

Accountants: Best Practices in Audit Quality

David P. Dorsey,
CPA

Partner

WithumSmith+Brown, PC
Bethesda, Maryland

Michael T. Mead,
CPA

Managing Principal

CliftonLarsonAllen LLP
Portland, Oregon

Michael Tiberi,
CPA, CFE

Partner

Legacy Professionals LLP
Westchester, Illinois



70TH ANNUAL **EMPLOYEE BENEFITS** CONFERENCE

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Session Agenda

- History/Background of the Department of Labor's (DOL) Audit Quality Study
- Major finding areas with discussion on how to prevent such deficiencies in your audits
- For a copy:
 - <https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/november-2023-audit-quality-study.pdf>

Deficiency Rates Throughout the Years



EBP Practice Size Correlates to Audit Quality

Strata	Form Year 2020		Form Year 2011	
	Deficient Audits	% of Population	Deficient Audits	% of Population
EBP Audits Completed by Firm				
1-2 Plans	14 (6)	70.0%	72 (53)	75.8%
3-5 Plans	13 (0)	51.7%	65 (40)	68.4%
6-24 Plans	26 (2)	50.1%	64 (37)	67.4%
25-99 Plans	28 (1)	38.0%	27 (14)	41.5%
100-749 Plans	13 (0)	18.6%	3 (1)	12.0%
750+ Plans	11 (0)	17.0%	3 (1)	12.0%
Total	105 (9)	30.0%	234 (146)	39.0%

(x) Number of Audits with 5 or more Deficiency Areas

2023 Study Results—Complex Plans

“Complex” Audits—DB, ESOPs, H&W Plans, Multiemployer

Strata	DB # of Reviews	% Deficient Audits	ESOP # of Reviews	% Deficient Audits	HW # of Reviews	% Deficient Audits	Multiemployer # of Reviews	% Deficient Audits	Total # of Reviews	% Deficient Audits
1-2 plans	2	100.0%	2	100.0%	5	40.0%	1	100.0%	10	70.0%
3-5 plans	4	50.0%	2	100.0%	2	100.0%	2	50.0%	10	70.0%
6-24 plans	2	50.0%	2	0.0%	4	0.0%	2	100.0%	10	30.0%
25-99 plans	2	50.0%	3	0.0%	5	40.0%	0	0.0%	10	30.0%
100+ plans	8	0.0%	3	33.3%	5	0.0%	1	0.0%	17	5.9%
Total	18	33.3%	12	41.7%	21	28.6%	6	66.7%	57	36.8%

Quality Study—Major Finding Areas

- Participant Data—15.6%
- Contributions Received and Receivable—15.3%
- Benefit Payments—9.4%
- Internal Controls—5.9%
- Investments—5.2%

Unacceptable—Major Details for Multiemployer Plans

Description of Unacceptable-Major Finding

Participant Data

- 1 No/insufficient testing of eligibility/terminations/forfeitures
- 1 No/insufficient review of payroll and/or eligible compensation

Contributions

- 1 No recalculation of employer and/or employee contributions
- 1 No/insufficient testing of compliance with compensation provisions
- 2 No/insufficient testing on contributing employers (multiple and multiemployer plans)
- 1 No reconciliation of contributions received to amounts remitted by employers on an individual and combined plan level. No assessment of contributions from employers for potential delinquencies.

Unacceptable—Major Details for Multiemployer Plans

Description of Unacceptable-Major Finding

Benefit Payments

- 2 No recalculation of benefit payments
- 1 No/insufficient testing of benefit eligibility/claims
- 1 No evidence of testing for long outstanding benefit checks, duplicate or missing payments no deceased/missing participants

Internal Control

- 1 No/insufficient assessment/documentation of control risk
- 1 No/insufficient documentation and/or evaluation of internal control
- 1 No/insufficient documentation of risk assessment procedures
- 1 No/insufficient evidence of review of SOC1 service auditors report

Unacceptable—Major Details for Multiemployer Plans

Description of Unacceptable-Major Finding

Investments—Full Scope

- 1 No/insufficient testing of end of year asset values
- 1 No/insufficient testing of investment transactions and/or income
- 1 No independent confirmation of investment in limited partnership. Investment in limited partnership valued at book value

Party in Interest Transactions

- 1 Failure to document related parties and parties in interest
- 1 Failure to document results of inquiries

Compliance with ERISA and DOL Reporting Standards

- 1 Audit report does not refer to supplemental schedules
- 1 Schedule of assets held for investments does not present the plan's investment in the limited partnership

Unacceptable—Major Details for Multiemployer Plans

Description of Unacceptable-Major Finding

Plan Obligations

- 3 Failure to assess/review specialist's qualifications and/or assumptions
- 2 No/insufficient testing of reliability or completeness of the data sent to the actuary

Planning and Supervision

- 1 No/insufficient review of plan documents, plan operations, contracts, agreements
- 1 Lack of planning analytics, missing collective bargaining agreements, missing service provider agreements, no documentation of compliance with independence requirements

Compliance with ERISA and DOL Reporting Standards

- 1 Auditor's report does not contain a manual signature (signature is typewritten)
- 1 Audit report does not refer to supplemental schedules

Compliance with GAAS/GAAP Reporting Standards

- 1 Auditor's report does not refer to the supplemental schedule of reportable transactions. The footnotes indicated the incorrect determination letter

Participant Data

Audit Approaches—Multiemployer Plan Audits

- Reliance on payroll compliance procedures
 - Skills, knowledge and expertise of provider
 - Appropriateness of procedures performed
 - Coverage of year under audit
- Vetting the data used by the actuary

Contributions Received and Receivable

Audit Approaches

- Reconcile schedule of contributions to TB.
- Perform detailed test of contributions (utilize remittance reports, bank statements, participant records)
- Receivable—Consider not only received after YE but also delinquent employers.

Benefit Payments

Audit Approaches Health and Welfare Fund

- Perform detailed test of medical claims paid (self-fund). Reconcile claims data to TB.
- Eligibility tests for RX, dental, vision, etc.
- Analytical procedures by benefit type.
- Utilize health plan cost trend surveys.
- Possible reliance on SOC 1.

Benefit Payments

Audit Approaches Defined Benefit Fund

- Test of new and deceased pensioners.
- Consider test of current pensioners if Plan amendment approved to change active role.
- Monthly pension reconciliations should be reviewed/prepared.

Benefit Payments

Audit Approaches Defined Contribution Fund

- Reconcile list of benefit payments/withdrawals made to TB.
- Test benefit payments being certain to select sample that includes all options (full, partial, hardship, 70.5, etc.)

Internal Controls

Audit Approaches

- Plan early and completely
- Talk to TPA/Fund Office throughout the year, updating for changes
- Be sure to consider SAS 143-145 starting with 12/31/2023 engagements

Investments

Audit Approaches

- Possible reliance on SOC 1
- Utilize consolidated custodian statement to reconcile investments and test ending values, purchases, sales and income.
- Obtain confirmations from investment managers.
- Prepare reconciliation of manager to custodian amounts.

DOL IQPA Audit File Review 2016–2021



DOL Audit File Review— Filing Years 2016–2021

Multiemployer Plan Audits and Results 2016-2021

Firm Strata	Total Audits Reviewed	Unacceptable, Major Deficiencies	Overall Deficiency Rate	Number of Major Deficiencies Identified	Audits with five or More Deficient Areas	Deficient Audits with five or More Deficiencies
1-2 plans	2	1	50%	3	0	0%
3-5 plans	7	5	71%	39	3	60%
6-24 plans	8	5	63%	39	3	60%
25-99 plans	7	4	57%	41	4	100%
100-749 plans	18	4	22%	14	1	25%
750+ plans	2	0	0%	0	0	0%
	44	19	43%	136	11	

DOL Audit File Review— Filing Years 2016–2021

Number of Deficiencies by Audit Area and Firm Size

Audit Section	Number of Major Deficiencies	1-2 Plans	3-5 Plans	6-24 Plans	25-99 Plans	100-749 Plans
Administrative Expenses	4		2	1	1	
Benefit Payments	8		4	2	1	1
Commitments and Contingencies	1			1		
Compliance with ERISA and DOL Reporting Standards	7	2	1	3	1	
Compliance with GAAS/GAAP Reporting Standards	7	1	4	1		1
Contributions Received and Receivable	10		2	4	3	1
Internal Controls	19		4	7	7	
Investments—Full Scope	20		7	4	4	5
Participant Data and Individual Participant Accounts	17		4	3	4	6
Parties in Interest and Prohibited Transactions	9		2	2	5	
Plan Obligations	18		9	3	6	
Plan Representations	1			1		
Plan Tax Status	4			1	3	
Planning and Supervision	10			5	5	
Subsequent Events	1			1		
Grand Total	136	3	39	39	40	14

Key Takeaways

- Multiemployer EBP audits are complex and demand extra time and attention
- Participant data, Contributions, Benefit Payments, Internal Control and Investments are particularly challenging audit areas
- Overall Audit Quality has improved but still has a long way to go.

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