

# Safeguarding Your Plan from Fraud



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# Safeguarding Your Plan from Fraud



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**H**ave you reported a plan loss due to fraud or dishonesty on your annual Form 5500 return? The Internal Revenue Service (IRS) found that Plan Sponsors are, in fact, reporting such losses on the Form 5500 at a troubling rate. As a result, the Employee Plans Compliance Unit (EPCU) of the IRS launched the “Fraud Project” to identify areas in which plans are most at risk and to provide a list of best practices that can be put in place now to help protect the plan.

The Fraud Project analyzed a sample of 800 Form 5500 returns which reported a loss due to fraud or dishonesty. Plans that experience a loss as a result of fraud or dishonesty are required to report this loss on the Financial Information Schedule of the Form 5500 (Schedule H or Schedule I). The study did not seek to identify instances or rates of fraud that are being under- or unreported. Full results of the Fraud Project and a complete list of the IRS suggestions for protecting the plan can be found at <http://www.irs.gov/Retirement-Plans/Preventing-Fraud-in-Your-Retirement-Plan>.

## Here are the highlights from the returns analyzed:

Approximately 68% of plans that reported a fraud/dishonesty loss were actually a line entry error on the Form. The most common error was accidentally reporting the fidelity bond amount on the fraud/dishonesty loss line. The fidelity bond line and fraud line are listed consecutively on the Form which has caused some errors due to line entry mistakes. **The IRS reminds practitioners and plan sponsors to carefully prepare Form 5500 and also reminds Plan Sponsors that they should always review any return prepared by a third party.**

*IRS suggestions for Plan Sponsors to protect against fraud/dishonesty losses:*

Establish Strong Internal Controls – establish administrative procedures that segregate plan duties and safeguard assets

- If one person is in charge of day-to-day plan administration, install a second person to act as reviewer;
- Have an outside third party review plan books and records;
- When a trustee or authorized signer retires or leaves the company, immediately act to turn off their access to the plan;
- Lock up blank checks;
- Maintain the correct Fidelity Bond coverage;
- Reconcile the plan’s books, records, bank statements and account statements regularly;

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- Keep copies of all plan related documents; including but not limited to Form 5500 returns, determination letters and third party loan documentation;
- Require two signatures on checks or plan forms; and
- Keep tabs on loans, distributions and deposits to the plan. Make sure that deposits are sent to the correct vendor and posted accurately and that loan and distribution checks are received by the correct individuals.

#### Avoid Risky Investments

- Beware of unusually high returns or investments that sound “too good to be true”;
- Monitor the work performed by your investment advisors; and
- Be cautious when investing in assets such as hedge funds, foreign assets, real estate or other hard-to-value assets or assets that are required to be appraised annually.

Stay tuned to hear more from the IRS as they plan to continue educating filers about completing returns properly. The IRS would also like to hear from you - if you have questions about the fraud project, email them at [epcu@irs.gov](mailto:epcu@irs.gov) (include “fraud project” in the subject line along with your name, phone number and best time to contact).



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