That’s A Wrap!
Lessons Learned During the Prior Year Audit Season

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PRESENTERS

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LEARNING OBJECTIVES

• Understand the trends, changes, and investments that occurred in benefit plans in 2013
• Know current DOL hot buttons
• Improve plan administration and operations
• Find out what’s on the horizon for benefit plans in 2014
AGENDA

• What did we see 2013?
  o DOL Activity
  o Common compliance issues
  o Common accounting issues
  o Fee disclosure

• What do we expect to see 2014?
  o Even more DOL activity, focusing on audit quality
DOL ACTIVITY IN 2013

- More DOL audit activity was noted
  - Many individual sponsors and audit reports were inspected
  - Focus was on deficient audits, where the 5500 or financial statements filed looked “weird”
  - Focus was on audit work surrounding management estimates (common theme in all public accounting)
    - Non-marketable security valuation and disclosures
    - Actuarial valuations and assumptions
    - ESOP valuations and assumptions
DOL ACTIVITY IN 2013

- More DOL audit activity was noted (con’t)
  - Sponsor audits focused on:
    - Deposit timeliness (as usual)
    - Fiduciary duties
    - Identified control structures
    - Operational compliance issues (tax code and plan document compliance)
DOL ACTIVITY IN 2013

• Take-aways:
  o If there are significant estimates in your plan’s financial statements, management should:
    ▪ Understand and be able to defend assumptions and methods used to determine these estimates.
    ▪ If a specialist is used to determine the estimate (such as an actuary or investment valuation specialist), investigate and evaluate their qualifications to perform the work.
    ▪ Document these decisions and the rationale used to make the decision.
DOL ACTIVITY IN 2013

• Takeaways:
  o Timely deposits
    ▪ Establish a policy
    ▪ Follow the policy
    ▪ Monitor the policy
    ▪ Correct as necessary if deposits are made outside the policy guidelines
    ▪ Listen to your auditor (we’re here to help!)
DOL ACTIVITY IN 2013

• Correction methods for late deposits
  o Self correction
    ▪ Can still be contested upon IRS audit
  o VFCP correction
    ▪ IRS cannot challenge correction method
REGULATORY COMPLIANCE ISSUES

• Definition of Compensation (always)
  o Understand the definition and modifications elected as defined in the plan document
  o Best practice: If you’re not sure what to do, consider keeping it simple

• Eligibility of employees (always)
  o Who’s in? Who’s out?
  o When are employees eligible?
  o Auto enroll, auto escalation issues
  o Ongoing monitoring
REGULATORY COMPLIANCE ISSUES

• Vesting
  o Calculation of vesting – definition of a “year”
  o Improper vesting of terminated participants

• Forfeiture usage
  o They MUST be used (no stockpiling)
  o Use them only as allowed by the plan document

• Expenses paid by the plan
  o Allowable? Two issues can arise:
    ▪ Are expenses allowed to be paid by the plan document?
    ▪ Are expenses allowed to be paid under ERISA?
ACCOUNTING ISSUES

• Investment accounting and disclosures
  o Huge hot button in the industry
  o Is very complex and gets more complex every year
  o The more a plan’s investments get further away from publicly traded mutual funds, the more complex the accounting gets
    ▪ Private collective trusts or mutual funds
    ▪ Insurance company products
    ▪ Private company stock
    ▪ “Alternative” investments
More scrutiny to come on alternate investments:

“The DOL Office of Inspector General (OIG) recently conducted a study to determine if the DOL Employee Benefit Security Administration (EBSA) is providing adequate oversight of employee benefit plans that hold alternative investments ….The OIG believes plans are using poor practices in valuing these investments.”
ACCOUNTING ISSUES

• Investment accounting and disclosures
  o Take-aways:
    ▪ Understand the types of investments that are held in your plan
    ▪ Consult your service provider and auditor for guidance
    ▪ Involve the accounting department on investment valuation and disclosure
    ▪ Discuss investments valuation and disclosures in committee meetings
FEE DISCLOSURES

- Audits performed in 2013 were the first to be impacted by these new disclosures, which were required to be made in 2012
- They are an ongoing requirement
- Not many non-compliance issues were noted
- Not many participants commented on these
- Quality of the information provided by providers varied wildly
FEE DISCLOSURES

• Take-aways:
  o Verify that you have information on –
    • Investment expenses – direct & indirect
    • Recordkeeping fees
    • Trustee or custodian fees
  o Assess your contracts to ensure fees are market competitive
2014 EXPECTATIONS

• DOL Audit Quality Study – Firm Inspection Program
  o To improve audit quality with respect to employee benefit plans
  o To increase awareness of the unique aspects of employee benefit plan audits
  o To protect the retirement accounts and health benefits of participants and beneficiaries

• Focus on revenue sharing arrangements
WHO IS THE DOL REVIEWING?

Over 20,000 employee benefit plan audit firms/practitioners:

<table>
<thead>
<tr>
<th># of Audits each Firm Performs</th>
<th>Number of Firms</th>
<th>Total Number of Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>200+</td>
<td>29 Firms</td>
<td>22,400</td>
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<tr>
<td>100 - 199</td>
<td>39 Firms</td>
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<tr>
<td>25 - 49</td>
<td>10,000 + Firms</td>
<td>40,000 +</td>
</tr>
<tr>
<td>&lt; 25</td>
<td>10,000 + Firms</td>
<td>40,000 +</td>
</tr>
</tbody>
</table>

As a result of the DOL reviews, which group was found to have the highest percentage of deficient audits?
RESULTS OF PRELIMINARY INSPECTIONS

<table>
<thead>
<tr>
<th># OF AUDITS COMPLETED BY FIRM</th>
<th>% OF AUDITS ACCEPTABLE</th>
<th>% OF AUDITS DEFICIENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 +</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>50 - 99</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>25 - 49</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>&lt; 25</td>
<td>65%</td>
<td>35%</td>
</tr>
</tbody>
</table>

MAJOR DEFICIENCIES:
- 71% - Participant Data
- 55% - Contributions
- 52% - Investments
- 37% - Benefit Payments
- 24% - Plan Obligations
- 30% - Party-in-Interest Transactions
- 23% - Planning and supervision
DEFICIENCIES NOTED IN DOL WORK PAPER INSPECTIONS

• Inadequate audit documentation
• Inadequate reliance on SAS 70
• Full scope vs. Limited scope, improper reliance on certifications
• Inadequate planning, walkthroughs and current risk standards
• Not fully understanding plan design and user controls
Q & A
QUESTIONS

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