

A CPA's Advice for Employee Benefit Plan Sponsors

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As a licensed CPA and employee benefit plan auditor, I see many of the challenges employers face when sponsoring employee benefit plans. Administrative burdens faced by plan sponsors and the scrutiny under which plans are subject have increased significantly in the last 10 years. The following includes common challenges I see and five actions an employer can take to make sponsoring an employee benefit plan easier.

1. Select a plan recordkeeper who has a good professional reputation and with whom you are comfortable working. This is important, as you will work closely with the recordkeeper to make sure transactions are correctly processed and allocated to participants. A good recordkeeper will guide you through plan filing requirements, compliance testing, and laws and regulations. The recordkeeper should significantly reduce your administrative burden and help ensure your plan remains in compliance with applicable laws and regulations.
2. If a plan audit is required (this is typically required when the number of eligible participants first exceeds 120), you must hire a licensed CPA. It is important you select an accounting firm with extensive experience performing employee benefit plan audits. A qualified accounting firm will provide you with helpful advice and assist you in meeting your IRS Form 5500 filing requirements. The quality of the auditor's work can have implications on your plan as well. An audit of an employee benefit plan is subject to review by the Department of Labor (DOL). If the auditor's work does not meet auditing standards set forth by the American Institute of CPAs, the DOL can reject the audit, resulting in the plan's IRS Form 5500 being rejected as well. The DOL's rejection of the audit also can result in penalties imposed on the plan sponsor and additional time invested to re-file the IRS Form 5500.
3. Be sure employee benefit plan withholdings are submitted to the plan as soon as administratively feasible. In the past, it was debated how quickly a plan sponsor was required to remit employee withholdings to the benefit plan. In some instances, sponsors would take more than a month to remit employee contributions to the plan. This is no longer tolerated by the DOL, and, if audited, your plan can incur significant penalties if the DOL determines that you are not submitting timely employee contributions. Employee contributions to the plan should be submitted as soon as they can be segregated from other company assets. Many companies can submit contributions the same day as payroll. If you do submit a contribution late, there are ways to correct the late submission. Your plan recordkeeper should be able to assist you with this correction.
4. You should check each year that you are meeting the fidelity bonding requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Typically, each plan official must be bonded in an amount equal to at least 10 percent of the amount of funds they handled the previous year. The bond amount cannot be less than \$1,000 and does not have to exceed \$500,000 (\$1,000,000 is required for plans that hold employer securities). In practice, this usually means the bond should exceed 10 percent of the plan assets at the beginning of the plan year. A fidelity bond is not the same as fidelity liability insurance, and a plan sponsor should check with their attorney, CPA, or plan advisor to determine if they have the right coverage.

5. If you have, or are considering, implementing an Employee Stock Ownership Plan (ESOP), you should understand there are significant additional administrative duties related to this type of plan. Having your employer securities valued each year by a qualified valuation specialist, managing the cash flow requirements of purchasing securities, paying distributions, and monitoring plan activities to oversee that prohibited transactions do not occur are just a few of the additional responsibilities that accompany administering an ESOP. It is highly recommended you work closely with an attorney that specializes in this type of plan if you have or are considering an ESOP.

Administering an employee benefit plan is a significant responsibility that an employer undertakes on behalf of participants. While the task can be a challenge, there are experts who can help guide you through this process. I would recommend doing your homework when selecting your service providers to determine if they have a good professional reputation so you will be comfortable working with them. You should designate company employees to continuously monitor and complete the plan's administrative duties, including the oversight of outside service providers. These individuals should be provided adequate time and training to perform their fiduciary duties effectively and correctly. With efficient processes and a good team in place, your employee benefit plan can remain in compliance with rules and regulations and not impose too much burden on the plan sponsor.