

# WISS Employee Benefit Plan Update

## Is Your Benefit Plan Appropriately Invested and Monitored?

### *Fiduciary Responsibility and Plan Investments*



In our last newsletter, we asked “Are you a Fiduciary?” In this issue we discuss the importance of understanding plan assets as a fiduciary.

Investments are typically the most significant assets in benefit plans. Many plan investments often consist of marketable securities (common stock, preferred stock, bonds or notes) that have readily determinable market values. Other types of plan investments do not have readily determinable market values. These types of investments are called alternative investments and include; hedge funds, private equity funds, real estate funds, derivatives, bank common/collective trust funds, pooled separate accounts and insurance contracts. Unfortunately, the sub-prime mortgage crisis has exacerbated valuation issues. Alternative investments may present unique valuation and disclosure considerations.

### **Fiduciary Responsibility and Valuing Investments**

It is essential that the fiduciary and plan management are familiar with the assets in the plan and the methods and assumptions used to value them, especially for those plans that invest in alternative investments. You should ask yourself “Do I know the types of assets the

plan is investing in?” The use of an outside investment custodian, asset or fund manager or any other service provider to determine the value of the plan’s investments reported on the Form 5500 and in the plan’s financial statement is not sufficient enough for the fiduciary or Plan management. The responsibility still remains with the fiduciary/plan management.

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**Fiduciaries that do not follow  
ERISA standards of conduct may be  
personally liable.**

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### **What Can You Do?**

Establishing effective internal controls at the plan level can help plan management evaluate whether plan investments are properly valued.

Some examples of these controls are:

- Review monthly/quarterly trust reports for proper fair value.
- Communicate with your service provider regarding valuation of assets.
- Compare recorded values with quoted market prices.
- Obtain documentation from your service provider about pricing methodologies.
- Document valuation methods in the trust agreement and plan minutes.
- Evaluate your appraiser (review their work and challenge assumptions).

Plan investments in alternative investments present unique challenges in understanding proper investment valuation. Again, the establishment of internal controls at the plan level can help mitigate the risk of investments being valued improperly. We recommend that you perform the following:

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- Make sure the investment in alternative investments is in agreement with the plan's investment policy. If no such policy exists, consider establishing an investment policy.
- Understand and document the underlying investments.
- Discuss with fund management to understand the fund's strategy and valuation methodologies.
- Use and understand the service provider's SAS 70 report.

Fiduciaries that do not follow ERISA standards of conduct may be personally liable to restore any losses to the plan arising from negligence of Fiduciary responsibilities.

Under the Pension Protection Act of 2006, employer sponsors have a fiduciary responsibility for the oversight of the programs that they sponsor on behalf of their employees. As a plan fiduciary, you are subject to certain specific responsibility. These responsibilities include plan administration functions, such as maintaining the financial books and records of the plan, the filing of a complete and accurate annual tax return, ascertaining that plan investments are valued at fair value, timely remittance of employee deferrals, establishing internal controls for the plan and financial reporting of plan investments.

For more information about this article and Employee Benefit Plans, please contact Craig Erickson at 973.994.9400 or email [cerickson@wiss.com](mailto:cerickson@wiss.com).



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Craig Erickson is a Partner at Wiss & Company with more than 11 years of experience in public accounting. He is also a practice leader in the Firm's Employee Benefit Plan Services Group. He has provided accounting, audit and consulting services to clients in a variety of industries, including manufacturing, wholesale distribution, professional services, private foundations, and entertainment.

Craig is the technology leader for the Accounting and Auditing Department and heads up the Committee for a Paperless Environment. Craig is also a member of the Firm's Accounting and Audit Committee and plays an active role as a Board member for Wiss University.

He holds a Bachelor of Science degree in Accounting from The College of New Jersey and is member of the American Institute of Certified Public Accountants and the New Jersey Society of Certified Public Accountants. Craig is also an active member in the Meadowlands Chamber of Commerce and The College of New Jersey's School of Business Alumni Association.

WISS specializes in auditing employee benefit plans and ranks among the top 5% of firms in the nation handling these specialized audits. We have a dedicated team of professionals with extensive experience who understand the importance of making the audit process as quick and painless as possible. In addition to accounting and auditing, we also offer tax services and third-party recordkeeping.



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