Employer Connect | Understanding Plan Audits

MAKING IT ACTIONABLE

While we hope you never have had to experience it, you're no doubt familiar with the idea of an audit of your personal or corporate tax return. But you may not be familiar with an audit of your qualified retirement plan. There are two broad categories of retirement plan audits.

We'll focus quickly on two groups of plans that the Department of Labor requires to have financial statement audits by an independent qualified public accountant, or CPA.

These two DOL audit categories are:

1. Audits based on the plan's participant count
2. Audits required because the plan holds non-qualifying assets

PARTICIPANT COUNT AUDITS

In the case of participant count, the general rule is a participant count of 100 or more as of the beginning of the plan year will trigger an audit. Here's how it actually works:

Eligible Participants	The Rule
121 or more	Audit automatically required
80 to 120	Must engage an auditor if you did so in the prior year

We can help you navigate the 80/120 rule based on your annual IRS Form 5500 filing information.

WHO IS AN ELIGIBLE PARTICIPANT?

For purposes of the 100 participant rule, a participant is defined as any:

- Current employee who is ***eligible*** to participate in the plan (even if not participating)
- Any former employee who still has assets in the plan

In order to be considered an eligible participant, an individual does ***not*** have to contribute or receive employer contributions, nor does the employee have to have any activity in the plan in order to be included in the beginning of the plan year count.

It is important to reiterate that a plan's eligible participant count can include former employees who still have an account balance. This reality, plus the annual plan cost of carrying former employees, might encourage you to force out former employees with small balances.

NON-QUALIFYING ASSET AUDITS

The Department of Labor also requires small plans which have less than 95% of their assets in "qualifying assets" to either:

- Obtain an audit
- Adequately cover those assets with an ERISA fidelity bond

A qualifying plan asset is generally one that is easily transacted on a public exchange, like the New York Stock Exchange or NASDAQ or that can be typically purchased from a bank or life insurance company or other regulated entity. Non-qualifying plan assets are assets whose value is not easily determined. Consider these examples:

Plan Asset Examples	Qualifying Asset?
New York Stock Exchange traded stock	Yes
NASDAQ traded stock	Yes
Bank Bond	Yes
Life Insurance Asset	Yes
Real Estate Investments	No
Collections (Coins, fine art, etc.)	No
Private Business	No

If your plan has more than 5% of its net assets invested in non-qualifying investments, you can avoid an automatic financial statement audit by purchasing an ERISA fidelity bond to cover the value of these assets.

Remember, the audits we're describing here are financial statement audits performed by CPAs, not employee benefit plan audits conducted by the DOL or IRS.

ACTION TO TAKE NOW

In any case, it's always wise to establish and maintain a prudent, professional, documented process to manage your retirement plan – and to follow it.

If you have questions about financial statement plan audits or want to learn more about how these rules affect the operation of your plan, please give us a call. We're here to help.