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Federal report notes benefit plan audit deficiencies

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A recent U.S. Department of Labor, Employee Benefits Security Administration report, detailing deficiencies of employee-benefit plan audits, shows a need for greater communication in the accounting profession, says one New York accountant who specializes in such audits.

According to the report, more than 7,300 licensed CPAs nationwide audit more than 81,000 employee benefits plans, and 61 percent of those audits complied with proper standards. However, the remaining 39 percent of audits contained major deficiencies, which put $653 billion, and 22.5 million plan participants and beneficiaries at risk.

The report, entitled "Assessing the Quality of Employee Benefit Plan Audits," found the most deficiencies came from CPAs who audit just a few plans, with a 76 percent deficiency rate. The firms performing the most audits had a deficiency rate of 12 percent.

"There needs to be a lot of outreach from a lot of different parties," says Adam Lilling, a partner at Lilling & Company, LLP in Great Neck (Long Island). Lilling specializes in auditing employee benefit plans. His firm audits between 50 and 60 benefit plans annually.

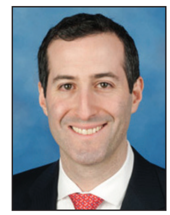
While a deficient audit doesn't necessarily mean there is something wrong with the employee-benefit plan, it can add up to a costly headache for both the auditors and the plan sponsor, Lilling says. Accountants found to perform deficient audits could potentially lose their license. Plan sponsors will be notified of a deficient audit and have 45 days to have a new audit conducted. Those who fail face a fine of up to $1,100 a day until a new audit is completed.

That's why it's important for organizations like the New York State Society of Certified Public Accountants (NYSSCPA) to reach out to members across the state to ensure they know proper procedures for these types of audits, he notes. Lilling chairs the NYSSCPA Employee Benefits Committee.

Only plan sponsors with more than 100 participants are required to have an annual audit done, Lilling says. What often happens is that the person at the business who oversees the benefit plan often reaches out to the company's accounting firm to ask for the audit. Often, that firm doesn't specialize in such audits, but agrees to do it as a courtesy to its client, Lilling says. The problems arise when those firms aren't savvy about the ins and outs of these audits and fail to meet the required standards. The process is much more complicated than a financial-statement audit, he notes, and needs to include steps such as a review of the company's census and timely remittance of plan contributions.

"If a census is wrong, the plan won't be operated the way it should," Lilling says. It's not uncommon for the census, a document that governs entry into and exit from the plan along with a listing of company employees and their information, to contain typos and other simple mistakes. A typo in the year of hire, for example, could mean that an employee might be denied entry into the plan when he/she is in fact, eligible.

To help resolve the issue of deficient audits, Lilling supports reaching out to those providers to let them know their audits are falling short and direct them to resources like the American Institute of CPAs and its Employee Benefit Plan Audit Quality Center (http://www.aicpa.org/interestareas/employeebenefitplanauditquality/Pages/EBPAQhomepage.aspx) for information. Plan sponsors can also visit the site to find a member firm qualified to conduct their plan audits.



Lilling

Along with increased outreach, Lilling also supports improved peer reviews to help spot problems, along with more education for plan sponsors on finding a qualified auditor and what the audit should include.

The U.S. Department of Labor has proposed amending the Employee Retirement Income Security Act of 1974 (ERISA) to amend the definition of "qualified public accountant" to add requirements and qualifications to ensure quality plan audits, and to repeal the current limited-scope audit exemption currently in place. The exemption means that accountants don't need to render an opinion on the plan's financial statements. Removing the exemption would most likely motivate auditors to adhere to professional standards to ensure their opinion can stand up to scrutiny.

"The high rate of audit deficiencies documented in this study are unacceptable and do not reflect the core tenets that the CPA profession holds dear: accuracy, transparency, and accountability," NYSSCPA President Scott Adair said in a news release the organization issued May 28 to respond to the Department of Labor (DOL) report. "The New York State Society of CPAs is committed to working with the DOL, the American Institute of Certified Public Accountants, and the New York State Board for Public Accountancy to develop educational and practice monitoring solutions that result in significant improvement to employee benefit plan audits." ■