

Obtaining Quality Employee Benefit Plan Audit Services

The Request for Proposal and Auditor Evaluation Process

The AICPA Employee Benefit Plan Audit Quality Center has prepared this document to assist plan sponsors and other stakeholders in the proposal and evaluation process to obtain quality audit services for employee benefit plans. This tool addresses each step of the proposal and evaluation process. It describes the Request for Proposal (RFP) contents and contains a checklist of items that should be considered in preparing an RFP. It also discusses the proposal evaluation and auditor selection process, and provides information about how to find an auditor. As a generic model, it should be used for reference purposes only. For more information about the AICPA Employee Benefit Plan Audit Quality Center and employee benefit plan audits, visit the Center's website at <http://www.aicpa.org/ebpaqc>.

The Importance of a Quality Plan Audit

Generally, Federal law requires employee benefit plans with 100 or more participants to have an audit as part of their obligation to file an annual return/report (Form 5500 Series). Independent audits of employee benefit plan financial statements are an important accountability mechanism. If your employee benefit plan is required to have an audit, it is the plan administrator's duty to hire an independent qualified public accountant, and to ensure that the plan has obtained a quality audit in accordance with Employee Retirement Income Security Act of 1974 (ERISA) and U.S. Department of Labor (DOL) requirements. The sponsor of the plan is the plan administrator under the law unless another individual or entity is specifically designated to assume this responsibility.

You should be aware that the hiring of a plan auditor is considered a fiduciary function. As such, plan administrators should use the same care and prudence in hiring a plan auditor that they use when hiring any individual or entity that provides services to the plan.

A quality audit will help protect the assets and the financial integrity of your employee benefit plan and help you determine whether the necessary funds will be available to pay retirement, health, and other promised benefits to your employees. The higher the quality of a plan's financial statement audit, the more reliable the information used to manage and administer the plan. A quality audit also will help you carry out your legal responsibility to file a complete and accurate annual return/report for your plan each year. As such, selection of an experienced and reliable auditor is very important.

ERISA holds plan administrators responsible for ensuring that plan financial statements are properly audited in accordance with generally accepted auditing standards (GAAS). There is a significant amount of risk to plan sponsors associated with the audits of their ERISA plans. Recent DOL studies of audit quality have identified significant deficiencies in plan audits. Accordingly, the DOL has implemented various enforcement strategies with respect to audit deficiencies. The penalties for such audit failures can be substantial. The DOL can assess penalties on *plan sponsors* of up to \$1,100 a day capped at \$50,000) per annual report filing where the required auditor's report is missing or deficient. Plan sponsors should make the selection of the plan auditor a high priority and exercise due care during every phase of the auditor selection process.

While ERISA requires plan fiduciaries to ensure that only "reasonable" compensation is paid for services when selecting an auditor, the reasonableness of fees must be analyzed in comparison with the quality of the required services to be provided. Hiring a firm that lacks knowledge of the specialized nature of the industry and skills necessary to perform plan audits conflicts with the stated goal of ERISA to protect plan participants. Only after the technical evaluation is complete and the qualified respondents have been identified should you review the prices offered by the qualified respondents.

Finding an Audit Firm

The DOL's Employee Benefits Security Administration (EBSA) has developed a booklet titled *Selecting an Auditor for Your Employee Benefit Plan* to assist plan administrators in selecting an auditor. It also provides information about reviewing the audit work and report. You can find this booklet at <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/selectinganauditorforyouremployeebenefitplan>

AICPA Employee Benefit Plan Audit Quality Center member firms show their commitment to providing quality audit services to ERISA plans by voluntarily adhering to higher standards of audit quality in their policies, procedures and training related to the performance of benefit plan audits. Those standards are the benchmark of their commitment to quality performance and client service. You can find audit firms in your area on the Center's website at <https://www.aicpa.org/interestareas/employeebenefitplanauditquality/membership/find-a-member-firm.html>.

The Request for Proposal (RFP)

General Information about the RFP

The preparation of a sound RFP is an important part of the proposal process. A quality RFP will determine the quality of the respondents and will help reduce the time and effort expended in the overall RFP and selection process. It is critical that you as a plan sponsor ask informed questions during the proposal process in order to obtain adequate information on which to base your final decision to hire an audit firm. In addition, it is important that you provide audit firms with sufficient information about the nature of the plan and the engagement to allow them to make a meaningful and comprehensive proposal that addresses your specific needs. The RFP should outline the proposal and selection process, as well as summarize the background, objectives, expectations, and requirements of the engagement to be undertaken. Therefore, the following should be remembered when preparing the RFP:

- Communicate the facts and conditions surrounding the engagement to be completed.
- State your objectives and requirements clearly and thoroughly.
- Be specific about the information needed to properly evaluate the proposal.
- Require the proposal to be presented in a common format to allow for efficient and effective evaluation and comparison.

General Information about the RFP

The introduction section of the RFP should provide a general description of the nature and scope of the engagement to be performed. It should:

- Describe why the RFP is being released. Discuss in general terms the objective to be achieved and the reason professional CPA services are being sought.
- Discuss the term of the engagement, such as the length of time the contemplated contract covers (for example, an annual or a multi-year engagement), along with renewal options.
- Provide an overview of how the RFP is structured and describe what information or supporting documents are contained in the appendixes, attachments, or the body of the RFP document.

The introduction section also should include the following **procedural information**:

- Whether there will be a pre-proposal conference for firms interested in responding to the RFP
- Name of the contact person if further information is needed to respond to the RFP
- Number of copies of the proposal that must be provided
- Due date of the proposal
- Timeline for each stage of the process, including selection of finalists, firm interviews, and award of engagement (this information is often presented in a table format for easy reference)

Administrative Matters

The RFP should provide a description of the nature of the plan and the information that will be available to plan auditors. The following information should be included in this section:

- Type of plan
- Plan year end
- Size of plan (number of participants, total assets)
- Name of the auditor's principal contact with the plan
- Name of custodian(s), recordkeeper(s), investment manager(s), and investment monitor(s), if applicable
- Name of third party administrator(s), if applicable
- Name of actuary, if applicable
- Trust arrangements (e.g., master trust investment arrangement)

- Name of the individual (or firm) who prepares the plan's financial statements, including interim financial statements, if applicable
- Name of the individual (or firm) who prepares the plan's Form 5500, and Form 990 where applicable
- Name of the individual (or firm) who prepares the Summary Annual Reports
- Size of the plan's office and the number of personnel, if applicable
- The various locations covered by the plan, and the location of personnel files and payroll information related to each location
- Locations of key company contacts assisting with the audit
- Whether SOC 1® reports are available from service organizations
- Type(s) of SOC 1 reports issued
- Date(s) when SOC 1 reports are available
- Name of party that performs SOC 1 engagement, if known
- If the plan has ERISA counsel, the names of the law firm and the attorney who provide legal services
- Information regarding the availability of prior year auditor's work papers, including where they are located, how access will be provided, and when during the process the predecessor auditor may be contacted
- Expected due dates for completion of each service to be rendered.
- Whether the proposed fee should be determined on a flat fee, flat fee plus expenses, hourly fee, or hourly fee plus expenses basis

Scope of the Engagement

The RFP should describe the services to be provided. It should describe the scope of the work and any special considerations, including a discussion of specific requirements and parameters to ensure the auditor's proposal is submitted successfully. From this information, the respondent should have a clear understanding of what should be included in the proposal, and what steps and timelines must be met for proposal consideration.

- Number of years that should be covered by the proposal
- First year covered by the proposal
- Whether the audit is a full scope audit or a limited scope audit in accordance with DOL regulation 29 CFR 2520.103-8
- Types of investments held by the plan, whether there are any hard to value investments, and the respective custodians for each investment holding
- Whether any work is performed by an internal audit function
- State that the audit must be performed in accordance with generally accepted auditing standards as well as ERISA and DOL requirements
- Whether any other services are expected of the CPA firm (such as preparation of Form 5500, Forms 940, 941, 945, 990, 1099, Summary Annual Report, or performance of payroll audits)
- Whether the financial statements and auditor's report will be part of an 11-K filing with the SEC
- Whether the CPA is expected to attend regular or special meetings with plan trustees, governance committees, or the plan administrator
- Description of any plan changes or significant issues not described above (for example, unique accounting circumstances, consolidations needed, and known areas of difficulty such as hard-to-value investments and discovery of fraud)

Proposal Content and Other Submission Requirements

The RFP should include questions that address what is important to you. Possible questions or information requests to consider include:

Firm Information

- Size, location, and history of the CPA firm
- Whether the firm is a member of the AICPA Employee Benefit Plan Audit Quality Center
- Number of employee benefit plan (EBP) clients
- Number of similar type plan audits
- States in which the firm is licensed to practice
- Firm references—especially from similar type plans—and specific contact information
- The firm's latest Peer Review Report, and the firm's response, if any (Note: This information also is available for AICPA Employee Benefit Plan Audit Quality Center member firms at <http://www.aicpa.org/ebpaqc>)
- Whether the firm is subject to any current litigation

- Whether the firm has been the subject of any DOL findings or referrals, or any AICPA or State Society Ethics referrals
- Whether the firm meets the independence standards of the AICPA and the DOL (and SEC if 11-K filing)
- The firm's working paper retention and access policies and requirements
- If the plan's financial statements will be included as part of an 11-K filing with the SEC, whether the audit firm is registered with the PCAOB
- Whether the firm has insurance coverage (errors & omissions, workers' compensation, etc.)

Personnel Information

- Managing partner of the CPA firm (control person or entity)
- Partner in charge of the CPA firm's employee benefit plan audit practice
- Partner in charge of the audit
- Expected levels of staffing and supervision
- Prior EBP experience and training of the partner in charge and in-charge of the engagement and other key firm personnel pertinent to the engagement

Engagement Information

- Audit approach
- A detailed fee schedule for each service to be rendered
- Reports to be issued
- Expected completion dates for each portion of the engagement
- Expected level of plan staff assistance to the audit firm
- Information that is expected to be provided by the plan to the CPA
- Work space requirements of the firm
- Tax or other professional services the firm is able to provide

Proposal Evaluation

The RFP document should clearly outline the proposal evaluation process. A properly defined evaluation process promotes consistency and fairness in the selection process and will reduce the time spent assessing the respondents' qualifications and experience. This section should describe:

- Elements of the proposal that will be specifically evaluated (for example, whether the firm is a member of the AICPA Employee Benefit Plan Audit Quality Center, technical experience, industry expertise)
- Methodology for scoring the proposal
- Steps involved in the selection process
- A right-to-reject clause

Appendixes and Attachments

Appendixes and attachments can be used to accompany the body of the RFP for the purpose of providing relevant information to prospective respondents. Following is a list of information that should be provided to all respondents as appendixes or attachments to the RFP:

- Copy of last audited financial statements, including the auditor's report
- Copy of last 5500 with all attachments
- Copies of interim financial statements, if applicable
- Copy of the Summary Plan Description

Proposal Evaluation and Auditor Selection

The Proposal Evaluation and Auditor Selection Process

The following information should be considered during the proposal evaluation and selection process:

- Federal law requires that an auditor engaged for an employee benefit plan audit be licensed or certified as a public accountant by a State regulatory authority. You may wish to verify with the appropriate State regulatory authority that the provider holds a valid, up-to-date license or certificate to perform auditing services.
- Auditors of employee benefit plans should not have any financial interests in the plan or the plan sponsor that would affect their ability to render an objective, unbiased opinion about the financial condition of the plan.
- One of the most common reasons for deficient accountants' reports is the failure of the auditor to perform tests in areas unique to employee benefit plan audits. The more EBP-specific continuing professional education and experience that an auditor has with employee benefit plan audits, the more familiar the auditor will be with benefit plan practices and operations, as well as the special auditing issues unique to, and rules that apply to such plans.

A properly defined evaluation process promotes consistency and fairness in the selection process. After the due date for proposal submission has passed, you can begin the technical evaluation process. The technical evaluation is important because it provides a systematic framework for selecting an auditor based on the requirements contained in the RFP. The review of the auditors' proposals and qualifications should be thorough, uniform, and well documented.

Before beginning your technical review of the document, you should check to see that the firm has addressed all items mentioned in your RFP. For those proposals that are complete and have addressed all relevant areas, you should determine a level of minimum standards for evaluating the information provided by the respondent. Using minimum standards is an effective and efficient tool to limit the number of proposals that will be reviewed. If certain respondents do not address all relevant issues or do not possess the minimum standards, you may wish to eliminate their proposals from the evaluation process.

It is recommended that you perform separate evaluations of the proposals based on technical criteria and price. While the price for the work to be performed is a factor in the selection process, the plan is likely to get a high quality audit at a fair price if both price and technical ability are taken into consideration in selecting a successful respondent. *Remember, the lowest price does not guarantee a quality audit.* As mentioned previously, only after the technical evaluation is complete and the qualified respondents have been identified, the plan sponsor should review the prices offered by the qualified respondents.

Once you have selected the finalists, you should invite each firm to present and discuss its proposal letter. An oral presentation allows for questions to be asked and answered, which promotes better understanding of the proposal. This is your opportunity to see the proposal team demonstrate insight into the employee benefit plans industry and its ability to work well with you and others involved in the audit. Should you feel you need more information or explanations from certain respondents before a decision can be made, you should contact those respondents that are contenders to obtain the necessary information (be careful during this phase of the process to not discuss or reveal proprietary information submitted by other respondents).

Documenting the Agreement

The auditor is required by professional standards to document the agreement to provide services in writing and, as such, will send you an engagement letter which documents the agreed-upon terms of the audit engagement. A signed written agreement represents a contract and is binding upon your organization and the auditor. For that reason, you should consider seeking the advice of legal counsel on the form and substance of the document when drafting the agreement. At a minimum, the written agreement should contain the following:

- Names and parties to the contract
- Audit scope, objectives, and purpose
- Audit schedule and deadlines for work to be performed
- Audit cost
- Reporting package and its format
- Type and timing of audit evidence to be provided by the auditee
- Professional standards to be followed for the audit
- Management's responsibilities

In addition, you should consider including the following items about the auditor/auditee relationship, changes in the scope and quantity of work required, and access to and ownership of audit products:

- A statement that the auditor is an independent contractor.
- A statement that the auditee has the right, by written notice, to make changes or additions to the work within the general scope of the agreement and that, in such cases, an equitable adjustment to the price of the audit will be made using specified rates.

- A description of how the auditor should handle situations in which the auditor does not agree with changes and additions in work to be performed, including how the auditor is to communicate this to the auditee. For example, disagreements should be in writing and communicated within a specified time period. A description of the dispute resolution process also should be included.
- A statement that the auditor owns its audit documentation and a specified period for which that documentation must be retained by the auditor.
- A statement that addresses access to audit documentation and copies that may need to be provided to regulatory reviewers, such as the DOL EBSA or the DOL Office of Inspector General (OIG).
- A statement that the audit reports rendered by the auditor to the entity are the exclusive property of the auditee for use subject to applicable laws and regulations.

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