

Silver Advantage **Accounting Alert**

Does My Employee Benefit Plan Require an Audit?

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October 2014 – It's always exciting when your company is quickly growing and hiring new employees. However, if you have an employee benefit plan, this increase in employees can result in your plan requiring audited financial statements.

If your employee benefit plan has 100 or more participants, it is considered a “large plan,” which requires an annual audit (performed by an independent qualified public accountant) as part of the Employee Retirement Income Security Act (ERISA), through the filing of the annual report Form 5500.

There are certain exceptions to these rules that will need to be considered.

Full Scope vs. DOL Limited Scope Audits

Employee benefit plans that require an audit can have either a full scope audit or a Department of Labor (DOL) limited scope audit. When a DOL limited scope audit is an option, the audit procedures on the investments are limited. A DOL limited scope audit can be elected if the plan assets are held by banks or insurance companies that meet certain state and federal requirements.

What to Expect During the Audit

During an employee benefit plan audit, the auditor will perform various audit procedures, such as confirming information with plan participants and testing company payroll records. It is important that the auditor has a strong background in employee benefit plan audits, as the auditor will also determine whether the plan is in compliance with government regulations and will assist the plan administrator in correcting any instances of non-compliance.

Prohibited Transactions

An auditor of an employee benefit plan is required to determine whether there have been any prohibited transactions. According to the IRS, a prohibited transaction is one between the plan and a disqualified person that is prohibited by law. The existence of prohibited transactions can result in penalties to the plan sponsor and even potential plan disqualification.

Employee Benefit Plan Audits

Plan Document

The employee benefit plan auditor will also perform audit procedures in order to ensure that the plan is in compliance with the plan documents. The plan should have a well-written document that serves as the foundation for the day-to-day operation of the plan. It is critical that the plan administrator ensures that the plan is in compliance with the requirements set forth in the plan document. If the plan isn't following its plan document, this issue needs to be identified and corrections should be made as soon as possible. The corrections can often be made in a timely and cost-efficient manner and may avoid the incurrence of penalties.

Understanding all of the requirements associated with employee benefit plans and the audit can be confusing and complex. If you need assistance or have questions regarding your employee benefit plan or audit, Michael Silver and Company CPAs can help determine the best course of action for your specific situation.

Manager Pauline Perrone, CPA, has over 25 years of public accounting and assurance services experience. She works closely with privately-held business owners and their management teams on the planning, performing, and managing of audits, reviews, and compilations, and other accounting and tax services. Pauline has also consulted with her clients on a broad variety of tax, bookkeeping, and employee benefit plan services. Her industry experience includes automobile dealerships, manufacturing, rental real estate, and professional services. Pauline has also developed and presented continuing professional education training for internal staff. **Contributing Author Ryan Lubinski, CPA**, is an Audit Senior on the Accounting and Audit team. **Contributing Editor and Partner Phil Kent, CPA**, has a broad range of experience and expertise in employee benefit plan audits.

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