Karel - Gordon & Associates

PENSION CONSULTANTS, PLAN ADMINISTRATORS AND ACTUARIES

Advisor Connect | Plan Audits

MAKING IT ACTIONABLE

Your clients are familiar with the idea of an audit of their personal or corporate tax return, but they may not be familiar with an audit of their qualified retirement plan. There are two broad categories where the Department of Labor requires a plan's financial statements to be audited by an independent qualified public accountant, or CPA.

These two DOL audit categories are:

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

The IRS or DOL can also audit employee benefit plans based on questions about their operational compliance, but that's a topic for another time.

PARTICIPANT COUNT AUDITS

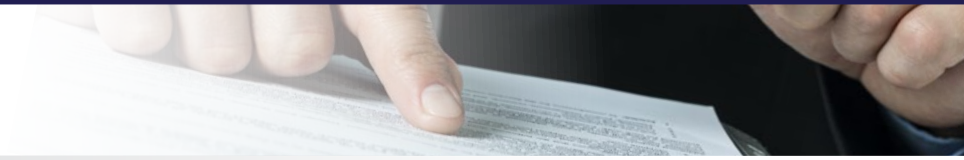
Generally, a financial statement audit is triggered when the plan has a participant count of 100 or more as of the beginning of the plan year. But, here's how it actually works:

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

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

Who is an eligible participant?

- Any employee of the sponsor who is eligible to participate in the plan
- Any former employee who still has assets in the plan
- A participant does not have to contribute or receive employer contributions
- The definition does not otherwise require any activity in the plan



It is important to state 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, encourages many plan sponsors to force out former employees who have small balances.

NON-QUALIFYING ASSET AUDITS

The DOL also requires small plans which have less than 95% of their assets in "qualifying plan 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, or that can be typically purchased from a regulated entity, such as a bank. Non-qualifying plan assets are assets whose value is not easily or consistently 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 a plan has more than 5% of its net assets invested in non-qualifying plan assets, it 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

It's always wise to remind clients to establish and maintain a prudent, professional, documented process to manage their retirement plan – and to follow it.

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