

The Advisor

The C&P Advisors companies are pleased to bring our latest newsletter to you. If you have questions on any of these topics, contact your C&P Advisor or the individuals listed.

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Payroll Audits

If you are affiliated with a multi-employer benefit plan, chances are you have heard of the term “payroll audits”. They may not be at the fore-front of your plan’s administration concerns; however, they are important in fulfilling trustee fiduciary duties. The Employee Retirement Income Security Act of 1974 (ERISA) has given the responsibility of collecting delinquent employer contributions to the trustees of plans. Failure to fulfill this responsibility in a prudent manner can cause trustees to be held personally liable. The following information is provided to further understand payroll audits and their importance in the multi-employer benefit plan arena.

What is a Payroll Audit?

A payroll or compliance audit is an audit of a contributing employer’s records to verify that the employer has contributed to the plan as required by a collective bargaining agreement. Performed effectively, a payroll audit can determine whether or not the employer has reported all required hours and wages, and can identify deficiencies or delinquencies for amounts due to the plan.

Are Payroll Audits Required?

The Department of Labor has suggested that, without performing payroll audits, it is difficult for your plan’s independent qualified public accountant to ensure the completeness of plan employer contributions. Therefore, the Department of Labor believes that an effective payroll audit program is required. Without an effective payroll audit program, the Department of Labor believes that the plan’s auditor should strongly consider issuing a qualified opinion on the plan’s financial statements. This most likely would trigger a Department of Labor audit after the related Form 5500 is filed.

Who Must Perform the Payroll Audits?

The AICPA Audit and Accounting Guide: *Employee Benefit Plans* states that trustees may engage the employer’s auditor, other outside auditors, in-house compliance personnel, or others to perform agreed-upon procedures to test the completeness of employer contributions. External auditors (Certified Public Accountants) will refer to the payroll audits as an agreed-upon procedures engagement.



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Who Must Perform the Payroll Audits? (*continued*)

Payroll auditing performed in-house can be less expensive if the plan uses its own employees to do the audits. In-house auditors can also be used effectively to educate contributing employers regarding their reporting responsibilities in complying with the collective bargaining agreement. Hiring outside auditors to perform the payroll audits removes administrative burdens of employment and training from the plan.



How Often Should Payroll Audits be Performed?

The AICPA Audit and Accounting Guide: *Employee Benefit Plans* states that a representative group of contributing employers should be tested each year with payroll audits. The number of payroll audits to perform and which contributing employers to audit in any given year should be dependent upon the circumstances and is ultimately up to the judgment of the trustees to decide. Typically, a small plan would cover all employers in a three- or four-year cycle, which may not be practical for a national plan with thousands of contributing employers.

For example, a plan may choose to audit each employer every three years and discover that most are reporting accurately. In cases like these, it would be appropriate to consider adding years between audits of those contributing employers. Plan trustees may find, also, that some employers regularly are delinquent or deficient, and thus should receive more frequent audits. However, a random sample should be drawn each year in selecting at least some of the contributing employers for audit. With this method, every contributing employer would have the opportunity of being audited.

The amount of revenue generated from the payroll audit program is a good indicator of the number of payroll audits to perform. As revenues increase as a percentage of costs of the audit program, then consider increasing the number of payroll audits performed. If revenue is decreasing as a percentage of costs, then consider reducing the number of payroll audits performed.

What Procedures Should be Performed?

Trustees should monitor the effectiveness of its payroll auditing program regularly. They need to determine what procedures are adequate. When conducting an audit of the plan, the external independent qualified public accountant needs to ensure that certain minimum procedures are performed to comply with current auditing standards when auditing employer contributions.

Conclusion

Please contact John Rose or George Pickard at 216.831.7171 to see how we can help you in the administration of your payroll audits.