The IRS requires that an audit be prepared annually by an Independent Qualified Public Accountant (IQPA) for all plans with more than 100 participants at the beginning of the plan year.

The IQPA examines all aspects of the plan to determine if they conform to Generally Accepted Accounting Principles (GAAP). He/she then prepares separate financial statements to form an opinion and notes to these financial statements. This "accountant's opinion" is then attached to the Form 5500 when it is filed with the EBSA.

Which employees are included in determining if the plan has over 100 participants at the beginning of the Plan Year?

The employees who are included in the "100 participant" count are those employees who have met the Plan's eligibility requirements and are eligible to participate in the Plan as of the beginning of the plan year being reported. This includes employees who have elected not to contribute salary deferrals to the Plan, but are <u>eligible</u> to contribute salary deferrals to the plan.

Do you include terminated participants who still have account balances in the plan in determining the participant count?

Yes. You need to include all terminated participants who still have a vested account balance in the Plan.

What happens if our plan never had over 100 eligible participants, but now has 105 eligible participants as of the beginning of the plan year?

If the participant count was under 100 in prior years, then goes over 100 participants at the beginning of the plan year, an audit is required. However, you could also elect the 80/120 rule. This rule would allow you to be exempt from an audit until your participant count reaches 120. You would be subject to an annual audit unless your participant count drops to 80 or fewer.

Can I use my own corporate accountant to prepare the accountant's opinion?

Probably – ERISA requires the audit to be completed by an Independent Qualified Public Accountant. To be qualified, the accountant must be licensed as a CPA in the state where the employer is located. To be considered "Independent", the accountant cannot be an employee, owner, partner, stockholder, or director of the company. The accountant also cannot provide investment advice or received compensation of any nature from the plan. The accountant cannot engage in any joint business venture with the plan or the plan sponsor. The accountant, or the accounting firm, would not be precluded from providing other services to the employer, but the

DOL states that it will "give appropriate consideration to all relevant circumstances". This is clearly an area where caution should be exercised.

What type of information do you need to provide to the auditor?

- Form 5500 filing, with all schedules attached.
- If available, the audit package provided by your fund house (i.e., John Hancock, Mass Mutual, etc.). Usually includes SAS 70 report.
- Plan Document, Amendments, Summary Plan Description, Summary Annual Report
- Statement of Plan Assets, Contributions, Loans, Benefit Payouts, Testing Reports, etc. **This information is contained in the annual report provided by GF Pension each year.**

What happens if the IQPA finds the plan's financial statements to not be in accordance with GAAP?

On the Schedule H attached to the Form 5500, the IQPA will check off the appropriate box, depending on his/her conclusions on the status of the financial statements.

- An **Unqualified Opinion** is issued when the IQPA concludes that the plan's financial statements **present fairly** the financial status of the plan as of the end of the period audited.

- A **Qualified Opinion** is issued when the IQPA concludes that the plan's financial statements **present fairly** the financial status of the plan as of the end of the period audit, **except for the effects of one or more matters described in the opinion**.

- A **Disclaimer of Opinion** is issued when the IQPA **does not express an opinion** on the financial statements because he or she has not performed an audit sufficient in scope to enable him or her to form an opinion on the financial statements.

- An **Adverse Opinion** is issued when the IQPA concludes that the plan's financial statements **do not present fairly** the financial status of the plan as of the end of the audit period.

What happens if the accountant's opinion is not attached to the Form 5500 filing?

If the required accountant's opinion is not attached to the Form 5500, the filing is subject to rejection as incomplete and penalties may be assessed.