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DOL Audits

The Department of Labor's initiative to review the quality of employee benefit plan financial audits has been in place for many years, but there are signs that it has recently intensified. We have heard that the DOL is starting to dig deeper into the financial audits that are filed with the Form 5500 and in some cases have rejected the audits and imposed penalties. Because the audit report is considered an integral part of a Form 5500 filing for funded plans with at least 100 participants, plan administrators are at risk if the DOL determines that audit procedures were inadequate.

The DOL audit quality initiative has two parts. The first part consists of compliance reviews of CPA firms, which are active with respect to employee benefit plan financial audits, regarding their own internal policies and general auditing standards. The second part is a review of the financial audits of individual employee benefit plans. In the latter case, the DOL requests copies of the auditor's workpapers from the plan administrator. If the DOL finds that the work performed or documentation was insufficient to support the audit, the DOL can reject the plan's Form 5500 filing, resulting in the plan administrator being assessed penalties of up to $50,000 per year. It is DOL's position that a plan administrator is not shielded by relying on an apparently competent accounting firm; the plan administrator must verify the sufficiency of an audit or face penalties if the audit quality is considered deficient.

As a result, plan administrators should be diligent, not only in selecting a qualified independent auditor, but in reviewing the auditor's work to ensure that the audit has been conducted in accordance with the applicable standards.

The DOL's guidance on what plan administrators should know about selecting auditors and reviewing their work product is available at http://www.dol.gov/ebsa/publications/selectinganauditor.html.

The AICPA has provided additional guidelines for plan sponsors that are available at http://www.aicpa.org