

## Fiduciary Fraud Checklist

With an abundance of fraud risk factors surrounding your retirement plan and your vast fiduciary responsibilities, below is a fiduciary fraud checklist, covering some best practices and controls you can put in place to prevent fraud and plan errors.

If unchecked, participant or company money can be stolen, along with other fraud, so make sure you're on the right track with this handy checklist.

### **What are incentives or pressures for plan management to intentionally misstate the plan's financial statements, misappropriate plan assets, or not act in the best interest of plan participants?**

- Are there financial pressures or cash flow problems within the plan such as illiquidity of investments or personal financial obligations of plan management?
- Have there been significant layoffs or furloughs or changes in the plan sponsor's financial position or structure (e.g. bankruptcy, foreclosure, reorganization)?
- Does the plan sponsor have any plans to merge the plan or for the plan or plan sponsor to be acquired?
- Are there any planned changes significantly impacting plan administrator compensation, career advancement, or benefits?
- Do current or future economic conditions threaten the health of the plan or plan sponsor?
- Are there significant investments in employer securities or other employer assets?
- Is the investment line-up adequately diversified?
- Does the plan maintain large amounts of cash or instruments easily convertible to cash? If so, are there proper mitigating controls in place?
- Does the plan have fixed assets that are easily susceptible to misappropriation?
- Does pressure exist from the plan sponsor to overstate plan assets or understate plan obligations to minimize the plan sponsor's contribution to the plan?
- Does plan management have a significant financial interest in the plan?
- Is there a significant portion of plan service provider compensation tied to plan investment performance? Are these arrangements being adequately monitored by the retirement or audit committee?
- Has there been an inability to meet funding requirements of the plan?

## What are opportunities for fraud as it relates to plan operations?

- Does the plan or plan sponsor engage in significant related-party transactions? If so, are the other entities audited?
- Are there significant estimates or uncertainties impacting the plan's financial reporting?
- Is there a lack of segregation of duties within plan administration that are not mitigated by compensating controls (i.e. checks and balances in accounting dept.)?
- How much oversight is provided over the plan's financial reporting and internal controls by non-management personnel charged with governance over the plan (i.e. retirement plan or audit committee)?
- Is there a potential conflict of interest in the plan trustee position such as a member of senior management of the plan sponsor using their trust position to invest in plan sponsor assets?
- Are there clearly defined roles within the plan sponsor as it relates to plan administration?
- Does the plan sponsor have an overly complex legal structure?
- Are there multiple employers participating in the plan or multiple locations where plan administration takes place?
- Has there been high turnover in key positions or board members?
- Are there known internal control deficiencies or audit findings that have not been remediated?
- Do plan administrators have adequate understanding of relevant laws and regulations governing the plan?
- Does plan management have an adequate understanding of the plan's IT environment and place high priority on protecting sensitive employee information?
- When hiring plan administrators, is there an appropriate screening process in place to mitigate the risk of misappropriation?
- Are plan administrators required to take vacation? Are their duties performed by someone else in their absence?
- Are there a high number of participant complaints?
- Is there an approval process over significant plan transactions (e.g. distributions, related parties)?
- Are plan expenses monitored and scrutinized?
- Does the plan use high quality service providers?
- Are investment records retained and periodically compared to records of the custodian?
- Does plan management properly segregate plan assets from plan sponsor assets?
- Has plan management reviewed applicable service auditors' reports and ensured any deficiencies do not affect plan operations and that user entity controls are in place within the plan sponsor?
- Are there unreconciled differences between custodian and plan sponsor records?

## What are potential rationalizations that exist for committing plan fraud?

- Is plan management living by the plan sponsor's values and code of ethics?
- Do financial personnel provide oversight over the plan's financial reporting? Do they also exhibit the skill set necessary to adequately oversee the plan's accounting?
- Are there members of plan administration that disregard their responsibilities for safeguarding assets and related controls in place?
- Has the plan undergone any investigations by the IRS or DOL or participated in any correction programs?
- Have there been any litigation matters brought against the plan or plan sponsor related to plan operations?
- Is plan management transparent with plan service providers regarding plan sponsor activities that may impact the plan?
- Are there any named fiduciaries that are not actively involved in the plan's operations or oversight?
- Does plan management regularly justify decisions based on materiality?
- Is there low morale among plan management or are they dissatisfied with the plan or plan sponsor?
- Has anyone reported unusual behavior or lifestyle changes within plan management?
- Is petty theft tolerated within the plan sponsor organization?
- Are there significant disputes between members of plan management?
- Does management have a tendency to override plan controls, policies, and procedures?
- Have there been disputes with service providers, such as plan auditors?
- Does plan management frequently make unreasonable demands of others?

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