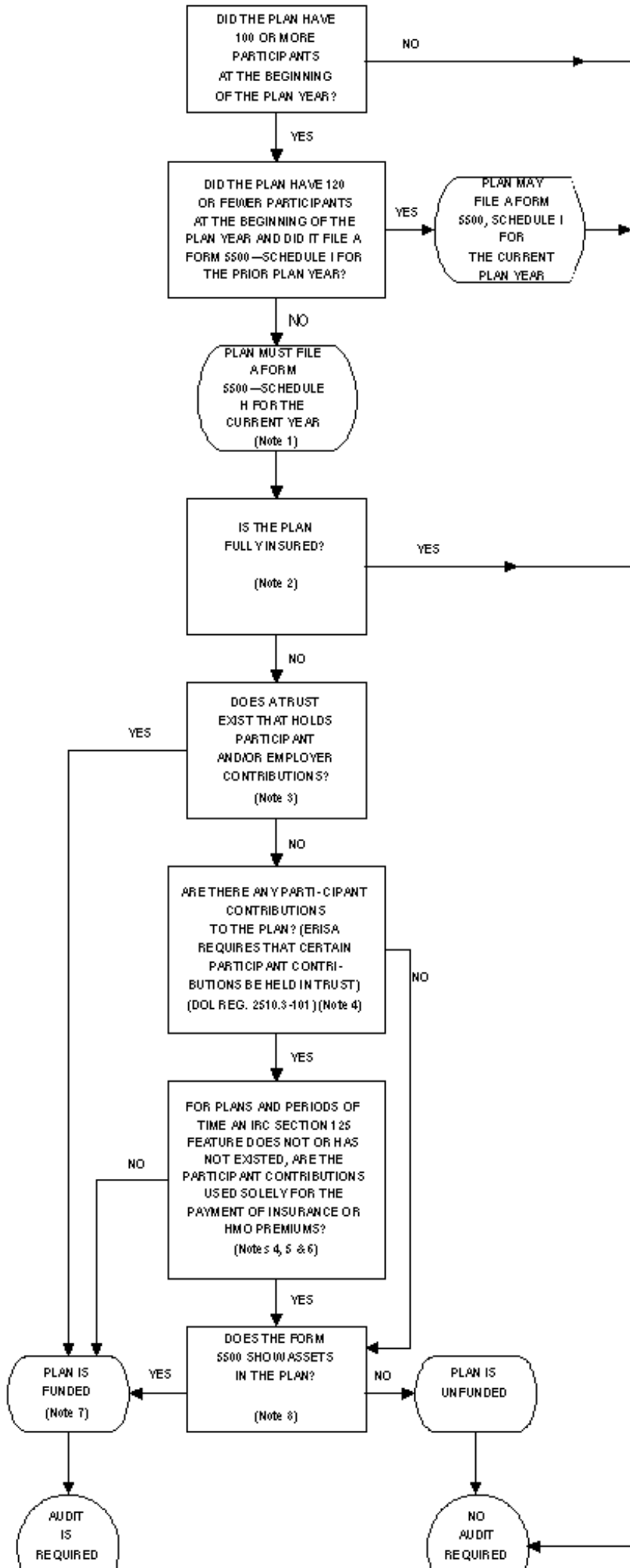


WELFARE BENEFIT PLANS AUDIT: DECISION FLOWCHART



Note 1 - Welfare benefit plans filing Form 5500 are generally required to have an audit unless the plan is unfunded, fully insured, or a combination of unfunded and insured. The remainder of this flowchart will assist in the determination of whether this exception applies.

Note 2 - A fully insured welfare benefit plan has its benefits provided **exclusively** through insurance contracts or policies, the premiums of which must be paid **directly** by the employer, an employee organization from its general assets or partly from contributions by its employees or members (which the employer or organization forwards within three months of receipt). Any such insurance contract must involve the transfer of risk for providing the promised benefits to an insurance company or HMO. Administrative services only (ASO) arrangements with insurance companies with or without stop-loss insurance do not qualify as a fully insured plan.

Note 3 - According to the Department of Labor ("DOL"), under ERS 2520.104-44, the existence of a separate fund or account plan by the employee or a TPA can cause the requirement for funds to be paid directly from the general assets of the employer not to be met. For example, if a separate account is maintained which would be deemed to be a trust under state law, the related plan would be deemed to be funded under ERISA.

Note 4 - According to DOL technical releases 88-1 and 92-1, participant contributions to a welfare benefit plan which has an IRC Section 125 cafeteria plan feature do not have to be held in trust for further guidance from the DOL. If a Section 125 arrangement exists, all contributions are deemed to be employer contributions.

Note 5 - According to the DOL, under DOL Reg. 2520.104-44, a participant contribution for plans or periods of time when a Section 125 feature is or was **not** present must be used to pay premiums to an insurer or HMO in order for the financial reporting and audit relief accorded under this regulation. As a result, the insurer or HMO must assume the risk of payment for this relief to apply (e.g., ASO arrangements qualify).

Note 6 - Salary reduction amounts (e.g., under Section 125) and COBRA premiums are considered participant contributions under ERISA.

Note 7 - If a plan is deemed to be funded for a part of a plan year, the entire plan year is subject to ERISA's financial reporting requirements and all plan-related activity must be reported. If a plan is considered funded for the entire plan year, it is subject to audit. However, it is not always obvious when a plan is considered funded. The auditor may wish to consult with counsel, plan actuaries, and/or the DOL to determine if a plan meets the definition of funded.

Note 8 - DOL will assume the plan is funded if assets are shown on line 31 or line 32 of the 1997 Form 5500. Only plans which are deemed to be funded based on this decision flowchart are required to show assets on Form 5500.