U.S. Department of Labor
Office of Inspector General
Office of Audit

BRIEFLY…

Highlights of Report Number 09-12-002-12-121, issued to the Assistant Secretary for Employee Benefits Security.

WHY READ THE REPORT

The Employee Retirement Income Security Act of 1974 (ERISA) is the primary federal law governing private sector employee benefit plans. ERISA requires that most large employee benefit plans use an independent qualified public accountant (IQPA) to audit the plan's financial statements in accordance with Generally Accepted Auditing Standards. For plan year 2010, the most recent complete year available, about 84,000 plans filed audited financial statements with EBSA, representing 93 million participants and $5.7 trillion in assets.

The Department of Labor's (DOL) Employee Benefits Security Administration (EBSA) has the responsibility to ensure these audits meet ERISA requirements. One problem is that ERISA allows limited scope audits, which means the auditor does not need to audit plan asset information if the assets are held and certified by certain financial institutions. Since the auditor does not test asset information certified by the financial institution, the auditor disclaims an opinion on the plan's financial statements, providing no assurances to participants or beneficiaries on the reliability of the plan's financial statements.

As far back as 1984, reviews by DOL's Office of Inspector General (OIG), the U.S. Government Accountability Office (GAO), and EBSA have shown that ERISA audit requirements need changing. In fact, OIG and GAO have recommended EBSA seek repeal of limited scope audits, obtain authority over plan auditors, and improve oversight of employee benefit plan audits. To address these issues, EBSA established an Office of Chief Accountant (OCA) in 1989 to monitor and improve the quality of employee benefit plan audits and to identify and correct substandard audits.

WHY OIG CONDUCTED THE AUDIT

We conducted this audit to determine if EBSA's oversight of ERISA audits had improved audit quality and increased participant protections.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

http://www.oig.dol.gov/public/reports/oa/2012/09-12-002-12-121.pdf.

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Changes Are Still Needed in the ERISA Audit Process to Increase Protections for Employee Benefit Plan Participants

WHAT OIG FOUND

Despite EBSA's significant efforts to improve oversight and audit quality, protections and assurances have decreased over time for participants and beneficiaries. EBSA's improvement efforts have included working with the AICPA to establish an audit quality center that provides guidance and education, redesigning its targeting methods to identify and correct substandard plan audits, and providing training and outreach activities for plan auditors. However, these efforts have been offset by plan administrators' increased use of limited scope audits and a significant growth in asset value of plans subjected to limited scope audits. The percentage of plans electing limited scope audits has grown from about 46 percent in 1987 to approximately 70 percent in 2010. The reported value of assets excluded from plan audits has similarly grown from about $520 billion (43 percent) in 1989 to $3.3 trillion (58 percent) in 2010.

While the use of limited scope audits is a major obstacle in providing audit protections for plan participants, EBSA could have done more within the existing law to improve audit quality. Specifically, EBSA could have: 1) used existing authority to clarify and strengthen limited scope audit regulations and formally evaluated recommendations by the ERISA Advisory Council for improving limited scope audits; 2) made better use of available enforcement tools over IQPAs, even though EBSA lacked the legal authority to prevent IQPAs from conducting substandard audits; 3) improved procedures in its reviews of IQPAs to ensure that audits met professional standards; and 4) completed a statistically valid reassessment of overall employee benefit plan audit quality since it had not completed one since 2004, and as a result cannot statistically demonstrate if audit quality has improved since that time.

WHAT OIG RECOMMENDED

We recommended the Assistant Secretary for Employee Benefits Security continue to seek repeal of the limited scope audit exemption and obtain authority over plan auditors. We also recommended that in the interim, EBSA: (1) use existing authority to clarify and strengthen limited scope audit regulations and evaluate the ERISA Council recommendations, (2) make better use of available enforcement tools over IQPAs, (3) improve procedures in audit quality reviews, and (4) perform a reassessment of audit quality.

EBSA generally agreed with our recommendations. EBSA also agreed to further examine its authority and guidance under limited scope audits, additional enforcement tools over IQPAs, and the merits of conducting another reassessment of audit quality.