

# Employee Benefit Plan Audit Series #2 | Prepping for Your First Employee Benefit Plan Audit

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**Dan Holthaus:** Hello and welcome to Barnes Dennig Ask the Experts. I'm Dan Holthaus, and this is Jessica Doremus. And we are here today to talk a little bit about when a plan is required to get an audit done and what actually is entailed in a first-year plan audit and a plan audit in general. So welcome. Jessica, can you tell us a little bit about the rules around when an employee benefit plan becomes in a position where it needs to have an audit?

**Jessica Doremus:** Thanks, Dan. So the requirement for needing a plan audit recently changed. So for plan year starting January 1st, 2023 or later, plan audits are now needed if you have 100 participants with a balance. So for the 2023 plan year, this is looking as of the beginning of the year. So you'll look as of your participants with a balance as of January 1st, 2023.

**Dan Holthaus:** Great. And I like how you put in there about the new change because it used to be based on eligible participants, and that can have a pretty drastic difference depending on your plan makeup. So a big change for the benefit plan world this year.

**Jessica Doremus:** Absolutely. Some plans who used to need one and no longer need one based on the new requirements.

**Dan Holthaus:** Yep. Yep. Good. So let's say a plan sponsor is out there and they're watching this video and they're saying, "Oh, wow, I think I have an audit requirement," what should they do to prepare for that audit requirement?

**Jessica Doremus:** So preparing on our end, what we do is we look at two kind of major parts of this. The first is our compliance portion, and what we'll look at is we'll look at your plan document, your volume submitter, any adoption agreements, any amendments that you've made to the plan, we'll look at those and we'll also look at them in conjunction with DOL rules and regulations and the IRS rules and regulations, and really make sure that your plan is adhering to those regulations and rules that are set on all of those.

**Dan Holthaus:** Okay. So what exactly can I do to prepare for that plan audit?

**Jessica Doremus:** Yeah, so you can start by getting all of those documents together, like I said, the plan document, volume submitter, any meeting minutes that you have related to the plan, any correspondence with the IRS or DOL related to your plan, any amendments that you've made related to the plan, and gather those and get them ready to be looked at.

**Dan Holthaus:** Okay, great. So you talked a little bit about the compliance aspect. What kind of things... what kind of compliance are you talking about?

**Jessica Doremus:** Yeah, so we're looking at the compliance regarding the... that can be anywhere from the eligibility into the plan. So for example, if an employer states that they have anyone over the age of 18 is eligible for the plan will want to make sure that anyone who entered into the plan is that age 18.

We'll also look at different rules and regulations like the DOL and IRS have to make sure you're adhering to those rules. Again, also in alignment with what your plan document says how the plan should be run.

And then the next portion of our testing is also the financial reporting. So what we do is we will create financial statements that'll be filed with your 5500 that your plan sponsor will file. This isn't as timely for us. We spend most of our time on the compliance portion of the testing, but the financial reporting is still important and needs to be done. However, for us, we're looking at more of the compliance aspect.

**Dan Holthaus:** Okay. So we're doing all this compliance testing. I assume that there are errors that happen. What are some of the kind of common errors that we might find when we're looking at all of this compliance?

**Jessica Doremus:** So we typically see three common errors. The first is eligibility. So a lot of employers are now putting auto enrollment into their plan, which is a great feature to get employees started in their plan. However, what the plan document says governs how this auto enrollment should be run.

Sometimes we see that employers are entering employees too early. Sometimes we're seeing that they're entering them too late or not at all, which are all issues. Luckily, we are pretty well versed in this and know the fixes and can help the clients work through those.

The second item is compensation.

So employers may pay their employees various different types of compensation. Again, whatever the plan document says regarding their eligible compensation is what needs to have their contributions based on. So we'll do a deep dive into what is considered eligible compensation to make sure that employee contributions and then any matches or profit sharing contributions are made off of those



eligible compensations. The third, and probably the hottest topic that the DOL goes off of is the timely remittance of employee contributions.

They want employers to remit employee dollars as soon as administratively feasible. This can be anywhere from one to two days after payroll is paid, and there are some pretty steep penalties if this doesn't happen. We take a very close look at all three of these issues among other types of items in our audit. However, the third item with the employee contributions is the hottest topic that the DOL looks at.

**Dan Holthaus:** Great. Thanks Jess. And for any more information about our employee benefit plan practice, please go to [barnesdennig.com](http://barnesdennig.com). We also have a new video series coming out on common plan errors where Jess and I are going to talk about some of the errors that she just talked about. So thanks for joining us.