

Audit Requirements for Small Plans

Updated September 2009

The Department of Labor (DOL) has regulations in place that require independent CPA audits for many small plans.

Audit Rules:

The rules require plans with fewer than 100 participants to have a CPA audit unless they become exempt by meeting the following two requirements:

1. Additional Disclosure Requirement

The Summary Annual Report given to participants and beneficiaries each year will have to contain the following additional information:

- the name of each financial institution holding “qualifying plan assets” (discussed below) and the amount of assets held by each institution at the end of the plan year;
- in some cases, the name of the surety company issuing the plan’s fidelity bond;
- a notice indicating that participants and beneficiaries may (upon request and without charge) examine or receive copies of evidence of the required bond and statements received from each institution holding qualifying assets which describe the assets held by the institution;
- a notice stating that participants and beneficiaries should contact a Department of Labor Regional Office if they are unable to examine or obtain copies of the statements or evidence of the required bond, if applicable.

2. Minimum Bonding Requirement

To be exempt from the audit requirement, a plan with assets that are not "qualifying plan assets" may need to increase its fidelity bond coverage. The minimum coverage amount must be at least equal to the value of the non-qualifying plan assets, but not less than 10% of all plan assets. Non-qualifying plan assets include certain assets, such as trust deeds, limited partnerships and collectibles, that are not held in trust by a corporate trustee.

Qualifying Plan Assets

"Qualifying plan assets" are defined to include:

- employer securities
- participant loans
- any assets held by the following institutions:
 - bank or similar financial institution
 - an insurance company
 - a broker-dealer
 - any other organization authorized to act as an IRA trustee
- mutual fund company shares
- investment and annuity contracts issued by an insurance company
- assets in participant-directed accounts.

One-Participant Plans Remain Exempt

Notwithstanding these rules, any “one-participant plan” (that is, a plan with only one participant where that participant owns 100% of the sponsoring employer) will continue to be exempt from the audit requirement. This is because such plans are not subject to the provisions under Title I of ERISA that impose the audit requirement.

What You Should Do

If you think this audit requirement applies to your plan, or if you need assistance, please do not hesitate to contact us.

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