

In This Issue

Celebrate National
Apprenticeship Week! Nov.
14-20, 2016

Is Your ERISA Audit Up to
Snuff? Unpacking the DOL's
Recent Study on Audit
Quality

Apprenticeship Program
Specific Continuing
Education Opportunity

Celebrate National Apprenticeship Week! Nov. 14-20, 2016

National Apprenticeship Week starts on November 14! The Department of Labor joins thousands of career seekers, sponsors and other stakeholders across the country that are committed to sponsor, host and attend events in their city in support of National Apprenticeship Week. More information on how to host or attend an event in your community can be found at: www.dol.gov/apprenticeship/NAW/.

You can also join the fun on social media! Use the hashtag **#ApprenticeshipWorks** to elevate and expand the conversation on Twitter, Facebook, and Instagram all week long.

Is Your ERISA Audit Up to Snuff? Unpacking the DOL's Recent Study on Audit Quality

Apprenticeship Funds that are jointly managed by equal representation of management and labor on the board of trustees are required to perform an audit of the program on a yearly basis in order to comply with the Taft-Hartley Act. Many trustees see the audit as a necessary evil to comply with the Taft-Hartley Act that is mostly orchestrated between service providers for the program. However, Trustees need to beware, you may face fiduciary risk associated with your lack of diligence in selecting an auditor for the fund and the DOL is paying attention.

Most auditors agree joint apprenticeship programs are considered a welfare benefit plan falling under the employee benefit plan provisions of ERISA. The Department of Labor (DOL) completed an assessment of the quality of audit work performed by independent qualified public accountants with respect to financial statement audits of employee benefit plans covered under ERISA in 2011.

Trustees Beware:
*You may face fiduciary
risk associated with your
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the fund.*

The Department of Labor released the Audit Quality Summary in 2015. Overall, the DOL found that 61% of the audits fully complied with professional auditing standards or only had minor deficiencies under the professional standards. However, 39% of the audits contained major deficiencies with respect to one or more relevant professional standards.

The DOL used the 2011 pool of Form 5500 filings containing an audit for the review. The DOL found there were 81,162 Form 5500 reports that contained audits and there were 7,330 different CPA firms performing those audits. **Of those CPA firms, 95% performed less than 25 audits, 50% performed 1-2 audits and 1% performed over 100 audits.**

Numbers of Plans Audited	Numbers of CPA Firms	Number of Audits Performed
1-2	3,684	4,891
3-5	1,519	5,773
6-24	1,603	17,747
25-99	433	18,910
100-749	77	15,418
750+	14	18,243
Total Reviewed	7,330	81,162

The DOL has historically found that CPAs with small employee benefit plan audit practices tended to have the most audit deficiencies. Therefore, the DOL split the pool into six strata based on the number of plan audits the CPA performed to more definitively determine where the population of deficient audits were located.

Audit Deficiency Rates

The DOL selected 400 Plan audits from the 2011 pool of Form 5500 filings containing an audit for the review. The DOL determined there is a link between the number of employee benefit plans audits performed by a CPA and the quality of the audit performed. The below table shows the deficiency rate compared to the number of plans audited.

Number of Plans Audited	Number of Audits Reviewed	Deficiency Rates
1-2	95	75.8%
3-5	95	68.4%
6-24	95	67.4%
25-99	65	41.5%
100-749	25	12.0%
750+	25	12.0%
Total reviewed	400	38.8%

DOL determined there is a link between the number of employee benefit plan audits performed by the CPA and the quality of audits performed.

DOL Findings and Upcoming Enforcement

The DOL stated their audit review supports the following findings:

- There is a link between the number of employee benefit plan audits performed by a CPA and the quality of audit work performed.
- The accounting profession's peer review and practice monitoring efforts have not resulted in improved audit quality or improved identification of deficient audit engagements.
- CPA firms that were members of the American Institute of Certified Public Accountants' (AICPA) Employee Benefit Plan Audit Quality Center tended to produce audits that have fewer audit deficiencies.
- Training specifically targeted at audits of employee benefit plans may contribute to better audit work. As the level of employee benefit specific training increased, the percentage of deficient audits decreased.
- Of the 400 plan audit reports reviewed, 17% of the audit reports failed to comply with one or more of ERISA's reporting and disclosure requirements.

Based on this review, the DOL will focus its enforcement on smaller employee benefit plan audit practices. It appears the DOL is attempting to put the firms who perform a minimal amount of audits out of the ERISA audit business due to the amount of deficiencies found in these audits. The DOL reported CPA firms with the deficiencies did not appear familiar with the unique aspect of employee benefit plan audits. Some of the deficiencies appearing in the audit include failure to test timely remittance of employer contributions and failure to reconcile contributions with payroll records, custodian records and employee records.

The DOL will be turning their focus on enforcement after this review. Some of their targeted outreach and enforcement will include:

- Working with state boards of accounting to discipline those performing deficient audits,
- Amending ERISA to assess \$1,100 per day penalty against the CPA firm.
- Establishing special qualifications that CPAs must possess to perform employee benefit plan audits.
- Working with industry organizations to explain the importance of hiring competent CPA's.

What Should You Do?

Trustees need to be asking their CPA firms about their experience with employee benefit plan audits. Trustees may consider requesting proposals for auditing services to allow several accounting firms to be compared based on the outcomes of the DOL audit review. More specifically, questions the trustees should consider when evaluating a CPA firm for audit services include:

- How many employee benefit plan audits are being performed by the CPA firm?
- Is the CPA firm a member of the American Institute of Certified Public Accountants' (AICPA) Employee Benefit Plan Audit Quality Center?
- Is training specifically targeted at audits of employee benefit plans provided at the CPA firm? How often is the specific training provided and who is providing the training?
- Is the CPA firm aware of the DOL review of employee benefit plan audits? If the CPA firm you are interviewing is not aware of this review, chances are, the CPA firm is not affluent in auditing employee benefit plans.

Apprenticeship Program Specific Continuing Education Opportunity

International Foundation of Employee Benefit Plans is offering training specific to Apprenticeship Programs: January 16-18, 2017 in Coronado (San Diego), California

Every trustee of an apprenticeship program should attend regular continuing education courses to further the trustee's understanding of the latest trends affecting the program. The International Foundation of Employee Benefit Plans typically offers training specific to apprenticeship programs at a conference every other year. This conference was offered in January of 2016, however, **there has been high demand for education specific to training so another Institute for Apprenticeship, Training and Education Programs will be held in January 16-18, 2017 in Coronado (San Diego), California.** If you are in need of continuing education courses to further your understanding of the latest trends affecting apprenticeship programs, you may consider attending this conference.

The International Foundation of Employee Benefit Plans is also increasing its offering of training methodologies and best practices and occasional online webinars. More information can be found on the International Foundation of Employee Benefit Plans website at www.ifebp.org by following the link for Education > Schedule > Institute for Apprenticeship, Training and Education Programs.

Disclosure

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