

**2019 Advisory Council on Employee Welfare and Pension Benefit Plans**  
**Beyond Plan Audit Compliance: Improving the Financial Statement Audit**  
**Process**

**Written Testimony**

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Good morning, Chairman Reddy, Vice Chair Kritz, Issue Chair Greenfield, Issue Vice-Chair O'Connor, members of the Issue Group Drafting Team, Members of the ERISA Advisory Council, Executive Secretary Good, staff to the ERISA Advisory Council, attending members of the public, and representatives from the press. My name is Nevin Adams and I currently serve as Chief Content Officer for the American Retirement Association (ARA). I was also one of the chief co-authors of the curriculum and course design for our new plan sponsor education credential, the Certified Plan Sponsor Professional (CPSP). The CPSP program, and its scope arose in discussions following testimony from ARA Chief Government Affairs Officer Will Hansen several weeks ago, and I am here today to share some additional information about that program.

ARA is an organization of more than 25,000 members and five premier retirement industry associations. ARA members are a diverse group of retirement plan professionals of all disciplines, including business owners, actuaries, consultants, administrators, insurance professionals, financial advisors, accountants, attorneys, and human resource managers. ARA is the coordinating entity for its five underlying affiliate organizations, the American Society of Pension Professionals and Actuaries ("ASPPA"), the National Association of Plan Advisors ("NAPA"), the National Tax-deferred Savings Association ("NTSA"), the ASPPA College of Pension Actuaries ("ACOPA"), and the Plan Sponsor Council of America ("PSCA"). While ARA members come from all corners of the country, representing every part of the industry, they are united in a common belief in, and commitment to, the private pension system.

I've had the opportunity to meet with thousands of plan sponsors in a variety of roles over the years, and as different as they, and the workers and organizations they served were, they all had one thing in common - they found themselves with the duties of a plan sponsor with little or no training to equip them for that responsibility.

Indeed, there's more than a bit of irony that individuals who find themselves in a job with personal liability for their actions (and the actions of their co-fiduciaries) alongside an expectation of prudence that courts have described as the "highest known to man" have often had little in the way of practical, retirement plan administration focused training.

Little wonder that the need for a modern, comprehensive, readily accessible program that could educate, fill in knowledge gaps, affirm existing knowledge, and provide a public attestation of such had been a key point of discussion during combination discussions with PSCA, and a gap that we hoped to fill with the combined expertise and innovative educational resources developed by ARA, following a long

tradition of developing, distributing, and administering professional education programs for retirement plan professionals.

Consequently, in mid-2018, ARA, along with several members and the leadership of PSCA began the development of a new education credential for retirement plan sponsors. Over the next 11 months, we brought together a team of plan sponsors to identify the key areas of expertise expected of an individual with approximately two -ten years of experience in a plan sponsor role. That long list of items was condensed into nine key areas of focus that remain the organizational focus of the credential, and those various areas were further weighted by our panel of subject matter experts (SMEs), based on their perceived criticality to the position.

Those nine key areas are:

- Considerations for Retirement Plan Design
- The Most Popular Defined Contribution Plan: The 401(k)
- Beyond the 401(k) (Other Types of Employer-Sponsored Retirement Plans)
- Plan Fiduciary Obligations & Risk Management
- Investment Concepts
- Behavioral Finance & Employee Engagement
- Vendor Management and Selection
- Plan Operations
- Plan Audits and Compliance

With the support of five key education partners - Ascensus, Franklin Templeton, Oppenheimer Funds (now replaced by Nuveen), PIMCO, & Wilmington Trust – and with our outline in place we engaged teams of industry experts to flesh out those concepts into scripts, further refined and edited those scripts into three courses (Choosing Your Plan, Building Your Plan, & Running Your Plan), comprised of the nine modules outlined above.

I want to emphasize that our goal was to develop a program that was not only rigorous in its content, but practical in its context. The bottom line is that we wanted a program that was not just “book learning” but covered critical material in a manner that would speak not only to the essence of what plan sponsors need to know, but what they need to know how to do. That practical focus is embodied in the organization of our nine immersive modules – how to choose, build, and run/operate a retirement plan.

Working hand-in-hand with the team of instructional designers at the American Retirement Association, an advisory council comprised of both plan sponsors and representatives from our five education partners, as well as ARA subject matter experts, we leveraged the latest in online education technology and adult learning methods to develop the online courses.

Qualified plan sponsor candidates are free to take just the education program, but we encourage all participants to take the certification exam to demonstrate their mastery of the subject matter.

The screenshot shows a web-based quiz interface for the Plan Sponsor Council of America (PSCA). The top left corner features the PSCA logo and the text 'Plan Sponsor Council of America' and 'Part of the American Retirement Association'. Below the logo are navigation tabs for 'Menu', 'Narration', and 'Resources'. The main title of the quiz is 'Check Your Understanding'. On the left side, there is a sidebar with instructions: 'Click the question me icon to check your understanding. Click next to continue.' The main content area contains a question: 'Generally, federal law requires employee benefit plans with \_\_\_\_\_ or more participants to submit to an annual plan audit'. Below the question, there are four radio button options: 50, 150, 100, and 200. At the bottom of the question area, there is a 'Submit' button and a 'Close Window' button. Below the question area, there is a 'Question Me' icon (a stick figure with a question mark) and a star icon, with the text 'Click the "Question Me" icon below to check your understanding.' The bottom of the interface includes a progress bar and navigation buttons for 'PREV' and 'NEXT'.

The course is modular, allowing individuals to move through the materials at their own pace, to skip over sections in which they have a mastery, to spend additional time and even repeat sections with which they lack familiarity. Learning objectives for each module are presented, and “knowledge checks” accompany significant course milestones. While the course is self-paced, it represents more than 40 hours of online education.

On April 2, 2019 we launched the program, in conjunction with a “boot camp” that accompanied the 2019 PSCA National Conference. The program is currently being distributed through the PSCA membership, in conjunction with our education partners, and via limited licensing agreements with some 4,000 retirement plan advisors who have attained the NAPA Certified Plan Fiduciary Advisor credential (the CPSP credential itself is limited to those who have at least two years’ experience as plan sponsors). The program and exam are available to plan sponsors at no cost through one of the distribution channels listed above, though there is a credential maintenance fee, and an annual continuing education requirement.

Let me emphasize that decades of experience with plan sponsors has affirmed our belief that to maximize the impact of this program, it needed to be designed not only to be readily accessible and modular, but available at no cost to plan sponsors. That was a commitment we were able to support not only with the commitment of ARA and PSCA resources, but the generous support of our education partners.

## The Issue of Audits

As you would expect the issues of compliance and audits loom large for plan sponsors, and we devote one of the most substantive CPSP modules to that focus. While the majority of the content is focused on successful compliance, and on the various corrective remedies available, both the audit requirements and process are covered.

A critical aspect of that process is, of course, the selection of the auditor. We deal with that selection alongside other potential plan service providers in “Vendor Management and Selection.” We also emphasize that the selection of that auditor, as with any service provider to the plan, must be done prudently, and in the best interests of plan participants and beneficiaries.

### **Plan auditor**

*The plan auditor is tasked with conducting the ERISA-mandated plan audit. Historically the auditor’s role was validating the integrity of the plan’s financials records. More recently, however, an auditor’s role has expanded to including examining operational compliance and even IT data security, if specifically outlined in the service agreement.*

*Generally, Federal law requires employee benefit plans with 100 or more participants to have an audit as part of their obligation to file an annual return/report (Form 5500 Series), and the Labor Department notes<sup>1</sup> that if your plan is required to have an audit, “one of the most important duties of the plan administrator is to hire an independent qualified public accountant”.*

Note that in the course itself, in addition to the narration, at appropriate points we also provide access to applicable external resources, including “Selecting an Auditor for Your Employee Benefit Plan”.

The screenshot shows a web page from the Plan Sponsor Council of America (PSCA). The page title is "Audit Report Mistakes". On the left, there is a navigation menu with "Menu", "Narration", and "Resources". Below the menu, it says "Here are some useful links and documents:" and lists several links: "Key Plan Notices Schedule", "RS - Retirement Plan Reporting and Disclosure...", "DOL Audit Report - Assessing The Quality of E...", "RS 401(k) Plan Fix it Guide", and "VECP/DFVP - Additional Information". The main content area features a blue header with the title "Audit Report Mistakes" and a background image of a hand holding a document with a pie chart. A blue text box on the right states: "Nearly 1-in-5 audit reports failed to comply with ERISA's reporting and disclosure requirements." Below this, a section titled "Some of the basic missing items included:" lists several items with checkboxes: "Not attaching the supplement schedule(s) required.", "Incomplete or missing footnotes to the plan's financial statements.", "The IQPA did not manually sign the report.", and "Failure to report delinquent".

<sup>1</sup> <https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/selecting-an-auditor-for-your-employee-benefit-plan.pdf>

All that said, and as important as the audit can be, it's just one element of a plan sponsor's focus. What makes for a successful audit is fulfilling one's obligations as a plan sponsor and plan fiduciary. That's the essence of the CPSP curriculum program – to help plan sponsors better understand and fulfill those responsibilities.

Shifting gears for a minute, in anticipation of this testimony, while a plan audit – and plan auditor selection – is not generally considered a central part of the plan services on which advisors are typically focused, we reached out to members of the National Association of Plan Advisors (NAPA) to gain their perspective on the auditor selection process. Please bear in mind that there is nothing “scientific” or “statistically significant” about these results, though the results – and particularly some of the respondent comments – may be informative.

Following the conclusion and reporting of the advisor survey, we were requested to conduct a similar poll of PSCA members with a focus on many of the same questions, and some additional areas of inquiry provided by the Council. ***PLEASE NOTE: As a note of caution in interpolating the results, please note that not only were these conducted at different times, they do not reflect views on the same set of plan sponsor practices.***

A summary of the results of both of these “quick polls” is provided as an appendix to this testimony.

**PSCA**  
Plan Sponsor Council of America  
Part of the American Retirement Association

Menu Narration Resources

## Annual Plan Audit

A recent study showed that 39 percent of plan audits were not done correctly. Here is a list of common items to look out for: inadequate footnote disclosures, inappropriate presentation of financial information on financial statements, lack of ASC 820 Fair Value Measurement disclosures, report not modified for lack of ERISA schedules, opinion does not extend to all financial statements and/or years presented, and failure to refer to supplemental information (e.g., ERISA required schedules).

### 39% of the audits contained major deficiencies.

#### What to look out for:

- Inadequate footnote disclosures.
- Inappropriate presentation of financial information on financial statements.
- Lack of ASC 820 Fair Value Measurement disclosures.
- Report not modified for lack of ERISA schedules.
- Opinion does not extend to all financial statements and/or years presented.
- Failure to refer to supplemental information (i.e. ERISA required schedules).

◀ PREV NEXT ▶

## **Conclusion**

It's said that a "picture is worth a thousand words", and while I have incorporated a few illustrative screen shots in this testimony, these are merely a two-dimensional representation of an immersive, interactive, program design that covers a wide range of critical plan sponsor responsibilities and options.

Following his testimony earlier this year, my colleague Will Hansen provided members of the Council access to the curriculum. We'd be happy to continue to receive any feedback you may have on the program and appreciate the opportunity to discuss it with the members of the ERISA Advisory Council.

In developing and distributing this readily accessible and robust curriculum broadly within the plan sponsor community, we hope to both educate and raise awareness of the key roles and responsibilities placed on those who oversee the nation's private retirement system. The dedicated professionals who do extraordinary work every day in support of millions of workers' successful retirements often do so without the requisite education or affirmation of that responsibility by the leaders of their organizations. They deserve both.

Thank you for your time, attention and interest in our program.

## Appendix: Marketplace Perceptions

Shifting gears for a minute, in anticipation of this testimony, while a plan audit – and plan auditor selection – is not generally considered a central part of the plan services on which advisors are typically focused, we reached out to members of the National Association of Plan Advisors (NAPA) to gain their perspective on the auditor selection process. Please bear in mind that there is nothing “scientific” or “statistically significant” about these results.

Over the course of a week we received 110 responses. Among those, a plurality had been “involved” with a plan audit, though only 37% directly and, at least in some cases, only from the perspective of helping round up information – with 29% indicating that they had been involved, but not directly. As for being involved in selecting that auditor, just under four-in-ten (39%) had.

We asked those who were not involved with the process of selecting the auditor about the decision-maker and – not surprisingly, nearly 70% said it was the plan sponsor. “Although we conduct the due-diligence, and may make recommendations, final decision lies with the Plan Sponsor,” noted one.

Roughly 8% said those decision-makers used the organization’s standard auditor – “When we’re not involved, they usually pick their accounting firm to do it” – and half that many said it was the third-party administrator (TPA). The rest – perhaps because they weren’t involved – said they weren’t sure.

We asked respondents what criteria they *thought* plan sponsors looked for in an auditor for the plan statements, and they said (more than one response was allowed):

- 91% - Price/cost
- 78% - Experience
- 47% - References
- 43% - Other work they do with the organization
- 21% - Labor Department criteria

Asked to narrow that down to a single, primary criteria:

- 53% - Price/cost
- 23% - Experience
- 17% - Other work they do with the organization
- 5% - Labor Department criteria
- 2% - References

We also asked respondents: “Did you know that the Labor Department has a guide titled, “Selecting an Auditor for Your Employee Benefit Plan”? A clear plurality (48%) did not, and another 15% said they did remember a publication, though not that specific one. And of course, the remaining 37% did not.

We provided the opportunity for respondents to provide (anonymous) comments throughout the survey. I have found that, while anecdotal, those comments can add valuable context for the survey responses, and am happy to share those with the Council upon request (many of them are available online at <https://www.napa-net.org/news-info/daily-news/reader-poll-should-you-be-more-involved-plan-audit-auditor-selection>).

## Plan Sponsor Perspectives

Following the conclusion and reporting of the advisor survey, we were requested to conduct a similar poll of PSCA members with a focus on many of the same questions, and some additional areas of inquiry provided by the Council. We did so, and over a two-week period we received 92 responses, representing a wide range of plan size perspectives.

A word of caution in interpreting the results – based on other comments it is possible that that some responses were reflective of their experience with plan audits generally, not financial statement audits specifically.

**Table 1: Respondents by Number of Plan Participants**

	Number of Plan Participants					
	1-49	50-199	200-999	1,000-5,000	5,000+	All Plans
Number of Plans	1	19	21	22	29	92
Percentage of Plans	1.1%	20.7%	22.8%	23.9%	31.5%	100.0%

*Note: Due to sample size, the 1-49 and 50-199 categories have been combined for the remainder of the results.*

**Table 2: Approximate Plan Asset Size of Respondents**

Total Assets	Number of Plans	Percentage of Plans
Less than \$10 million	7	7.6%
\$10-50 million	24	26.1%
\$50-100 million	6	6.5%
\$100-250 million	21	22.8%
\$250 million - \$1 billion	14	15.2%
\$1 billion or more	20	21.7%
Total	92	100.1%

Nearly all had been involved in a plan audit in the past two years. The findings, while preliminary, are somewhat at odds with the feedback received from advisors. More than a third (36.9%) had used an RFP to make that auditor selection, and more than half (53.6%) of the largest programs had done so.

With regard to the primary consideration in selecting an auditor, 39.5% did so based on experience, and 35.5% did so based on other work the auditing firm did with their organization. Only 17% listed price/cost as a primary consideration, although nearly a third (31.3%) of the smallest plans did so.

However, even in that segment, experience was the most-cited primary consideration (37.5%). Among the largest programs more than half (56%) cited experience, more than twice the next-cited criteria (24% - other work for the organization).

Only about a third (36.4%) were aware of the DOL Guide About Selecting an Auditor, a finding that was consistent across all plan sizes.

The Council had requested that we elicit perspectives on the helpfulness of additional communication and outreach, as well as additional tools to improve audit effectiveness.

**Table 8: Helpfulness of Additional DOL Communication and Outreach Efforts Regarding Audits**

Communication Method	Not Helpful	Somewhat Helpful	Very Helpful
DOL Representative at Industry Events	22.6%	40.5%	36.9%
E-mails	17.2%	46.0%	36.8%
Webinars/Webcasts	9.3%	38.4%	52.3%
Website	10.7%	48.8%	40.5%

The availability of webinars/webcasts and information available online were seen as most helpful – doubtless a reflection of plan sponsors’ time and budget constraints.

**Table 9: Helpfulness of Additional Tools to Improve Audit Effectiveness**

Tools	Not Helpful	Somewhat Helpful	Very Helpful
Reissue new and improved DOL Brochure on audits.	10.6%	47.1%	42.4%
<b>Publish list of the most common audit deficiencies.</b>	<b>1.2%</b>	<b>29.1%</b>	<b>69.8%</b>
Publish statistics on how many plans each firm audits.	17.9%	52.4%	29.8%
Establish a way to search for specific auditors and extract information about auditors on eFAST.	22.6%	57.1%	20.2%

Note that far and away the tool deemed most helpful was to “publish a list of the most common audit deficiencies” – more than two-thirds said that would be “very helpful”, and the remaining third noted it would be “somewhat helpful.”