# EBP EDUCATOR

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BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

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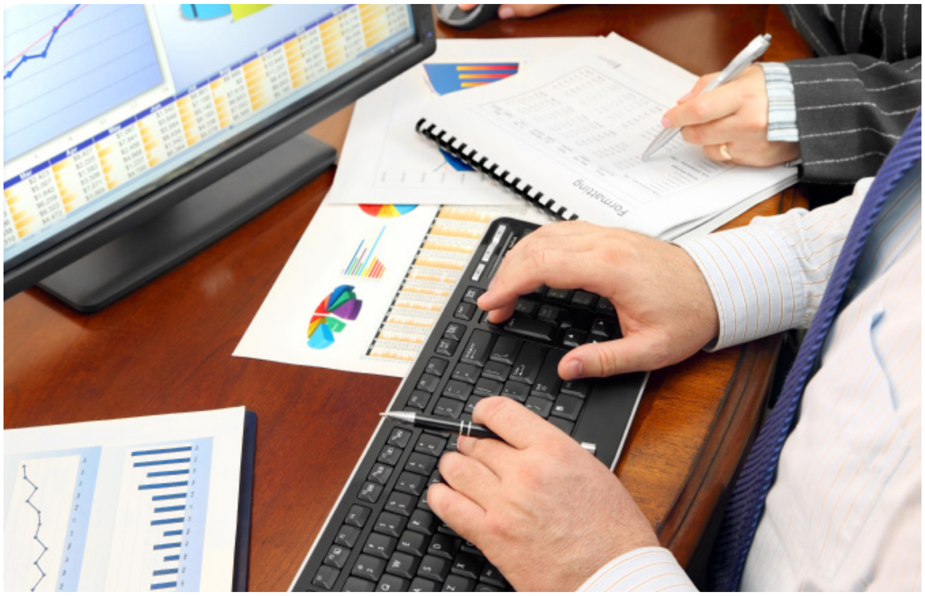
# UTILIZING DATA ANALYTICS FOR EMPLOYEE BENEFIT PLANS



***Contributed by Kirstie Tiernan***

*Data Analytics. The phrase brings to mind words like Big Data, Business intelligence, Analyze, Predictive Models, and Visualize. In this article, Kirstie Tiernan, a Forensic Technology Services Director with BDO's Consulting Group, introduces the concept of using data analytics (commonly defined as the use of techniques and processes to extract, categorize and analyze data) as a tool for plan sponsors and discusses some of the key considerations that are the building blocks to understanding and using data analytics successfully.*

The applications of data analytics to employee benefit plans (EBPs) are potentially endless. Imagine a large participant population with manual data entry of 401(k) deferrals that are performed by many payroll analysts. To internally test that the deferrals were input correctly, you could run a comparison of the data set of deferral changes (from the record-keeper) to the payroll data. As those familiar with administering plans know, EBPs can be prone to operational errors, which must be corrected by the sponsor. Finding these errors timely can reduce the sponsor's cost of correction.

There is often a significant gap between the possibilities of what can be done with data and what a plan sponsor can realistically execute. Limitations on resources, time, budget, and software are all common factors that keep companies from taking full advantage of data analytics. Important keys to using data analytics include: start small, identify projects with clearly attainable objectives (to help obtain "buy-in" from others within the company), and build an environment that makes it easy to progressively add in additional datasets and analytics.

### What Data Do You Have?

One of the first things to consider is what data is available. A company may have a human resources information system, payroll system, time and expenses system, email, social media datasets, etc. that hosts data pertaining to the employee benefit plan. Depending on the nature of the desired analytics, public records, market intelligence, industry benchmarking data, Twitter feeds, and general online chatter may also be relevant. It is important to map out the available data sources and to

## BMSS EBPA PRACTICE

It's been said in the business world that your people are your greatest asset. At Barfield, Murphy, Shank & Smith, we couldn't agree more. In addition to meeting your federal reporting obligations and avoiding non-compliance penalties, an employee benefit plan (EBP) audit helps provide you and your employees with the peace of mind that the funds will be available, and your plan future is secure.

Choosing Barfield, Murphy, Shank & Smith to conduct your next EBP audit is an exceptionally wise decision. We believe that the audit process is an opportunity, not a burden. We don't bring stress and complexities; we bring fresh ideas and enhanced efficiencies. Our professionals receive specific annual training in employee benefit plan audits and can help you understand your plan, determine the most streamlined audit process tailored to your plan and offer recommendations for improvement.

You won't pay absurdly high fees often charged by larger firms. You won't have daily interruptions to your business. You won't have a revolving door of new faces to work with. What you will have is an engagement team that is experienced and focused, efficient with their work and committed to providing an audit experience that will leave you eager to do it all again.

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understand both the "owners" of the data and access to each dataset. An assessment of what is available and the effort needed to obtain the data on a regular basis is crucial to planning an effective analytics strategy.

## What Tools Do You Have (Or Need)?

Does the company already use certain tools that plan management could utilize throughout the analytics program? SQL Server and Oracle are large database tools that most companies have in place behind their ERP systems. Other tools that are used often include statistical tools like R or SAS or analysis tools like IDEA or ACL. Visualization is also a very important consideration because it doesn't matter how much work is done if it can't be explained simply and succinctly. Tableau, Qlik, and MicroStrategy are some of the more popular tools out there for visualization and are generally considered fairly easy to use. Of course, Excel charts are also a basic (albeit minimum) option. For companies with access to programmers and developers, we typically recommend using SQL Server and Tableau, which are a good combination of analysis tools. If no developer resources are available, ACL/ IDEA/Excel can be used.

## What Data Do You Need To Analyze?

The crucial question with analytics is what story to tell. The easiest place to start is with the most manual set of tasks. Identify what manual tasks are performed by the plan sponsor. Rather than spending the time manually pulling data and then extracting, updating, combining, formatting, and charting it, consider using an analytic that will pull the data together from multiple systems and also target and focus the analysis so that the review of false positives is limited.

One caution with the incorporation of analytics is to be careful so as not to add unnecessarily to the workload. Incorporating several reports for the plan committee or the plan auditor to consider by using analytics is only beneficial if it reduces the work elsewhere or provides such an additional value to the review that it is worth the additional time and effort. For example, we assisted a plan sponsor who had incorrectly calculated 401(k) contributions which resulted in the need to go back and review all 401(k) contribution requests. The majority of these requests were handled in emails back and forth with the human resources department. The plan sponsor provided several Outlook email files that were processed through a document management tool using search term reports which reduced the potential universe of approximately 46,000 emails to approximately 6,000 emails. Utilizing email threading to review only the strings of emails that were non-duplicated, the number of emails to be reviewed was further decreased to 3,000. The remaining emails were reviewed for the pertinent information. By running the search terms and email threading, the desired information was obtained while only reviewing 6.8% of the total document universe.

## How Do You Ensure the Data Analysis Process Adds Value?

Before going through the steps of pulling together data, running the analytics, and automating a process, a suggested first step is to think about how the analytic can be modified to drive value and consider the primary intended goal(s) of the process. For example, before analyzing participant accounts for anomalies, consider what potential issues can be identified and corrected. Likewise, identifying plan vendors with weekend payments may be an interesting exercise, but flagging vendors with duplicate payments where funds could be recovered would be a goal that adds real value.

We also often use analytics during our forensic investigations by identifying patterns and trends across years and systems of data. One particular investigation related to a potential fraud in a defined benefit plan. Using visualizations made it much easier to see that one employee received significantly higher payments over years of time compared to the payment activity of other participants. Benefit payments were broken down between type, such as beneficiary, lump sum, and retirement annuity payments. Using these categories, paired with the employees' years of service, spotlighted unusual activity based on averages. While these visual charts did not identify fraud, they summarized the data in a way where we could focus our interviews and forensic review in an efficient manner. This example also highlights that, while analytics may not always provide a clear-cut answer, it can be an effective tool to focus and drive the right questions.


# AICPA ASB PROPOSES STANDARD ON AUDITOR REPORTING ON ERISA FINANCIAL STATEMENTS

***Contributed by Darlene Bayardo***

In an effort to improve the communicative value and relevance of the auditor's report, the AICPA's Auditing Standards Board (ASB) has issued the exposure draft, Proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (Exposure Draft).

The Exposure Draft would considerably transform the way EBP audits are performed and reported. Significant proposed changes include, but are not limited to, the following:

- Procedures to be performed for specific plan provisions relating to financial statements areas, irrespective of the risk of material misstatement
- Requirement to report findings from procedures performed on specific plan provisions relating to the financialstatements (either included in the auditor's report on the ERISA plan financial statements or issued as a separate report), other than when clearly inconsequential
- Incremental requirements regarding the engagement acceptance and written representations
- Additional procedures and considerations relating to the Form 5500 filing (as the auditor's report is attached to such filing)
- Proposed new reporting model for audits of ERISA plans that, among other things, changes the form and content of the auditor's report when management imposes a limitation on the scope of the audit, as permitted by ERISA (limited scope audit)
- Changes to the form and content of the auditor's report for an unmodified opinion
- Expanded descriptions of management's responsibilities
- Expanded reporting on the ERISA supplemental schedules
- Required emphasis-of-matter paragraphs

The proposed SAS would be codified as AU-C section 703 in AICPA Professional Standards and would apply to audits of single employer, multiple employer, and multiemployer plans subject to ERISA. It would be effective for audits of financial statements for periods ending on or after December 15, 2018.

It is highly recommended that plan sponsors, service providers and auditors provide comments directly to the ASB. The ASB identified 9 specific issues within the Exposure Draft in which feedback is requested. Comments are most helpful when they refer to specific paragraphs in the Exposure Draft, include reasons for the comments, and where appropriate, make specific suggestions for any proposed changes. It is also helpful to provide comments on areas in which the respondent is in agreement with the proposals. The comment deadline is August 21, 2017.

The Exposure Draft is available here.

# FASB UPDATES PRESENTATION OF EMPLOYEE BENEFIT PLAN INTEREST IN A MASTER TRUST

***Contributed by Darlene Bayardo***

ASU 2017-06, *Employee Benefit Plan Master Trust Reporting,* amends the presentation and disclosure requirements for an EBP interest in a master trust. The amendments apply to EBPs within the scope of Accounting Standards Codification (ASC) 960, *Plan Accounting – Defined Benefit Pensions Plans,* ASC 962, *Plan Accounting – Defined Contribution Pension Plans,* and ASC 965, *Plan Accounting – Health and Welfare Benefit Plans*.

A master trust is a trust for which a regulated financial institution (i.e., a bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency) serves as a trustee or custodian and in which assets of more than one EBP sponsored by a single employer or by a group of employers under common control are held. Under the ASU:

- An EBP with an interest in a master trust will be required to present it interest in the master trust and the change in its interest in that master trust as single line items in the statement of net assets available for benefits and the statement of changes in net assets available for benefits, respectively.

- An EBP with an undivided (proportionate) interest in a master trust will continue to disclose its percentage interest in the master trust.

- An EBP with a divided interest in a master trust will disclose the dollar amount of its interest in specific investments held by the master trust, rather than its percentage interest in the master trust itself.

- An EBP will also disclose a master trust's other asset and liability balances and the dollar amount of the plan's interest in each of those balances.

- Health and welfare plans' investment disclosures for 401(h) account assets have been eliminated. Instead, the plan financials will disclose the name of the defined benefit pension plan which includes such investment disclosures.

The amendments in ASU 2017-06 are effective for fiscal years beginning after December 15, 2018, and should be applied retrospectively. Early adoption is permitted.



# UPDATES TO RETIREMENT PLAN CORRECTION PROCEDURES

***Contributed by Kimberly Flett***

The Internal Revenue Service (IRS) released Revenue Procedure (Rev. Proc.) 2016-51 updates to the Employee Plans Compliance Resolution System (EPCRS) in September 2016 replacing Rev. Proc. 2013-12. While the Rev. Proc. makes small, clarifying updates, it does not significantly change EPCRS's substantive provisions. It incorporates changes described in Rev. Proc. 2015-27 and Rev. Proc. 2015-28. A summary of the key changes include:

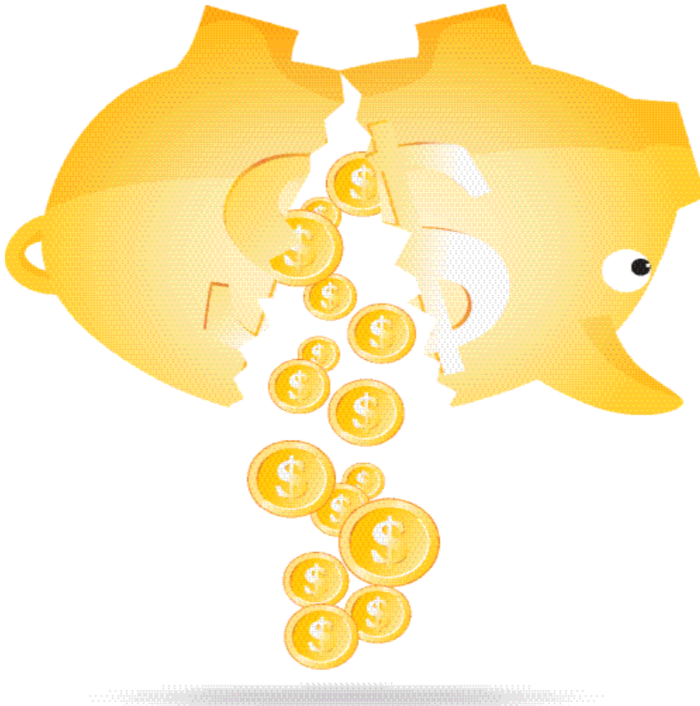
- Under Rev. Proc. 2016-37 the requirement to submit a determination letter application when correcting qualification failures that includes a plan amendment no longer applies.

- Fees associated with the Voluntary Correction Program (VCP) are now considered user fees and are no longer detailed in the EPCRS revenue procedure. For VCP submissions made after 2016, refer to the annual Employee Plans user fees noted in Rev.Proc. 2017-4 to determine the current VCP user fees.

- The availability of the IRS Self Correction Program (SCP) for significant failures has been modified to provide that, for qualified individually designed plans, a determination letter need not be current to satisfy the Favorable Letter requirement.

- Under the IRS Audit Closing Agreement Program (Audit CAP), a reasonable sanction is no longer a negotiated percentage of the maximum payment amount (MPA). Instead, the sanction will be based on a review of the specific facts and circumstances; the MPA amount is now just one of the factors to be considered. Generally, the sanctions will not be less than the fees associated with VCP. The IRS has a new approach to determining applicable sanctions for any late amender failures discovered during an IRS review of a determination letter application.

The Rev. Proc. was effective January 1, 2017; the provisions could not be applied by plan sponsors before that date.



# SUBSTANTIATION OF HARDSHIP DISTRIBUTIONS

***Contributed by Mary Espinosa***

The IRS recently issued two memorandums to its employee plan examiners indicating it is permissible for 401(k) and 403(b) plan sponsors and their service providers to rely on participants' written summaries describing their financial hardships when processing hardship withdrawals from plans that apply safe harbor event rules.

A hardship distribution must be made on account of an immediate and heavy financial need of the employee and the amount must be necessary to satisfy the financial need. Types of hardship distributions that generally fall under the safe-harbor standards include unpaid medical expenses, purchase of a primary residence, payment of tuition, payments necessary to prevent eviction, funeral expenses, and certain expenses to repair damage to the primary residence. Substantiation that a requested hardship distribution is for one of the above reasons is required to determine that the distribution is based on an immediate and heavy financial need.

The IRS memorandums allow plans that apply the safe harbor standards' rules to rely on a participant-provided summary of the financial hardship, provided that certain information is included in the summary. The plan sponsor or service provider must provide the participant with a notification containing certain information about the distribution. If certain requirements are met, the plan sponsor does not need to obtain source documents from the participant, on the condition that the participant agrees to retain and provide source documents upon request. If the distribution process is outsourced to a service provider, then the service provider will provide the plan sponsor, at least annually, a summary of the hardship withdrawals during the year or provide access to the summary information.

These memorandums are expected to assist plan administrators by providing insight and guidance as to what an IRS examiner may request upon audit and therefore what information should be obtained and maintained related to hardship withdrawals. As a best practice, we recommend plan sponsors review the plan's controls and procedures surrounding hardship distributions. The sponsors should also verify whether hardship distributions are permissible under the plan document and discuss with service providers the roles and responsibilities of each party in the hardship distribution process, including providing the required notifications to participants.

# USE OF FORFEITURES IN SAFE HARBOR 401(k) AND 403(b) PLANS

***Contributed by Kimberly Flett***

In January 2017, the IRS issued a proposed regulation under which forfeitures may now be utilized to fund Qualified Non-Elective Contributions (QNECs) and Qualified Matching Contributions (QMACs), including ADP safe harbor matching and non-elective contributions (fully vested sources) at the time the amounts are funded[1]. Previously, forfeiture amounts could only be applied to sources of funding subject to a vesting schedule, such as matching and/or profit sharing contributions. Additionally, certain pre-approved plan documents included language prohibiting the use of forfeitures to fund safe harbor contributions. The limitations imposed by the funding source requirements and plan document stipulations created administrative challenges for plan sponsors attempting to appropriately apply forfeitures to select funding sources. The proposed regulation significantly impacts the use of forfeitures for safe harbor 401(k) plans and 403(b) plans and is anticipated to be a help to administrators of 403(b) plans that utilize fully-vested funding options since the proposed regulation will provide more viable funding options.

Even though the regulation is proposed, it may be relied upon. While this does not permit a retroactive application to the 2016 plan year, forfeitures may be applied to current 2017 funding, such as matching contributions.



[1] QNECs and QMACS are special discretionary contributions allowed in the plan document that are contributed to employees, using spe-cific formulas, as a method of correcting testing failures. However, since these contributions are 100% vested and are non-forfeitable at the time they are allocated to participant accounts, this previously meant that forfeitures could not be used to fund those types of con-tributions.