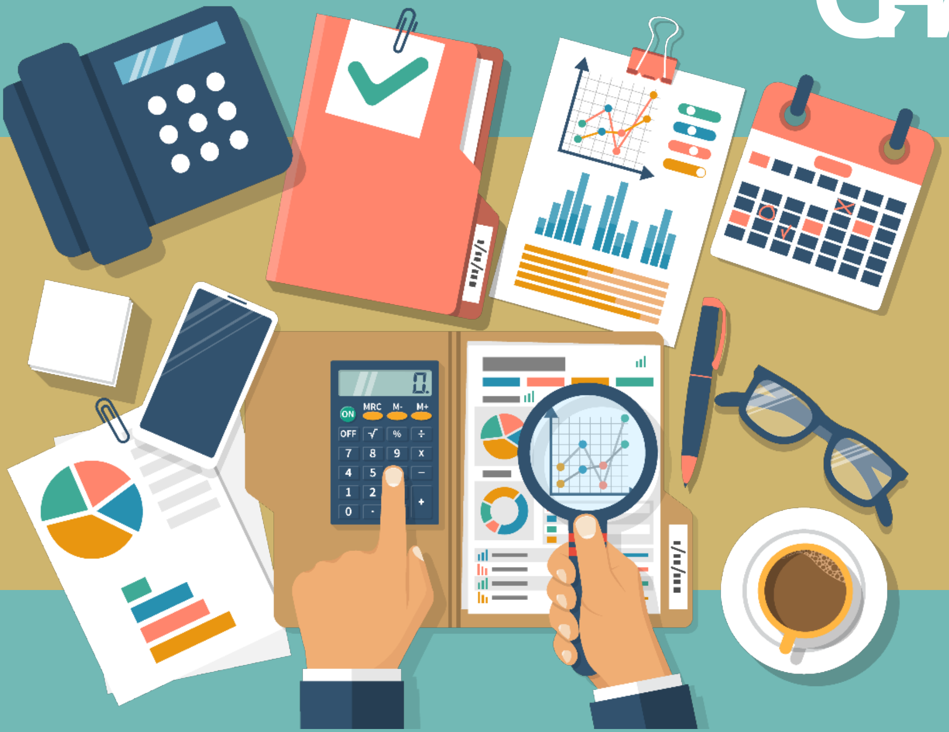
Employee Benefit Plan Audits in a Changing Regulatory Environment



NCPACA Convention

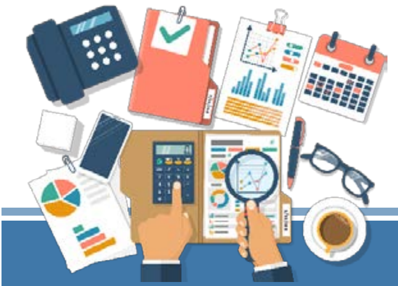
Saturday, July 6, 2019
8:00-9:00 AM CST

McConnell & Jones LLP
Certified Public Accountants

Learning Objectives

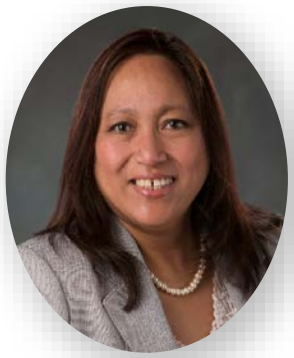
At the end of this webinar, participants should be able to:

- Determine what new accounting standards and updates are there and determine how these will affect the plans and/or the plan sponsors.
- Analyze the requirements of the new EBP reporting framework and determine how the new framework will affect the audits and/or the plan sponsors.
- Identify the latest Department of Labor (DOL) initiatives and priorities and use the latest regulatory and enforcement developments to discuss potential issues with plan sponsors.



Michelle Brumfield, CPA

Director, ERISA Assurance and Compliance Services
McConnell & Jones LLP



Ms. Michelle Brumfield serves as the Audit Director responsible for directing, managing and coordinating the firm's ERISA Assurance and Compliance Services Team. She has the unique experience required to managing numerous employee benefit plan audits and consulting frequently with employee benefit plan sponsors. She also provides leadership and technical support to the entire ERISA Assurance and Compliance Services Team to ensure the overall project performance, including all aspects of managing the fieldwork, supervision of the audit team, and audit report review/compliance is consistent with the quality standards of the firm and professional standards. She is integral in coordinating and designing the continuing professional education courses (CPE) and the training of staff throughout the firm for employee benefit plan audits, and CPE events for employee benefit plan clients.

Ms. Brumfield has over 26 years of experience in accounting and financial audits for a variety of industries and employee benefit plans. She has extensive knowledge of accounting and technical reporting standards and has assisted clients with their annual audit and reporting requirements for both defined benefit and defined contribution plans. Her management skills, coupled with her auditing and employee benefit plan experience, provides clients with superior service and knowledge. She has planned and managed numerous employee benefit plan audits, including defined contribution (savings, ESOP and 401(k)) plans (including plans requiring Form 11-K filings), defined benefit (traditional pension and cash balance) plans, health and welfare plans with a section 401(h) arrangement, and master trust investment accounts.

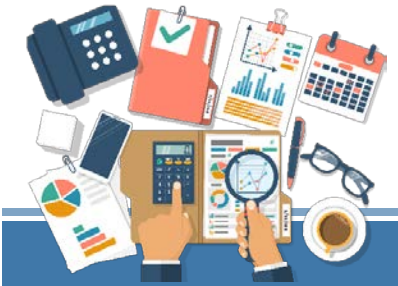
Ms. Brumfield has been with McConnell & Jones LLP (MJ) for more than 16 years and with the MJ ERISA Assurance and Compliance Services Team for more than 15 years. She is also a past speaker at the annual AICPA National Conference on Employee Benefit Plans and the National Council of Philippine American Canadian Accountants' Convention.

Education / Certifications:

- BS in Commerce, Major in Accounting, Immaculate Conception College - La Salle *(cum laude)*
- Certified Public Accountant

Member of:

- American Institute of Certified Public Accountants
- Filipino-American Accountants of Texas (Past President 2017-2018)



About McConnell & Jones LLP

- Top 20 Accounting Firm in the Southwest
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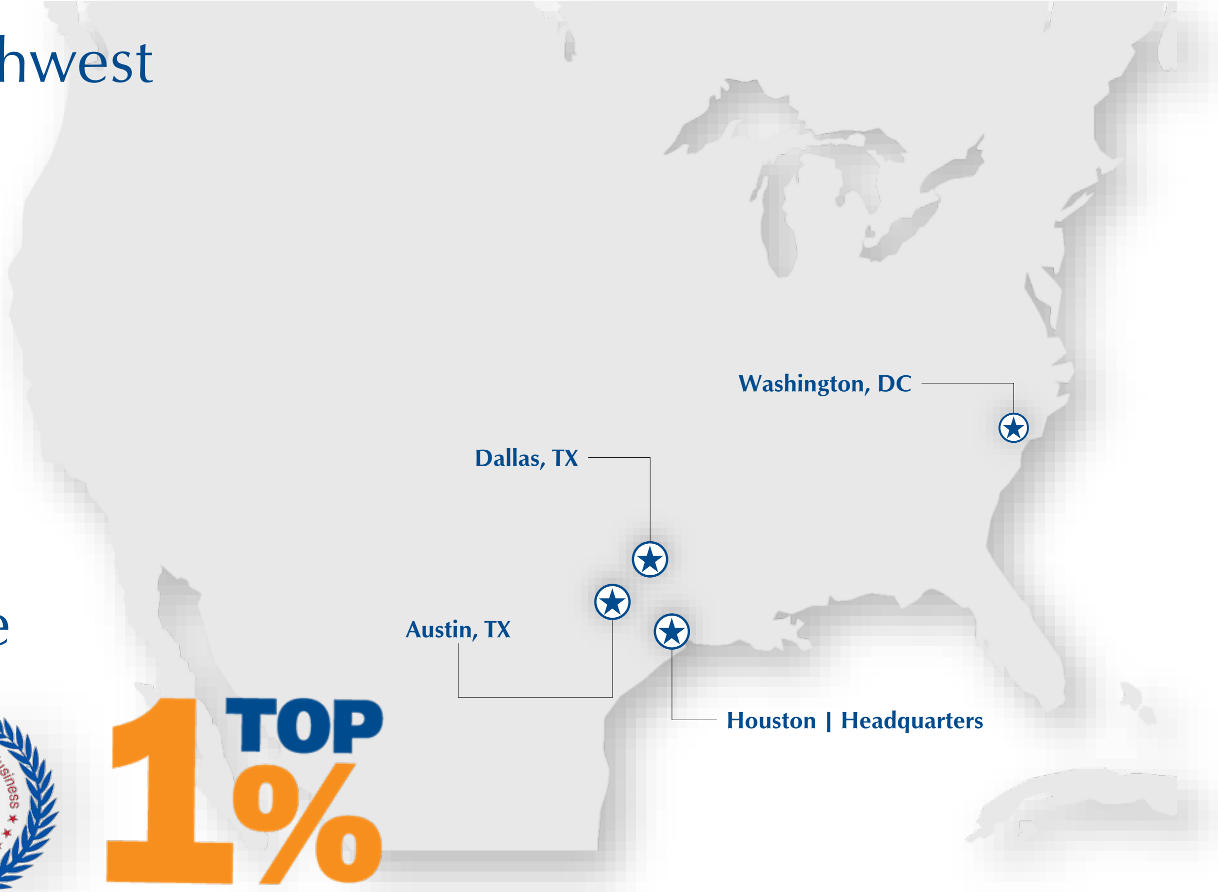
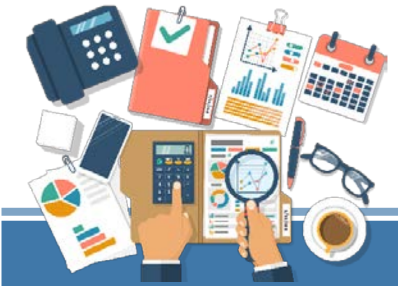
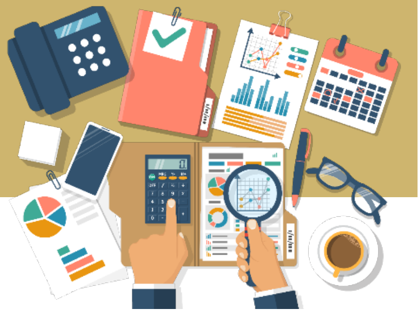
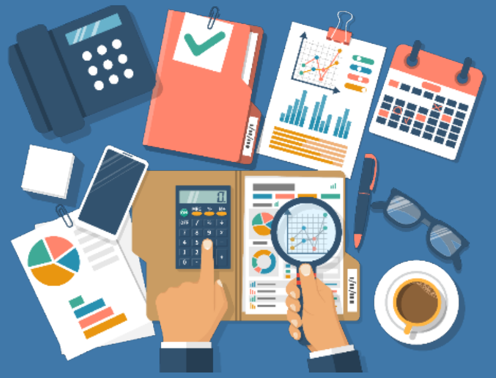
- Comprehensive Services
- Nationally Recognized EBP Practice





Employee Benefit Plan Audits in a Changing Regulatory Environment



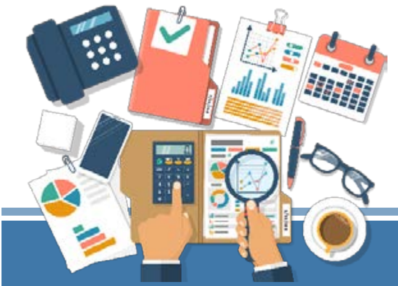


AICPA New Accounting Standards and Updates

- What are the newly released accounting standards and/or updates?
- How do these standards and updates affect the plans and/or the plan sponsors?

What are the Newly Released Accounting Standards and/or Updates?

- ASU 2017-06 Employee Benefit Plan Master Trust Reporting
- ASU 2018-09 Codification Improvements
- ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurements



ASU 2017-06: *EBP Master Trust Reporting*

- Effective for fiscal years beginning after December 15, 2018. Early adoption permitted. Retrospective application.
- A plan's interest in each master trust and any change in that interest is presented in separate line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.
- Removes the requirement to disclose the percentage interest in the master trust for plans with divided interests and requires that all plans disclose the dollar amount of their interest in each of those general types of investments, which supplements the existing requirement to disclose the master trust's balances in each general type of investments.
- Requires all plans to disclose (1) their master trust's other asset and liability balances and (2) the dollar amount of the plan's interest in each of those balances.

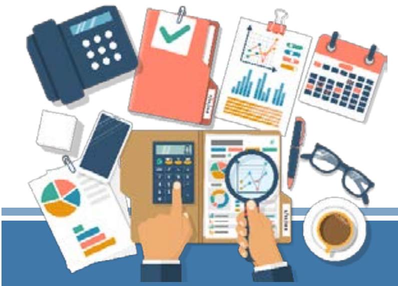


Illustration for Divided Interest in Master Trust

	Master Trust Balances	Plan's Interest in Master Trust Balances
Mutual funds	$ 13,560,000	$ 6,816,800
Common stocks	2,245,000	1,638,200
U.S. government securities	575,000	
Corporate bonds	327,500	
Total assets	16,707,500	8,455,000
Plus:		
Due from broker for securities sold	225,000	100,000
Accured interest and dividends	125,000	50,000
Less:		
Due to broker for securities purchased	(95,000)	(50,000)
Accrued expenses	(30,000)	(15,000)
Total	$ 16,932,500	$ 8,540,000

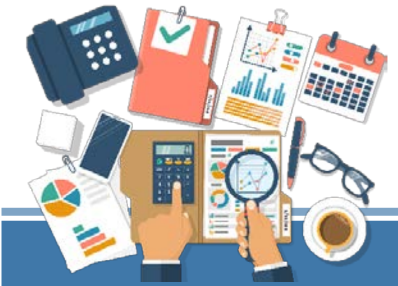
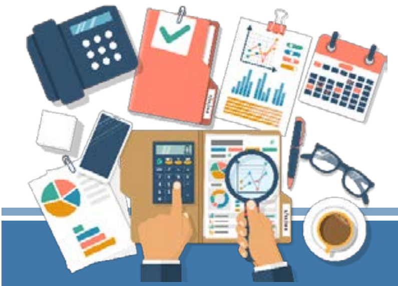


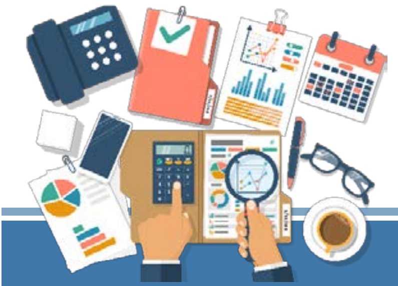
Illustration for Undivided Interest in Master Trust

	Master Trust Balances	Plan's Interest in Master Trust Balances
Mutual funds	$ 13,560,000	$ 6,780,000
Common stocks	2,245,000	1,122,500
U.S. government securities	575,000	287,500
Corporate bonds	327,500	163,750
Total assets	16,707,500	8,353,750
Plus:		
Due from broker for securities sold	225,000	112,500
Accrued interest and dividends	125,000	62,500
Less:		
Due to broker for securities purchased	(95,000)	(47,500)
Accrued expenses	(30,000)	(15,000)
Total	$ 16,932,500	$ 8,466,250



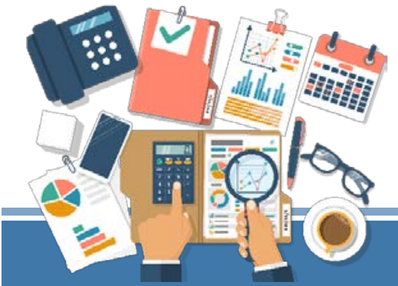
ASU 2018-09, *Codification Improvements*

- Amends the illustrative example in Subtopic 962-325 to **remove the stable value common collective trust fund previously illustrated as net asset value per share practical expedient** to avoid the interpretation that the such an investment would never have a readily determinable fair value.
  - Clarifies that an **entity should evaluate** whether a readily determinable fair value exists or whether its investments qualify for the net asset value per share practical expedient.
- Moved property, plant and equipment guidance from Subtopic 962-205 to 962-360.
- Replaces indefinite deferral guidance that was in paragraph 820-10-65-9 with a disclosure exemption in paragraph 820-10-50-2(bbb)(2).
- Effective for fiscal years beginning after December 15, 2018 (public business entities) and after December 15, 2019 (all others). Early adoption is permitted. Prospective application.



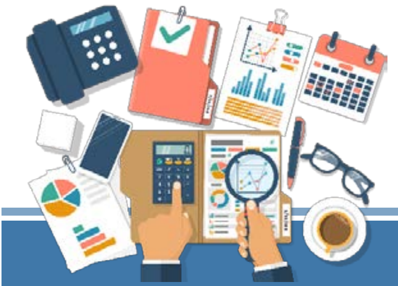
ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*

- It modifies the disclosure requirements in ASC Topic 820, Fair Value Measurement.
  - Eliminates, amends and adds disclosure requirements.
- The proposal applies to all entities that are required under existing US GAAP to disclose recurring or nonrecurring fair value measurements.
- The ASU is effective for all entities for all reporting periods (annual and interim) beginning after December 15, 2019.
  - Early adoption is allowed.
  - An entity may elect to early adopt only the eliminated or modified disclosure requirements.



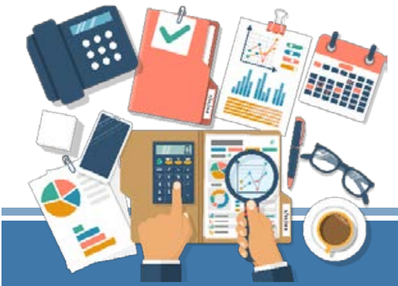
ASU 2018-13, *Eliminated Disclosures*

- The amount of and reasons for transfers between Level 1 and Level 2.
- The policy of timing of transfers between the various Levels.
- The valuation policies and procedures for Level 3 measurements.
- For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements. (This disclosure is not eliminated for Form 11-k audits).



ASU 2018-13, *Amended Disclosures*

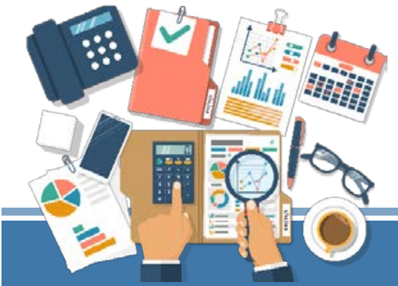
- Level 3 rollforward – nonpublic companies should disclose purchases/sales and transfers into and out of Level 3 instead of rollforward. The rollforward is still required for Form 11-k audits.
- For investments in certain companies that calculate net asset value, the timing of liquidation of investee's assets, and the date when restrictions from redemption might lapse need to be disclosed only if known.
- Measurement uncertainty – communicates information about the uncertainty in measurement as of the reporting date.
- The term 'at a minimum' is removed from the disclosure requirements to make it clear that materiality and discretion are appropriate considerations.



ASU 2018-13,
New Disclosures

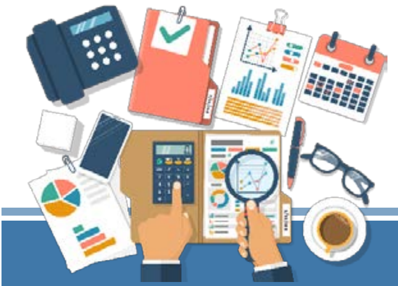
- Changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements.
- Disclose additional supporting information used to derive significant unobservable inputs for fair value measurements under Level 3 (range and weighted average, median and arithmetic average, as appropriate).

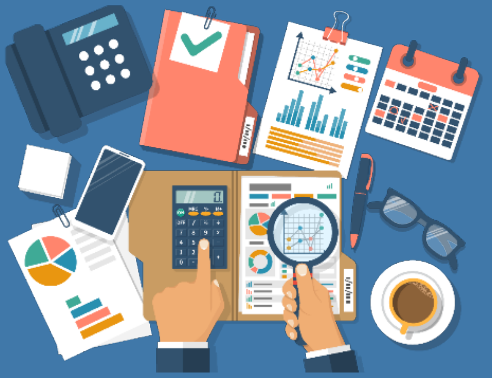
Applicable for Public Entities (Form 11-k filers)



How do these Standards and Updates Affect the Plans and/or the Plan Sponsors?

- Plan management is responsible for investment valuations and financial statement disclosures.
- Effective internal control at the plan level can help ensure that plan investments are properly valued.
- FASB ASC 820 provides a fair value framework for valuing investments in your plan's financial statements and requires extensive financial statement disclosures about the valuation of plan investments.





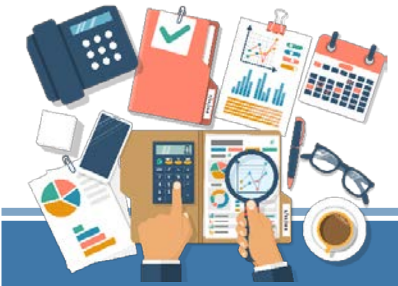
AICPA New Audit Standards

- What are the requirements of the new EBP reporting framework?
- What's different from the old reporting framework?
- How do the standards affect the audits and/or the plan sponsors?

What are the Requirements of the New EBP Reporting Framework?

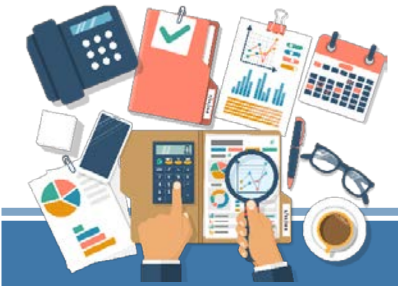
- AICPA Auditing Standards Board (ASB) voted the EBP SAS, *Forming an opinion and reporting on financial statements of employee benefit plans subject to ERISA*, final in July 2018.
  - Prescribes certain new performance requirements for an audit of financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA).
  - Changes the form and content of the related auditor's report.
- Pending conforming changes for proposed auditor reporting standards and related amendments.

When issued: to be effective no earlier than periods ending on or after December 15, 2020. Early adoption is NOT permitted.



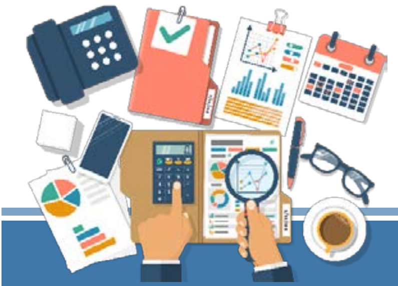
About the New EBP SAS

- Not all-inclusive; all the AU-C sections apply, except for the following, which are specifically covered in the EBP SAS:
  - AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*
  - Paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Contains incremental requirements to the following:
  - AU-C section 210, *Terms of Engagement;*
  - AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements;*
  - AU-C section 260, *The Auditor's Communication With Those Charged With Governance; and*
  - AU-C section 580, *Written Representations.*



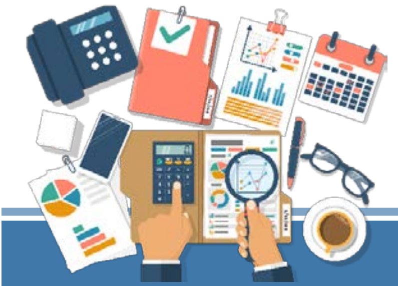
Objectives of New EBP SAS

- Accept engagement when preconditions are present…
- Appropriately plan and perform audit…
- Form an opinion based on audit evidence obtained…
- Express clearly an opinion in a written report…
- Perform procedures and report on supplementary information in accordance with SAS…
- Appropriately communicate to management and those charged with governance reportable findings identified during the audit…



What's Different from the Old Reporting Framework?

- ✗ No longer referred to as a "limited scope" audit
- ✓ Will be referred to as an "**ERISA section 103(a)(3)(C) audit**"
  - Not considered a scope limitation, therefore the auditor would no longer issue a modified opinion (typically a disclaimer of opinion) due to information that is certified by a qualified institution.
  - Instead, the report provides a two-pronged opinion that is based on the audit and on the procedures performed relating to the certified investment information.

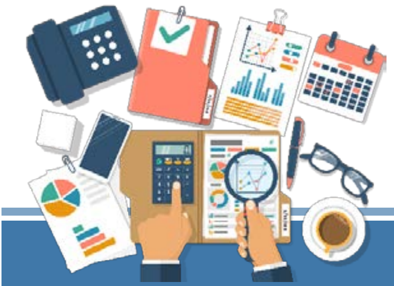


FYI: Full scope audits are now referred to as
*"**EBP Audit (without 103(a)(3)(C) election**"*

Key Provisions for ERISA Section 103(a)(3)(C) Audit – Reporting

New and unique <u>form of report</u> stating

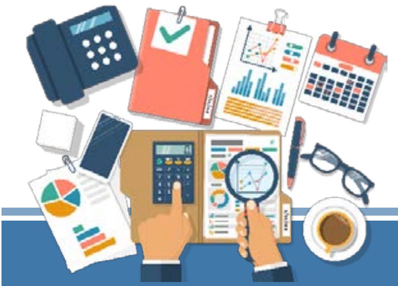
- In the auditor's opinion, based on the audit and the procedures performed as described in the auditor's responsibility section:
  - The amounts and disclosures in the financial statements, other than those agreed to or derived from certified investment information, are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
  - The information in the financial statements related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).



Key Provisions for ERISA Section 103(a)(3)(C) Audit – Supplemental Schedules

When reporting on ERISA <u>required supplemental schedules</u>

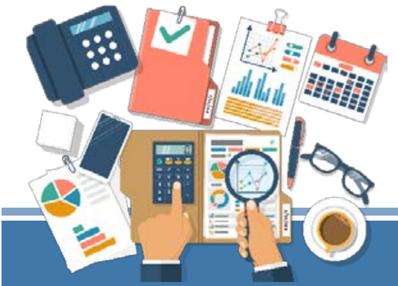
- Include a statement in an other matter paragraph whether, in the auditor's opinion:
  - The form and content of the supplemental schedules, other than the information in the supplemental schedules that agrees to or is derived from the certified investment information, is presented, in all material respects, in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.
  - The information in the supplemental schedules related to assets held by and certified to by a qualified institution agrees to or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).



Key Provisions for ERISA Section 103(a)(3)(C) Audit – Certified Information

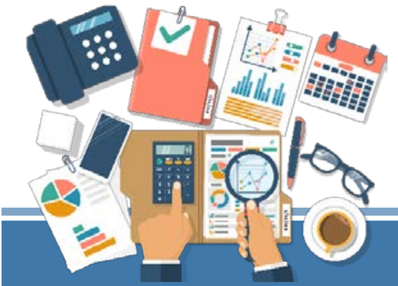
Required procedures with respect to <u>certified investment information</u>

- Evaluate management's assessment of whether the entity issuing the certification is a qualified institution.
- Identify which investment information is certified.
- Obtain from management and read the certification.
- Compare the certified investment information with the related information presented and disclosed in the financial statements and supplemental schedules.
- Read the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of GAAP.



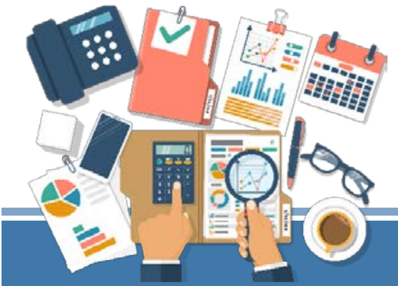
Other Key Provisions

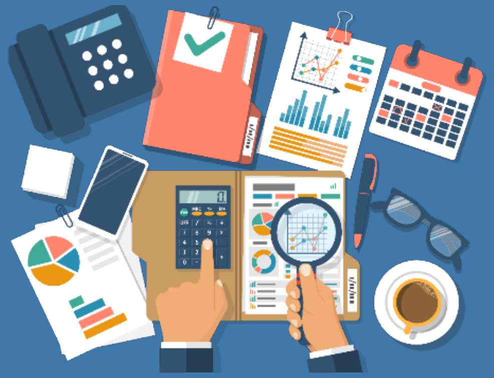
- Engagement Acceptance
- Risk Assessment and response
- Performance Procedures
- Evaluation and Documentation
- Communications with Management and Those Charged with Governance
- Management Representations
- Reporting
- Review of Draft Form 5500
    - Prior to dating auditor's report



How do the Standards Affect the Audits and/or the Plan Sponsors?

- Plan audits are now more unique and complex.
- Plan management and those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP.
- Preparation and assistance on your part can lead to a significant reduction in time the auditor spends.





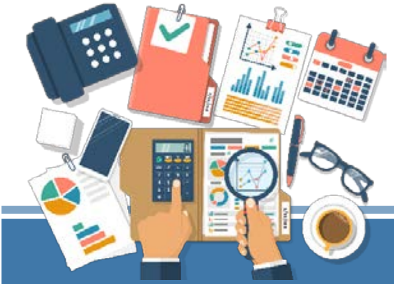
DOL Audit Quality Initiatives

- Why is the DOL concerned about audit quality?
- What are the latest initiatives and priorities within the DOL?
- How are plan sponsors affected by these latest regulatory and enforcement developments?

Why is the Department of Labor (DOL) concerned about audit quality?

Audit Landscape

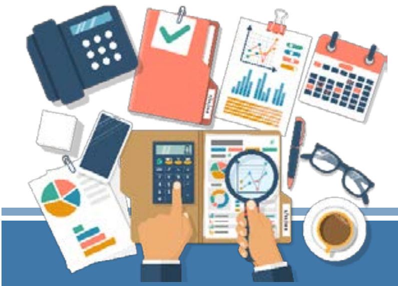
- 84,109 plans are subject to audit
- 131 million participants
- $8 trillion in assets subject to audit
- 5,483 CPA firms performing audits



Why is the Department of Labor (DOL) concerned about audit quality?

EBSA's Audit Universe

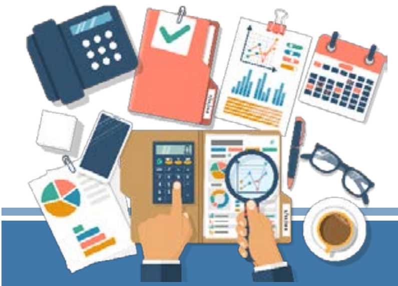
- Firms auditing 200+ plans
  - 54 firms, perform 39% of audits, covering 72% of plan assets
- Firms auditing 100-200 plans
  - 55 firms, perform 9% of audits, covering 9% of plan assets
- Firms auditing < 100 plans
  - 5,374 firms, perform 52% of audits, covering 19% of plan assets



What are the Latest Initiatives and Priorities within the DOL?

EBSA's Response to Audit Quality

- Inspections of firms at all levels
- Variety of targeting and approaches based on:
  - Size of benefit plan practice
  - Complexity of type of plan
  - Participants and assets covered
- Education and outreach
- Communications with stakeholder groups
- Referrals of egregious work

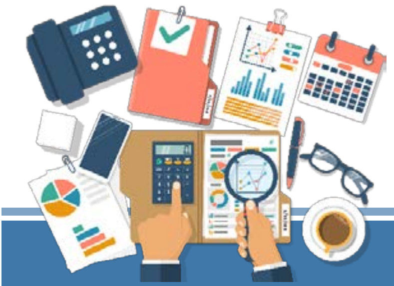


What are the Latest Initiatives and Priorities within the DOL?

200+ Audits
- CPA firm inspections
- How does firm manage audit practice

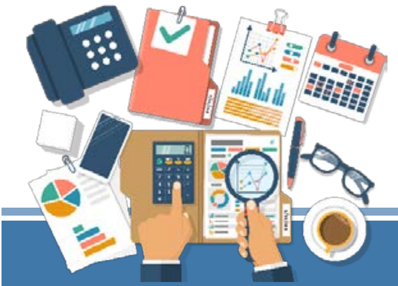
100-199 Audits
- How does firm manage practice
- Review of several audit engagements

Less than 100 Audits
- Review of individual audit engagement
- Targeting is more statistically based

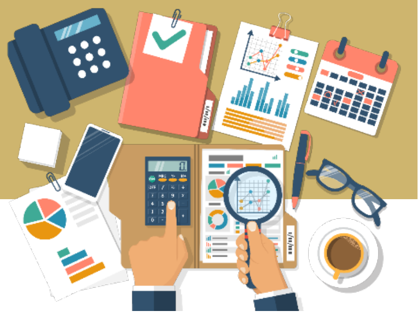


How are the Plan Sponsors Affected by these Latest Regulatory & Enforcement Developments?

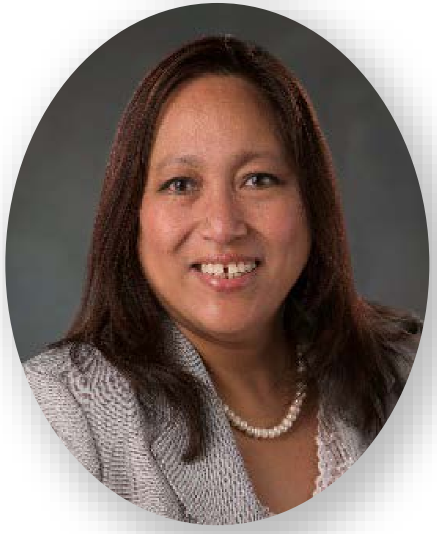
- Risk to plan administrators if a quality audit is not performed.
- Personal liabilities for fiduciaries.
- Rejection of plan filings and assessment of penalties.
- Selection of the plan auditor a high priority and exercise due care during every phase of the auditor selection process.



Questions & Answers



We're Here For You



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