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Lack of Effective Internal Controls Poses a Serious Risk for Benefit Plan Sponsors

EisnerAmper releases new video on the importance of controls for employee benefit plan tax relief

5/11/15: New York - Companies in every part of the nation sponsor tax-qualified benefit plans to attract and retain high quality employees. The plans are designed to offer employees tax relief as they build up their retirement through 401k plans or to buy medical and dental type benefits. However, according to EisnerAmper's Pension Services Group, tax relief that benefits both the employer and the plan participants is at risk of being lost if plan sponsors fail to follow basic qualification requirements by maintaining effective internal control structures over their plans. View EisnerAmper's newest video at www.multivu.com/players/English/7461932-eisneramper-employee-benefits/

Given the uniqueness and intricacies involved in operating qualified benefit plans, most sponsors engage third party service providers to administer many important functions of the plan, such as participant recordkeeping, custody of the assets, execution of investment transactions, etc. Many companies improperly assume that this relationship absolves them of their responsibility for maintaining plan compliance.

According to **Diane Wasser, Partner-in-Charge of EisnerAmper's Pension Services Group**, *"A plan sponsor can't forget that they have to monitor the third parties. They are still responsible even if a third party is performing a function from beginning to end."*

Wasser points out that there are two types of controls involved:

- **Preventative controls** prevent errors and the potential for fraud in the plan
- **Detective controls** detect errors and fraud that have already occurred

The risk of failing to employ appropriate controls is three-fold:

1) The plan is at risk of losing its tax-qualified status, which significantly reduces the perceived value of the plan to the company's employees.
2) Loss of a plan's tax-qualified status is a reputational risk to the company.
3) Plan fiduciaries (i.e. plan sponsors, administrators, trustees) may be held personally liable for failing to uphold their basic responsibilities as outlined in ERISA, including following the plan document. As such, they may be directly obligated to make the plan whole for any losses employees incurred as a result of their negligence.

Although internal controls over benefit plans are not a new concept, the heavy reliance on third parties to facilitate plan activity, is very common. Many fiduciaries may lose sight of their primary responsibility to maintain plan compliance and by doing so, they are putting their plans, and even themselves, at risk upon an audit by the IRS or Department of Labor, or through litigation by a plan participant.

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About EisnerAmper:

EisnerAmper LLP is a full service audit, tax and advisory firm and one of the largest in the nation, with a practice group specifically dedicated to the employee benefits industry. The firm currently audits more than 400 employee benefit plans annually and works closely with plan sponsors to educate them on benefit plan issues such as internal controls and other best practices for plan compliance.