



A New Chapter: AICPA Guidance for Auditing Multiemployer Benefit Plans

by | **David P. Dorsey**

A new chapter in the AICPA *Audit and Accounting Guide for Employee Benefit Plans* enumerates best practices and offers recommendations and guidance for accounting firms that audit multiemployer benefit plans. This article reviews some of the chapter's major accounting and auditing considerations.

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A long-awaited chapter recently added to the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Employee Benefit Plans* formalizes what have generally been accepted as best practices in the auditing of multiemployer benefit plans.

The chapter, inserted in the guide as Chapter 9, was included in the 2021 edition, published in August 2021. Independent auditors of employee benefit plans should follow this guidance when auditing employee benefit plans, and accountants for these plans should follow the guidance when accounting for transactions in an employee benefit plan.

In addition to enumerating best practices and offering recommendations and guidance for all firms that audit multiemployer plans, the multiemployer chapter consolidates references to multiemployer plans that were scattered throughout other chapters of previous editions and adds accounting and auditing guidance unique to multiemployer plans.

In its introduction to the 2021 edition of the *Audit Guide*, the AICPA states, “the [multiemployer] chapter provides background information for multiemployer benefit plans and discusses regulatory reporting requirements and financial statement presentation and disclosure. The chapter also covers auditing considerations specific to auditing multiemployer benefit plans, including relevant assertions, what could go wrong and examples of audit procedures to consider.”

takeaways

- The 2021 edition of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Employee Benefit Plans* contains a new chapter formalizing best practices in the auditing of multiemployer benefit plans.
- The new multiemployer chapter fully details and describes the payroll compliance audit function for multiemployer benefit plans, including the testing of contributions. It also addresses contributions receivable.
- Additional topics covered in the multiemployer chapter include funded status, reciprocity, withdrawal liability, dual-purpose assets, accrued liabilities for apprenticeship plans and terminating plans.
- The chapter contains three new appendixes that provide detailed descriptions of multiemployer plan regulations, administration and operations, and payroll audit compliance as well as illustrations of plan financial statements.

There are numerous significant accounting and auditing issues unique to multiemployer plans. Before the inclusion of the new chapter, many firms that were experienced in auditing multiemployer plans had previously adopted best practices to compensate for the lack of specific guidance in the *Audit Guide*.

The multiemployer chapter adds 128 pages of accounting and auditing guidance. Each major section of the chapter starts with what is common to all multiemployer plans and then expands on what is unique to a specific type of multiemployer plans such as defined benefit (DB) and defined contribution (DC) retirement plans as well as health and welfare and apprenticeship plans.

The remainder of this article details the major accounting and auditing considerations set forth in the multiemployer chapter and briefly describes the three new related appendixes added to the guide.

Testing of Contributions

An auditor’s report on an employee benefit plan contains the auditor’s opinion that the financial statements are fairly presented; that is, they are free from material misstatement. A *material misstatement* is an error in the financial statement that would impact the economic decisions of the financial statement reader, if known. High-risk audit areas are those areas most likely to contain material misstatements.

Contributions are one such high-risk audit area for multiemployer plans. Plans receive contributions from many employers, and the payroll records necessary to generate those contributions are maintained by those employers and not the plans. That is why multiemployer plans should conduct payroll compliance audits of participating employers.

Payroll compliance audits can be conducted by the CPA firm that performs the plan’s independent financial statement audit, by another CPA firm or by a non-CPA firm specializing in payroll compliance audits—or they can be performed by the plan’s own employees.

The new multiemployer chapter fully details and describes the payroll compliance audit function and states that “a representative group of participating employers would be tested each year using a risk-based approach.” Appendix B of the multiemployer chapter provides further discussion about payroll compliance audits and the extent of contributions and participant data testing performed in those audits.

The independent auditor of the plan's financial statements should determine whether the work of the payroll compliance auditor(s) can be relied on. The plan auditor should "determine whether sufficient testing has been performed for the current period under financial statement audit." Typically, there is a delay between the financial statement period that the contributions represent and the testing of those contributions. Unless the independent financial statement auditor is also the payroll compliance auditor, the independent financial statement auditor should review the work of the payroll compliance auditor(s) and should (as stated in paragraph 9.241 of the *Audit Guide*) "reperform some of the body of work [of] the payroll compliance audit function that the plan auditor intends to use in obtaining audit evidence."

As an example, assume that the ABC Multiemployer Pension Plan intends to comply with the payroll compliance requirements of the multiemployer chapter for the fiscal year ending December 31, 2021. The ABC Plan has 200 contributing employers and has historically conducted payroll compliance audits on 40 employers each year, utilizing a risk-based selection approach that emphasizes those employers likely to have reporting deficiencies.

The firm conducting the payroll compliance audits in 2022 is instructed by the trustees to audit 2019-2021 years in conducting the plan's payroll compliance audits in 2022. The independent auditor for the ABC Plan will determine whether the 40 employer payroll audits for the period are sufficient and whether the coverage of 2021 contributions is sufficient. In addition, the independent auditor should also

examine the results of the payroll compliance audits performed and, based on their risk assessment, select a sample of completed payroll audits to examine in detail to determine whether the payroll compliance audits were properly conducted and can be relied upon as part of their financial statement audit in order to determine that the risk of material misstatement is sufficiently low.

The independent auditor should review some of the steps performed by the payroll compliance auditors as part of its evaluation, which may include reperformance of some of the body of work performed by the compliance payroll auditors, to determine whether the work can be relied upon. This process will require communication and cooperation between the trustees, the plan administrator, the independent financial statement auditor and the compliance payroll auditor(s).

Contributions Receivable

Plan trustees should consider all information available in determining contributions receivable at year-end. This should include contributions for employment periods before year-end (regardless of whether they were received subsequent to year-end), amounts due as a result of the payroll compliance audit function and any other amounts due from contributing employers. An estimate should be made of all contributions receivable due at year-end, and an allowance should be established for uncollectible employer contributions.

For example, the ABC Plan will accrue as a receivable at year-end all contributions received in January and February of the following year applicable to December and months earlier in the previous year. Depending on the plan's

collection cycle, additional months in the subsequent year may require evaluation for receipt of contributions pertaining to prior-year work periods. The accrual will also include a receivable for contributions due for the same period that have not yet been received, any deficiencies identified and outstanding as a result of payroll compliance audits completed, and an estimate of any other employer contributions receivable. The ABC Plan will then record an allowance for the estimated amount of uncollected employer contributions, if any.

Funded Status

Disclosure of a multiemployer plan's funded status in the financial statements is recommended. Disclosure of the plan's most recent funded or zone status is especially important to the financial statement reader if the plan is in critical or endangered status and is highly recommended. A plan is also required to disclose whether it has met its minimum funding requirement under the Employee Retirement Income Security Act (ERISA).

Reciprocity

Multiemployer plans enter into reciprocity agreements with other multiemployer plans when participants perform work for an employer outside the defined geographic area where the participant normally works. The multiemployer chapter of the *Audit Guide* states that when two plans have a reciprocal agreement, the amount paid by the out-of-area plan to the home plan should be recorded as an employer contribution to the home plan. Any amounts that the out-of-area plan receives should be recorded as amounts due to the home plan rather than revenue of the out-of-area plan.

Withdrawal Liability

The *Audit Guide* states that a receivable should be recorded on the plan's financial statements for an employer's share of the plan's unfunded liability, net of any allowance for an amount deemed uncollectible, when entitlement has been determined. Plans should not use the cash basis of accounting for recording withdrawal liability payments in an accrual basis financial statement.

For example, suppose Employer X has ceased contributions to the ABC Plan and has withdrawn from the plan. The ABC Plan has assessed a withdrawal liability. Once the plan's entitlement to withdrawal liability has been established, a receivable from Employer X exists based on the present value of the series of payments due from Employer X over the next 20 years. The ABC Plan should also consider whether an allowance for doubtful accounts is appropriate for any portion of that receivable that is deemed uncollectible. Previously, the ABC Plan had recorded withdrawal liability payments only when payments were actually received by the plan, but that method is not acceptable under the accrual basis of accounting, based on the guidance provided by the multiemployer chapter.

Dual-Purpose Assets

An asset acquired by a multiemployer plan may either be classified as an *operating asset* used in plan operations (and depreciated over its useful life) or as an *investment* (and

carried on the financial statements at fair market value) depending on the plan's initial use of the asset. If a plan asset—such as a building that a plan acquires to house its offices but that is also rented to related or unrelated parties—is held as both an operating asset and an investment, the trustees should determine the primary use of the asset when it's acquired. A building almost fully occupied by the plan would be treated as an operating asset, and a building almost entirely rented to others would be treated as an investment.

For example, the ABC Plan buys a building that will primarily be used as an office building for plan operations. A small portion of the building will be rented to unrelated parties. The building should be recorded on the ABC Plan's accounting records at cost and should be depreciated. It would not be proper, under those circumstances, to record part of the building as a depreciable asset and part of the building as an investment. Regardless of the method determined for financial statement purposes, the asset would be required to be shown at fair value on Form 5500 with a reconciling footnote to the financial statements if the values differ.

Accrued Liabilities—Apprenticeship Plans

Generally, benefits payable in an employee benefit plan should not be accrued as a liability because all plan assets at year-end are available to pay benefits. However, a multiemployer benefit plan's unpaid training expenses are not paid to plan participants but rather cover operating and training expenses of the training fund itself. Some plans accrue these expenses at year-end, and other plans record these expenses as they are paid. The multiemployer chapter concludes that either method is acceptable.

Terminating Plans

When a multiemployer plan becomes insolvent, the Pension Benefit Guaranty Corporation (PBGC) may provide financial assistance so the plan can continue to operate and pay benefits at no more than the PBGC guarantee level. The *Audit Guide* directs that the amount provided by PBGC to the plan should be treated as a loan on the plan's financial statements. Further, the guide states that if the liquidation of a plan is imminent and before the end of the plan year, the plan's financial statements should be prepared using the liquidation basis of accounting.

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Education

Accounting and Auditing Institute for Employee Benefit Plans
June 19-21, 2023, San Diego, California
Virtual option available

Visit www.ifebp.org/accountants for more details.

Certificate in Multiemployer Plan Auditing
Online certificate

Visit www.ifebp.org/elearning for more information.

From the Bookstore

Payroll Auditing: A Guide for Multiemployer Plans, Second Edition

Lawrence R. Beebe and Philip Vivirito.
2013. International Foundation.

Visit www.ifebp.org/payrollauditing for more details.

Three New Appendixes

Following is a summary of the three new appendixes included in the multiemployer chapter.

- **Appendix A** provides a more detailed description of multiemployer plan regulations, administration and operations. An understanding of these key areas can be obtained from documents such as collective bargaining agreements (CBAs), participation agreements, plan documents and other key documents unique to multiemployer plans.
- **Appendix B** provides a more detailed description of the payroll audit compliance function. A great deal of the information in this appendix can be found in the book *Payroll Auditing*, published by the International Foundation of Employee Benefit Plans.
- **Appendix G** has been added to provide illustrations of the finan-

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cial statements of a multiemployer DB pension plan, a DB health and welfare plan, and a DB apprenticeship plan. The disclosures in these statements illustrate the features of multiemployer plans that are unique to these types of plans.

Conclusion

The multiemployer chapter of the *Audit Guide* is extremely comprehen-

sive. Trustees of multiemployer plans, accountants and independent auditors should have a detailed discussion concerning any changes to the plan's accounting policies and financial statements as well as the additional work required by plan auditors. For some plans, especially those for which the financial statement auditor is not the compliance payroll auditor, the changes will be significant. 🗨

