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Dive Deeper Into Your Employee Benefit Plan Audit

April 24, 2018

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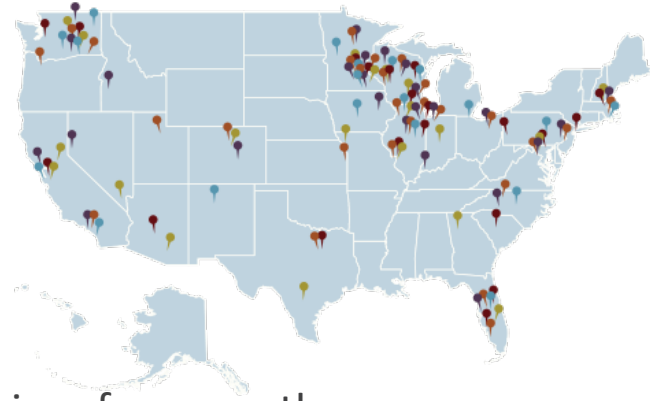
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About CliftonLarsonAllen

- A professional services firm with three distinct business lines
 - Wealth Advisory
 - Outsourcing
 - Audit, Tax, and Consulting
- More than 5,000 employees
- Offices coast to coast
- Providing employee benefit plan audit, tax compliance, and consulting services for more than 60 years.
- CLA is **a leading provider** of employee benefit plan audits in the country*



**According to 2015 data from the Department of Labor*

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Speaker Introductions

Michele Chalmers, CPA

- Principal, Employee Benefit Assurance Service Group
- EBP leader for CLA's Northeast Region
- 19 years of experience dedicated to employee benefit plans

Debi Jacobs, CPA

- Principal, Employee Benefit Assurance Service Group
- Focuses on serving CLA's Washington, D.C. Region
- 25 years of experience dedicated to employee benefit plans



At the end of this session, you will be able to:

1. Recognize the differences between plan sponsor and employee benefit plan audit reports
2. Understand how the information you provided in response to the “Client Assistance” request list is used in the audit process
3. Identify common significant accounts covered in your employee benefit plan audit
4. Discuss common internal control findings and prohibited transactions
5. Explain the reporting and communication purposes of audit deliverables, and who on your team is involved.



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Employee Benefit Plan Auditor's Reports: Full Scope versus Limited Scope

Learning Objective 1: Recognize the differences between plan sponsor and employee benefit plan audit reports

The Auditor's Report: "Full Scope" Opinions

- AICPA/PCAOB Standards – Plan Sponsor or Benefit Plan Audits
 - **Unqualified: unmodified "clean" opinion**
 - In our opinion, ***the financial statements present fairly***, in all material respects . . .
 - Qualified: modified "except for" opinion for matters material but **not** pervasive
 - In our opinion, ***except for*** the information described in the Basis for Qualified Opinion paragraph, ***the financial statements present fairly***, in all material respects . . .
 - Disclaimer: modified due to limitation on audit scope for matters material and pervasive
 - Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, ***we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.*** Accordingly, we do not express an opinion on the financial statements.
 - Adverse: modified due to material misstatements pervasive to the financial statements
 - In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion, ***the financial statements do not present fairly*** . . .



The Auditor's Report: "Limited Scope" Disclaimer

- Department of Labor (DOL) Exemption – Benefit Plan Audits
 - Audit exemption permitted under ERISA Section 103(a)(3)(c)
 - Applies **only** to Employee Benefit Plan audits performed under ERISA
 - “Qualified” institution provides investment certification
 - Bank, insurance or trust company subject to Federal or State regulation
 - Auditor disclaims opinion
 - Does not audit investment balances or activity

**Not applicable for SEC 11-K filing benefit plans:
PCAOB Standards require Full Scope audit**



DOL Limited Scope: Auditor Disclaims Opinion

- Auditor's Report Modification

- ***Basis for Disclaimer of Opinion***

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, ***the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan,*** except for comparing such information with the related information included in the financial statements. . .

- ***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, ***we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.*** Accordingly, we do not express an opinion on these financial statements.



Limited Scope Audit Considerations



*Audit Disclaimer **does not extend** to other audit areas: participant data, contributions, benefit payments, financial statement disclosures, etc.

Form 5500: Auditor's Opinions

- Form 5500, Schedule H, Page 3, Part III Accountant's Opinion, Line 3a
 - Type of opinion attached to the Form 5500 filing
 - ***Unqualified***
 - Qualified
 - ***Disclaimer***
 - Adverse
- Schedule H, Page 3, Part III Accountant's Opinion, Line 3b
 - Indicates to DOL reason for auditor's "disclaimer" report
 - Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8?
 - DOL will generally reject Form 5500 filings with modified reports
 - Qualified, adverse or disclaimer for other than limited scope audit





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Dive Into the Audit Process
Phase 1: Planning/Internal Controls
and Phase 2: Testing

Learning Objective 2: Understand how the information you provided in response to the “Client Assistance” request list is used in the audit process

Auditor's Responsibility: Employee Benefit Plans

- Plan and perform the audit to determine whether:
 - Financial statements are free from material misstatement
 - Financial statements are fairly presented in conformity with accounting principles generally accepted in the U.S.
 - Supplemental information is presented fairly, in all material respects, when considered in conjunction with the financial statements taken as a whole

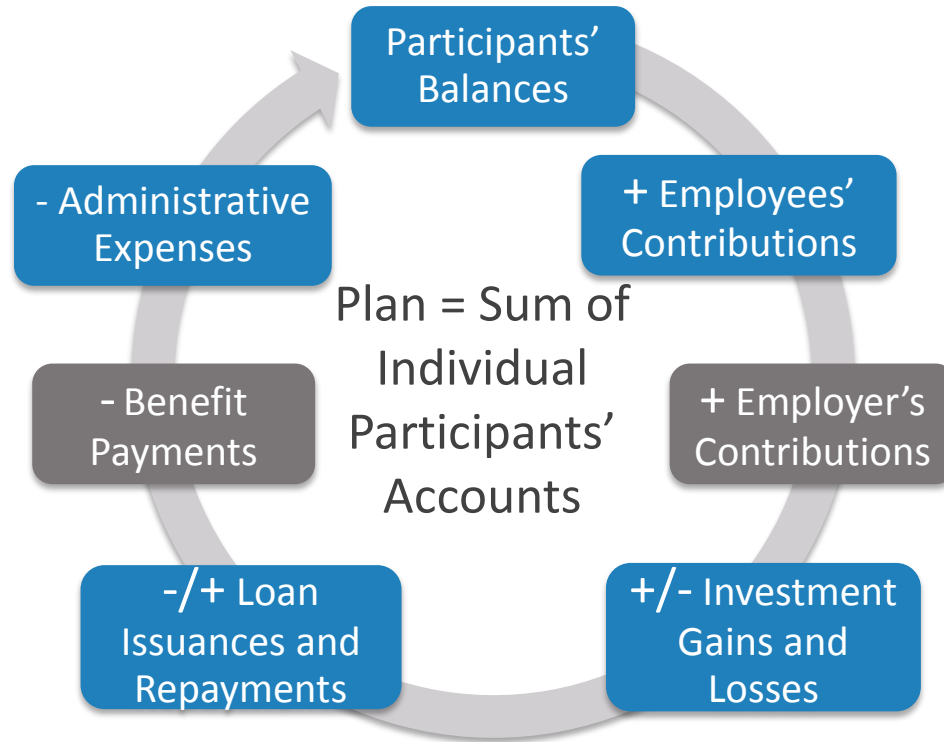


Audit Planning Phase

- Obtain an in-depth understanding of the plan
 - Plan document provisions
 - Internal control environment including key parties involved
 - Plan's processes
- Perform an assessment of the risks of “what can go wrong”
 - How financial statements could be materially misstated
- Form an audit strategy
 - Linkage between assessed risks and nature, timing and extent of planned audit procedures



Audit Planning: Defined Contribution Plan Activity

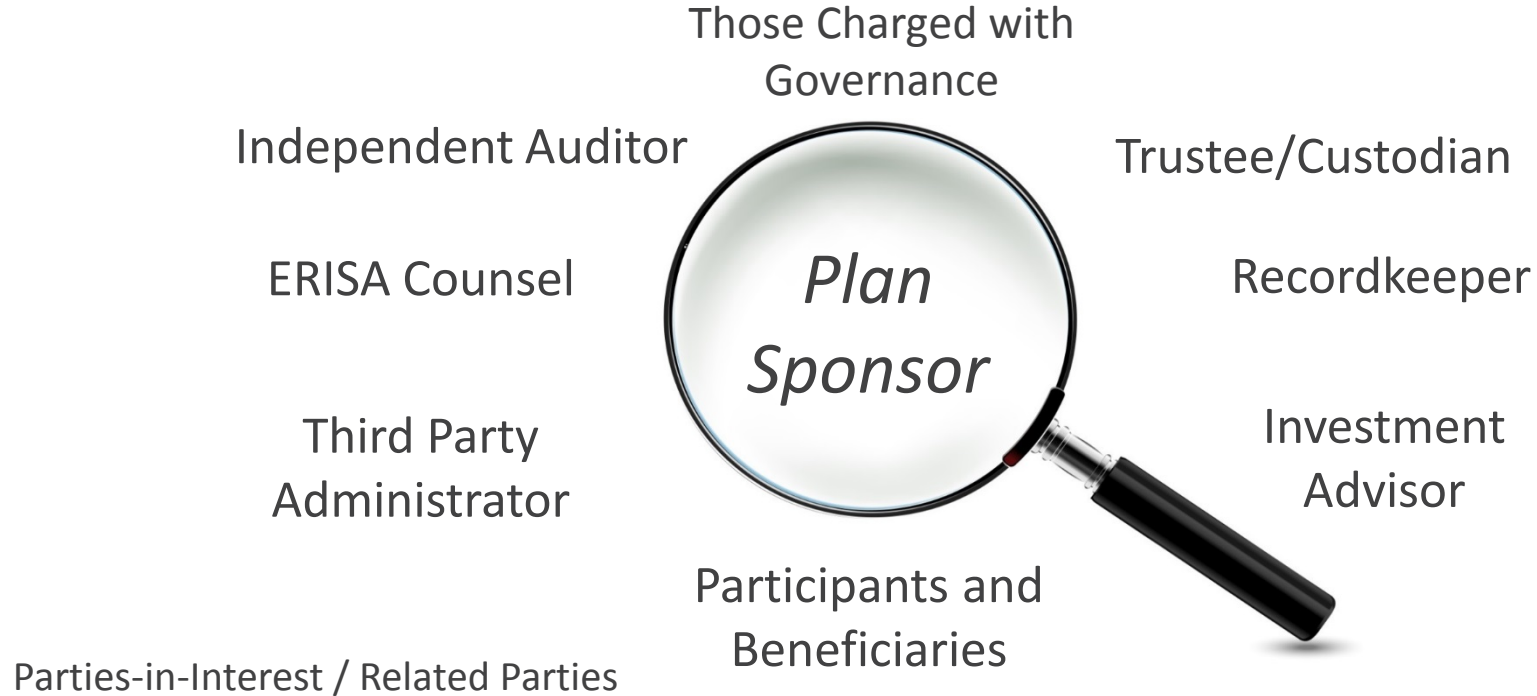


Understand Plan Provisions

- Read key provisions of the plan document and amendments
 - Definitions of key terms
 - Compensation
 - Years of service
 - Vesting
 - Eligibility – for participation, contributions and distributions
 - Contributions – types and limits
 - Benefit payments – types, timing and formulas
 - Participant loans – terms and number of loans
 - Administrative expenses – allowable plan expenses
- Develop expectation: how the plan administrator should operate the plan



Understand Key Parties



Understand Plan Activity and Events

- Hold planning inquiries with management
 - Changes in plan provisions due to document amendment or restatement?
 - Changes in plan administration or operation?
 - Change of recordkeeper or third party administrator?
 - Change in investment custodian, investment advisor or other providers?
 - Internal systems changes (e.g., payroll, HRIS, IT)?
 - Fraud or error(s) identified by management or others?
 - Plan Sponsor events that impact the benefit plan?
 - Initial audit, merged plan, spinoffs/carve outs or final audit?
- Evaluate results for impact to the employee benefit plan audit
- Perform planning analytics



Understand the Internal Control Environment

The plan's internal control environment includes. . .



- Plan's trust/recordkeeping statements = General ledger/records for the plan
- Vendor environment becomes part of the plan's internal control environment

Understand Plan Processes and Operations

- Flow of transactions, including "who does what"
 - Not all functions are performed by third party service providers
 - Consider whether plan sponsor controls or initiates process (e.g., eligibility, plan entry, vesting calculation, benefit payment and loan approval)
 - Understand interfaces between service provider and plan sponsor (e.g., deferral % changes, investment elections, loan repayments)
- Plan Sponsor's systems relevant to the employee benefit plan
 - IT applications or other means such as manually prepared information
 - Employee Personnel Files: HRIS/intranet interface (electronic) or hardcopy
 - Compensation: payroll registers and time reporting/timecard system



Determine Audit Testing Strategy

- Prepare overall risk assessment based on . . .
 - Consideration of inherent risk and control risk
 - Plan Sponsor and plan level assessment
 - Evaluation of service provider SOC 1 reports
 - Consideration of risk of material misstatement due to error or fraud
- Determine the nature, timing and extent of audit procedures
- Develop planned audit procedures in response to risk assessment and regulatory requirements

Testing strategy varies by plan, based on each plan's processes



Audit Fieldwork and Testing: Significant Accounts

- Participant Data (Eligibility, Entry, Allocations)
- Contributions
- Benefit Payments (Distributions)
- Participant Loans
- Investments and Investment Income (Full Scope)
- Administrative Expenses (If Material)
- Liabilities and Plan Obligations
- Other Audit Considerations:
 - Related Parties/Parties-in-Interest
 - Compliance Testing and Income Tax Status
 - Form 5500 Reporting



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**What Can Go Wrong?
Common Internal Control Findings and
Prohibited Transactions**

Learning Objective 4: Discuss common internal control findings and prohibited transactions

Common Compliance Issues Auditors Find

- Eligibility issues
- Auto enrollment issues
- Plan's definition of eligible compensation not used to calculate contributions
- Oversights in calculating employee contributions
- Profit sharing and match contribution errors
- Forfeiture Issues
- Hardship distribution rules not followed
- Plan's loan provisions not followed
- Vesting calculation errors
- Mishandling employee requests
- Nondiscrimination testing not performed or not corrected



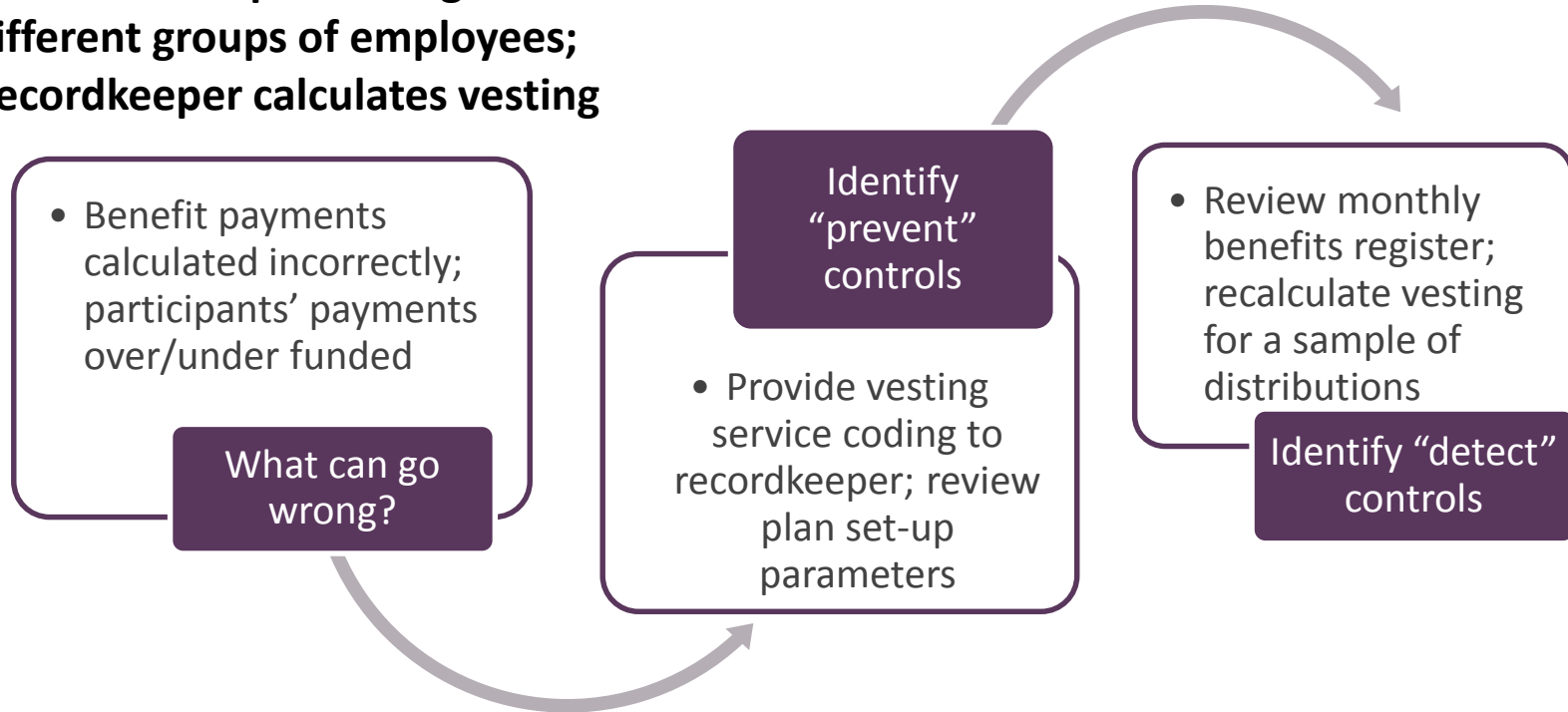
Common Prohibited Transaction

- Untimely submission of payroll deposits
 - Participant salary deferral contributions
 - Participant loan payments
- What is timely?
 - Large Plan: “As soon as the amounts withheld from payroll can reasonably be segregated from the company’s general assets”
 - Small Plan DOL Safe Harbor: No later than the 7th business day following the date the employees would have received the contributions (pay day)
- What is the problem?
 - A prohibited transaction
 - Employer has use of the funds; constitutes a loan to employer
 - Market timing issues; potential lost market earnings



Adopt a “What Can Go Wrong?” Mindset

**Plan has multiple vesting formulas for different groups of employees;
Recordkeeper calculates vesting**





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Phase 3: Wrapping up the Audit Roles of the Audit Firm, Management and Governance

Learning Objective 5: Explain the reporting and communication purposes of audit deliverables, and who on your team is involved.

Audit Deliverables: Financial Reporting

- Financial Statements (Form 5500 Filing to DOL)
 - Auditor's Responsibility: Auditor's Report
 - Expressing an opinion
 - Management's Responsibility: Financial statements
 - Preparation and fair presentation of financial statements
 - Includes disclosures and supplemental schedules
 - Auditor drafts financial statements as a “nonaudit” service
 - Management individual(s) with suitable skills, knowledge and experience required to review, approve and accept responsibility
 - Maintains auditor independence
 - AICPA/DOL only; ***not applicable for*** SEC/PCAOB



Audit Deliverables: Management Representation

- Auditor is responsible to obtain written representation
- Management is responsible to provide written representation
 - Confirmation concerning representations made by management and staff to auditors during the audit
 - Supports other audit evidence relevant to the financial statements
- Provided by management or those charged with governance individual(s) with specialized knowledge to take responsibility
 - Preparation and fair presentation of the financial statements
 - Includes disclosures and required supplemental schedules
 - Completeness and accuracy of information provided to the auditor



Audit Deliverables: Required Communications

- Internal Control Communications (internal use)
 - Formal written audit communication to management and governance
 - Significant deficiency or material weakness
 - Verbal or written audit communication
 - Other deficiencies of sufficient importance to merit management's attention
- Communications to Those Charged with Governance (internal use)
 - Verbal or written audit communication to plan governance
 - e.g., Board of Directors, Audit Committee, Retirement Plan Committee, Management, Named Fiduciary, Plan Administrator
 - Planning Communication
 - Scope and timing of audit; governance, management and audit firm responsibilities
 - Audit Conclusion: Significant findings or issues from the audit



Resources

- Visit CLA's Employee Benefit Plan homepage for updates and future events:
<https://www.claconnect.com/industries/employee-benefit-plans>
- AICPA Employee Benefit Plan Audit Quality Center Plan (EBPAQC) homepage
<https://www.aicpa.org/interestareas/employeebenefitplanauditquality.html>
- DOL Plan Information
<https://www.dol.gov/general/topic/retirement/planinformation>
- IRS Information for Retirement Plans
<https://www.irs.gov/retirement-plans>





Questions?

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