



# How Strong Internal Controls Can Mitigate Risk

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  - Outsourcing
  - Audit, Tax, and Consulting
- 3,600 employees
- Offices coast to coast
- Providing employee benefit plan audit, tax compliance, and consulting services for more than 40 years.
- Our 30 partners and 300 professionals audit more than 2,000 plans across the country and provide compliance and consulting services for hundreds more.



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# Speaker Introductions



- **Rebecca Kehr, CPA**  
Manager, CliftonLarsonAllen



- **Mary Spanier, CPA**  
Engagement Director, CliftonLarsonAllen

# Objectives

- Understand the importance of internal control and why it is important for your plan
- Understand plan sponsor's responsibilities when using third parties
- Understand policies and procedures to help mitigate risk and keep plans in compliance



# What are plan internal controls?

Processes and procedures for assuring achievement of an organization's objectives for their plan in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies



# What risks exist? Why do I need controls?

- Fraud risk
- Compliance risk
- Fiduciary risk
- Financial risk



# Fraud Risk

- Employer/plan sponsor
- Third party service provider





# Compliance Risk

- Plan document and amendments
- Plan operations
- Required filings and participant notices



# Fiduciary Risk

- Acting in interest of participants
- Carrying out duties prudently
- Following plan documents
- Diversifying plan investments
- Paying reasonable plan expenses
- Monitoring service providers



# Financial Risk

- Incomplete and/or delinquent filing penalty
- Lack of document execution penalty
- Qualified non elective contributions for plan corrections
- Improper distributions
- Unreasonable expenses
- Underperforming investments
- Correction program fees
- Professional fees



# Employee Benefit Security Administration (EBSA) Investigations

## EBSA investigation results for 2014

Criminal Investigations Closed	Criminal Investigations Closed with Guilty Pleas or Convictions	Number of Individuals Indicted
365	85	106

- Individuals indicted included plan officials, corporate officers and service providers
- EBSA recovered \$599.7 million in fiscal year 2014





## Warning Signs

- Contributions at trust appear unreasonable
- Participants experience difficulties obtaining benefits
- Distribution vesting does not appear proper
- Unexplained variations in expenses charged
- Unusual one-time transactions





## Warning Signs

- Unapproved investments on custodial statement
- Unusual fluctuations in income
- Participant statements arrive late or are inaccurate
- Participant complaints
- Change in lifestyle



# Plan Sponsor Responsibility when using Third Party Service Providers

- Plan sponsors are ultimately still responsible for plan operations, even in fully integrated and outsourced environments.
- Selection Process
  - Consider quality and reputation of provider
  - Consider quality and type of services provided
  - Consider reasonableness of direct and indirect fees based on qualitative and quantitative services provided



# Plan Sponsor Responsibility when using Third Party Service Providers

- Monitoring
  - Timely review and reconciliation of reporting provided by service providers
  - Review implementation of changes in document
  - Review of SOC 1 reports and user controls
- Decrease fiduciary risk
  - Corporate trustee versus individual trustee
  - 3(38) versus 3(21) fiduciary







# Case Studies

# Case Studies - Eligibility

New hire offered a job but does not accept. Human resources adds to system and starts issuing checks.

## Controls to Mitigate:

- Segregation of duties between HR and payroll
- Review of payroll reporting



# Case Studies - Eligibility

Employee receives matching contribution before eligible.

## Controls to Mitigate:

- Spot check matching contribution calculation, including verifying eligibility in compliance with plan document



# Case Studies - Contributions

Payroll clerk modifies the spreadsheet uploaded from payroll to the recordkeeper to reallocate additional dollars to their account

## Controls to Mitigate:

- Segregation of duties between HR and payroll
- Review of payroll reporting
- Review of recordkeeping allocation of contributions and reconciliation back to payroll



# Case Studies - Contributions

Payroll contributions withheld from employee paychecks are not remitted timely to the plan.

## Controls to Mitigate:

- Review for deposit date in trust statement
- Review bank reconciliation to payroll register



# Case Studies - Distributions

Distributions approved by same person responsible for reporting terminated employees to the service provider.

## Controls to Mitigate:

- Segregation of duties between HR and payroll
- Review of distribution listing



## Case Studies - Distributions

The Plan Rep at the service provider processes an in-service distribution from a participant's account without that participant's consent or knowledge, and has the money paid to them personally.

### Controls to Mitigate:

- Review of distribution listings throughout the year
- Follow up with employee's who reflect distributions to confirm amount was received



# Case Studies - Expenses

Payroll clerk submitted fake invoices and authorizations for payment of expenses to fictitious vendors.

## Controls to Mitigate:

- Review expenses paid from plan on quarterly basis
- Review the service agreements in place; know all parties involved and the types of fees that are paid to these vendors





# Case Studies - Expenses

Third party service provider changes the fee structure and continues to collect fees under both the new and old structure.

## Controls to Mitigate:

- Request and review fee invoices
- Recalculate fees based on terms of service agreement and compare to actual
- Review plan reporting for unusual disbursements (expenses paid from forfeitures/charged to participants)



# Controls to Mitigate Risk

- Segregation of duties (HR/Payroll/Accounting)
- Review and reconcile reports from third parties
  - To payroll
  - Custodial statement to recordkeeping system
- Spot check and recalculate payroll activity
- Review distribution activity and vesting calculations



# Controls to Mitigate Risk

- Review and recalculate expenses
- Monitor access rights
  - Payroll
  - Recordkeeper
- Training for employees
- Maintain documentation and minutes of review



**DOCUMENT**

**DOCUMENT**

**DOCUMENT**



# Resources

American Institute of Certified Public Accountants (AICPA) Employee Benefit Plan Audit Quality Center: “Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions”

<http://www.aicpa.org/INTERESTAREAS/EMPLOYEEBENEFITPLANAUDITQUALITY/RESOURCES/PLANSPONSORRESOURCECENTER/Pages/default.aspx>



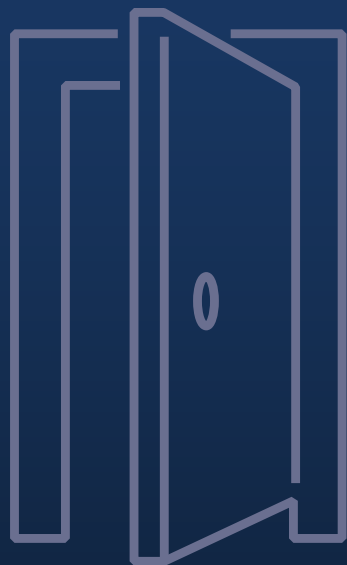
# Resources

Department of Labor:

“Meeting Your Fiduciary Responsibilities”

<http://www.dol.gov/ebsa/publications/fiduciaryresponsibility.html>





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