



Monday, June 17, 2019

SPARK VIEWS ON PLAN AUDITS

REQUEST FROM ERISA ADVISORY COUNCIL

1. The Employee Benefits Security Administration (the “Department”) has asked the Council to review the audit process of employee benefit plans required under section 103 of ERISA and to examine ways to enhance the safety of the plan’s assets, the effectiveness of the plan, the efficiency of the plan’s operations, and the plan’s compliance with ERISA, the Internal Revenue Code, and other applicable laws.
2. The Council intends to focus on how to increase the knowledge and understanding of the plan administrators through the effective use of financial statement audit services and on improving the procedures that such plan administrators implement in selecting an auditor, preparing for the audit, communicating with the auditor before, during, and after the audit, and adopting changes in the plan’s documentation, operations, policies, or procedures based on the results of the audit.
3. In its request to the Council, the Department raised concerns about the “commoditization” of plan financial statement audits and that plan administrators were not effectively using the audit process to re-examine their plan and take advantage of it to improve routine operational issues, such as the plan’s documentation, operations, policies, or procedures that could arise from a robust audit engagement.

SPARK INSTITUTE FINDINGS

The SPARK Institute conducted several interviews with major record keeper members and found the following:

- The commonly shared Plan Sponsor perspective of Plan Audits is that it is a regulatory requirement. Most plan sponsors look to see that their auditor gave their plan an Unqualified Opinion and if so, move on. Qualified Opinions do typically get addressed.
- The plan sponsor is directly responsible for hiring the plan auditor. In rare cases a record keeper might be asked to suggest an auditor and will then typically provide a list of known auditors for the plan sponsor to review.
- **Plan Audits vs. Plan Reviews** – Nearly every record keeper, consultant or advisor has an annual plan review process, separate from the plan audit. The Plan Audit generally reviews transaction activity and timing, such as:
 - Contributions from payroll to feeds participant accounts
 - Distributions types and timing
 - Vesting calculations
 - Loan processing and repayments
 - Some audits review eligibility and access to the plan

Plan Reviews, on the other hand, are more comprehensive and used as a fiduciary management tool to evaluate the health of the plan by examining topics such as:

- All the plans for that employer
- Allocation mixes across the plan and by sub-groups to determine if participants are being properly educated
- Increases/decreases in participation, overall and in sub-groups, to determine if employees are being properly enrolled and made aware of the plan's benefits
- Contribution levels, overall and by sub-groups, to ensure participants are saving at a high enough rate to meet their retirement needs.
- Demographic changes to determine if plan amendments are necessary to improve the plan and its appeal
- Overall reviews of investments on the plan menu, including regarding performance and highlighting significant changes such as manager changes or style drift
- Utilization of TDFs and Managed Accounts to identify proper use of these services
- Use of self-directed brokerage accounts and other ancillary services to determine if they are being understood and properly consumed by employees
- Loans, withdrawals and distributions to verify that employees understand the proper ways to take a withdrawal and the risks and tax consequences of certain early distributions.

SPARK members experience auditors that are very familiar with plan audits and others who are not. Many small auditors have never performed a plan audit and are often unfamiliar with what to examine and have limited understanding of the industry and common practices. To assist auditors many SPARK members offer special website access to plan data and information.

SPARK members do recognize plan documents that are out of compliance and notify their clients regularly to review and update their documents. Plan auditors often provide an Unqualified Opinion even if the plan document and the plan procedures are different.

The ERISA Advisory Council also asked SPARK to comment on uncashed checks and Mike Hadley from Davis & Harman will share our research with the Council on day two. However, in relations to plan audits SPARK members believe that plan auditors should focus on 'bad addresses' to reduce the incidents of missing participants and ultimately uncashed checks. By establishing guidelines on bad addresses and monitoring them annually plan auditors can help correct these accounts early, thus saving expense and frustration months and years later when it becomes harder to locate a participant.

Another area of focus for SPARK members has been in the creation and implementation of new cyber security best practices. Our sixteen categories of cyber security controls provide a standard for plan sponsors to evaluate a record keeper's capabilities. With cyber security becoming an increasingly important topic for plan sponsors we recommend plan auditors use SPARK's standards as part of their audit process.