THE EXCELLENT FIDUCIARY

Year-End Reporting Round-Up

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GEARING UP FOR YEAR-END REPORTING

Leaders know that the close of each year brings with it a concoction of mixed emotions. There is satisfaction in closing the loop on numerous projects, measuring outcomes and analyzing data to determine the year's performance, and looking ahead to the promise of the New Year. But December also often brings with it looming deadlines and daunting metrics designed to evaluate various facets of the organization. Preparing for an onslaught of auditing and reporting can be overwhelming. Herein, we've provided a quick guide of some of the most common year-end requirements for organizations that sponsor retirement plans, along with best-practice tips for the executives tasked with navigating these year-end reviews.

I. ERISA FINANCIAL AUDIT

Most ERISA retirement plans are required to file annual reports about their financial information and activities with the Department of Labor (DOL) using the Form 5500 and its various schedules. For most plans covering more than 100 participants, an audit report (prepared by an independent qualified public accountant applying generally accepted auditing standards) is a key element of the annual report. Plan administrators can instruct their auditors to avoid auditing investment information that has been prepared and certified by banks and similar institutions. This so-called "limited scope audit exemption" can be preferable for those plan sponsors seeking a less-involved financial audit process, but as noted below, should be selected only after thoughtful consideration.

Top Tips to Keep in Mind

1. **Carefully Select the Plan Auditor.** In 2015, the DOL's review[1] of 400 Form 5500 plan audits found 39% had major deficiencies in one or more generally accepted auditing standards. As a result, the DOL has a list of recommendations—including the repeal of the limited scope audit exemption, additional qualifications for auditors, and the ability to levy penalties on auditors rather than plans. Plan Administrators may wish to consider the DOL's findings in selecting and working with their auditors to ensure required plan

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audits bring value to their plans.

2. **Be Sure the Audit Is Thorough.** The annual financial audit of an ERISA qualified employee benefit plan is much more than an examination of the plan investments, or a check to see that "the numbers" are correct. The operations of the plan should also be examined. Depending on the particular plan, Plan Sponsors should check to see if audit procedures include:

   - Review of payroll records to see that eligibility and hours of service are being properly determined.
   - Review of selected participant documents for completeness.
   - Review of timeliness of deposits of employee contributions to the plan.
   - Review of plan loans and hardship withdrawals.
   - Determination that plan contributions comply with the plan document provisions and are made in a timely fashion.
   - Review of the method used to allocate defined contribution plan contributions to participants or the actuarial assumptions and calculations used in defined benefit plans.
   - Funding status of the plan if applicable (to determine if there is a shortfall).
   - Checking the status of benefit payments and method of computation and payment, including verification of tax withholding and IRS reporting and procedures to find "lost" terminated participants.
   - Review of Form 5500 and other required governmental forms.
   - Review of prohibited transactions and their resolution.

3. **Allot Time to Prepare.** Although it may be possible to complete a quality audit in less time, it is desirable to begin the audit at least two to three months prior to the due date, to allow time to plan the audit, gather information, receive responses to all confirmation requests, perform fieldwork, follow up on open items, draft financial statements and wrap up. Adequate time should be left to address unforeseen problems and resolve them prior to the filing deadline. Plan sponsors may streamline the audit process once it is underway by providing the auditor access to the recordkeeper's website, when possible, and having detailed documentation of investment committee decisions and meeting minutes ready and available to share.

II. RECORDKEEPER'S REPORT

At the end of the year, plan sponsors typically perform either a formal or informal annual assessment of the effectiveness of their plan's recordkeeper. This involves evaluating the reasonableness of fees charged for recordkeeping services, the quality of the services provided, the quality of the service organization's operations, and the availability of the recordkeeper's SOC 1 report.

Top Tips to Keep in Mind

1. **Seek a Metrics-Based Presentation.** The year-end summary should clearly chart all transactions that flowed through the plan, as well as the results of participant inter-

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action with the retirement plan as measured by access to the recordkeeper's online tools. Most recordkeepers have robust analytic tools that can easily provide this data, so plan sponsors should feel comfortable making a specific request for this information if it does not appear in the initial report.

2. **Pay Attention to Loans.** Plan sponsors should be sure to assess the status of loans participants have taken against their accounts throughout the year. This seems like a minor detail, but inattention to loans can open the door to loan defaults by participants, particularly for those who have terminated their employment with loans outstanding.

3. **Discuss the Results of the Employee Communication Program.** The plan sponsor should monitor participant communications and the participant complaint process. Participants should have a formalized process to submit questions or file complaints. They should also receive regular statements of their account balances and/or confirmations of their transactions throughout the year.

III. INVESTMENT REVIEW

Investments are often a top-of-mind priority for plan sponsors and fiduciaries, as they can be the most visible reminder of the need for plan oversight. However, there are key questions to ask of investment advisors during the end-of-year meeting to ensure that the investment strategy and related practices meet fiduciary obligations.

Top Tips to Keep in Mind

1. **Monitor the Watch List.** Plan sponsors should be kept apprised of any funds that have been underperforming, have had a change in manager, or have become too volatile and consequently pose a risk to the overall portfolio. Investment managers should provide detailed status updates and related recommendations on any watch list funds during the year-end review.

2. **Check Investment Diversification.** Ask the investment advisor to verify that all investment classes are represented in the investment line-up as is intended in the Investment Policy Statement. An annual review of these asset categories is important to ensure that the participant investment offerings are prudent and meet participant needs.

3. **Get Professional Guidance.** The end-of-year review is a good time to receive a written opinion from the investment advisor about the condition of the overall investment program. This allows the advisor to provide insights about what is working and what could be improved regarding the plan's investment approach, reporting frequency and content, as well as participant outreach and education.

IV. RETIREMENT PLAN REVIEW

The Employee Plans Compliance Unit of the IRS announced recently that it will be issuing more compliance checks for existing qualified retirement plans in 2016. The IRS intends to focus its resources in the retirement plan arena because of the historical issues related to compliance among organizations that sponsor 401(k), 403(b), 457, and multi-employer plans. A comprehensive retirement plan review is a vital risk management strategy that helps prepare plan sponsors for any potential IRS inquiries regarding their plan and its oversight.

Top Tips to Keep in Mind

1. **Address All Four**

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Disciplines. While some retirement plan review vendors may spend an inordinate amount of time discussing the plan's investments, the review should consider and assess practices under all four disciplines of fiduciary duty in order to be considered comprehensive. These four fiduciary disciplines include:

- Governance (authority, policies, processes, and documentation)
- Administration (execution, timeliness, vendors, and compliance)
- Investments (strategy, tactics, reporting, and monitoring)
- Controls (audits, exemptions, fees, and conflicts).

2. **Benchmark the Assessment.** In order to verify that the plan review incorporates best practices, plan sponsors may use the *Retirement Plan Administrator: Scope and Conduct* standard as a guide. This manual was published by the fiduciary standards organization Investment Fiduciary Leadership Council (IFLC). (It can be purchased on IFLC's website at http://www.iflcouncil.org/standards-ifas12.htm, or contact Roland|Criss for a complimentary copy.)

3. **Check Reviewer Qualifications.** Because few plan sponsors have the experience (or time) to perform a review on their own retirement plan, it is important to select an independent firm that specializes in unbiased plan reviews. The firm should scale its fees based on a specific plan's size and complexity, and a best-practice comprehensive plan review should meet all of the following criteria:

   - Verifies that a retirement plan's operation adheres to its policies.
   - Examines control procedures and updates them to meet Department of Labor standards.
   - Tests the reasonableness of service providers' fees.
   - Exploits the value of the plan's assets to lower administrative and investment costs paid by plan participants.
   - Evaluates conflicts of interests and recommends ways to resolve the conflicts.
   - Identifies opportunities for improvement in all four fiduciary disciplines.
   - Delivers a vital risk management solution to the plan's sponsoring organization.
   - Adds clarity to the relationship between a plan sponsor and the plan's vendors.
   - Produces a quantitative rating that ranks the plan on a fiduciary scale.
   - Has verified technological methods for ensuring client confidentiality.

Employers, and particularly those that sponsor retirement plans, face a host of responsibilities when it comes to overseeing critical processes related to their organization, meeting the needs of their employees, and complying with ever-changing regulations. In order to minimize end-of-year anxiety related to reviews and audits, employers can focus on selecting the right partners for each of these year-end reviews, and then honing in on these few top-of-mind tips to ensure they maximize the value of all of

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these efforts. With the right vendors and checklists in place, employers will be well-positioned to close out the year with confidence.

NOTES:

[1] *Assessing the Quality of Employee Benefit Plan Audits*, U.S. Department of Labor, Employee Benefits Security Administration—May 2015.

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