are not initiated in accordance with the plan’s provisions and, therefore, are not recorded properly.
b. Loan details (such as amount, repayment period, interest rate, and residential or nonresidential loan) are incorrectly entered into the recordkeeper system.
c. Loan repayments are not properly calculated or properly withheld from payroll on a timely basis.
d. Loans are not reconciled between the recordkeeper and trustee on a timely basis.
e. Loan repayments are not recorded in the correct individual participant’s account.
f. Loans in default are not properly reclassified as ‘deemed’ distributions.
g. In a plan merger, loans are not properly transferred to the new plan from the existing plan.

Example – Cash Balances

5.17 (Accounting)

- Non-interest bearing cash balances of DC plans typically represent residual amounts not otherwise invested and are typically shown as a separate line item on the financial statements. FinRec recommends that interest-bearing cash be included with investments in the financial statements. The Form 5500 also requires interest-bearing cash to be reported as an investment on Schedule H, line 4i. (See paragraphs 5.123-5.127 for audit considerations)

5.123 Relevant Assertions

- All cash balances are recorded and exist
- The cash balances are owned by the plan and are free of any restrictions
- The cash balances are properly presented and disclosed in the financial statements (for example, shown as an investment or non-interest bearing cash)
Example – Cash

5.124 Examples of Identified Risks of What Could Go Wrong
• Certain cash accounts such as cash clearing accounts, suspense accounts, or cash disbursement accounts, may be omitted from the financial statements as these accounts may or may not be included in the trust statements. When cash balances are included, cash transactions or balances in bank statements may not reconcile to the plan's financial statements. Additionally, ending cash balances from the prior year may not agree to beginning cash balances in the current year.

5.126 Example Audit Procedures to Consider
• Cash balances represent cash on hand, or held by third parties. For material cash balances held by the plan, substantive audit procedures such as those customarily used in audits of other entities are normally appropriate.

Example Audit Procedures

Practice Tip
DOL Advisory Opinion No. 2002-2A concluded that participant loan repayments paid to, or withheld by, the employer for purposes of transmittal to the plan become plan assets as of the earliest date on which such repayments can be reasonably segregated from the employer’s general assets and, therefore, would be treated the same as participant contributions.
Example Audit Procedures

*Practice Tip*

The plan document of a DC plan often specifies the eligibility provisions that must be met for the employer(s) and employees to make contributions, vesting provisions, the formula to determine upper and lower contribution limits (salary deferral percentages), or the rates for determining the contributions.

Chapter 9
Plan Tax Status

- Plan design
- Nondiscrimination and other operating tests for plan qualification (table added)
- Unrelated Business Taxable Income (UBTI)
- Auditing considerations
  - Relevant assertions
  - What could go wrong
  - Example audit procedures to consider
Chapter 10
Concluding the Audit and Other Auditing Considerations

- Form 5500
- Commitments and contingencies
- Litigation, claims, and assessments
- Subsequent events
- Plan representations—example letter
- Communications with those charged with governance

Clarified Auditor Reports

- Illustrative auditor’s reports on EBP F/Ss prepared in accordance with the following AU-C sections:
  - AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*
  - AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report*
  - AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
AICPA Auditor Reports (AU-C 700, 705, 706)

- **Headings and Subheadings**
- **Management’s Responsibilities**
- **Opinion** (qualified, adverse, or disclaimer)
- **Emphasis of Matter**
  - Matters appropriately presented or disclosed
- **Other Matter**
  - To understand audit matters
- **Other auditor reporting responsibilities**

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**Illustrative Financial Statements**

**Select Highlights Overall**

- **All illustrations updated and refreshed**
  - Updated for investment types commonly found in plans today (for example, collective fund in a DC plan)
  - Disclosures required by ASU 2011-04 included
  - Improved administrative expense and related party/party-in-interest disclosures
  - FinREC recommended disclosures illustrated

- **Appendix C**
  - XYZ Company 401(k) Plan
  - Sponsor Company Employee Stock Ownership Plan

- **Appendix D**
  - C&H Company Pension Plan

- **Appendix E**
  - Allied Industries Health Care Benefit Plan

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**AICPA Peer Review Program**

82
Illustrative Financial Statements
DC Plan Highlights

Appendix C
- Certified investments footnote
- Excess contributions payable
- Rollover contributions
- Plan transfer

Illustrative Financial Statements
DB Plan Highlights

Appendix D
- Non-interest bearing cash
- Complete roll forward of BOY statement of changes in accumulated plan benefits
- More L2 & L3 investments illustrated
- Master trust disclosures
- Derivative instruments
- Securities lending
- Plan amendment
- Subsequent events
  - Plan merger
  - AFTAP
Illustrative Financial Statements
H&W Plan Highlights

Appendix E
■ Short-term investment fund
■ Insured and self-insured benefits
■ Experience-rated contracts
■ Premium stabilization reserves
■ Stop loss coverage
■ Health reimbursement arrangement (HRA)
■ Pharmacy benefit manager rebates
■ Payable to claims administrators
■ Postemployment COBRA benefits
■ Certified investments

DOL Resources

■ [www.dol.gov/ebsa](http://www.dol.gov/ebsa)
  • For DOL publications, FAQs, copies of the Form 5500, instructions, and related schedules

■ EBSA Office of the Chief Accountant  202-693-8360

■ EBSA Office of Regulations and Interpretations  202-693-8500
  • For questions about ERISA reporting, filing or other regulatory requirements

■ DOL EFAST Help Center  1-866-463-3278
  • For questions regarding the Form 5500 or related schedules
Questions