

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number 05-14-005-12-121, issued to the Assistant Secretary for Employee Benefits Security.

WHY READ THE REPORT

To ensure the integrity of retirement plan assets, most plans are required by federal law to arrange for annual independent audits. However, certain plans are not required to receive a full-scope audit because of an exemption in the law, putting more than \$1 trillion in complex trust arrangements and hard-to-value assets (HTV) at risk because limited-scope audits do not provide adequate assurance of assets' existence or value.

This report highlights changes EBSA needs to make to improve protections to plan participants for ERISA plans electing limited-scope audits for assets held and certified by trustee and custodians.

WHY OIG CONDUCTED THE AUDIT

Because these assets are at risk, we performed an audit to answer the following question: Has EBSA provided adequate oversight of employee benefit plans electing limited-scope audits for assets held and certified by custodians?

READ THE FULL REPORT

To view the report, including the scope, methodologies, and full agency response, go to:
<http://www.oig.dol.gov/public/reports/oa/2014/05-14-005-12-121.pdf>

September 2014

LIMITED SCOPE AUDITS PROVIDE INADEQUATE PROTECTIONS TO RETIREMENT PLAN PARTICIPANTS

WHAT OIG FOUND

Assurances to plan participants have been significantly eroded because EBSA has not provided the guidance and oversight needed to adequately protect more than \$1 trillion of plan assets invested in complex trust arrangements and HTV assets held and certified by custodians.

We found that custodians certifying ERISA plan assets under the limited-scope audit provision did not generally provide any valuations services; instead, their role was strictly limited to recordkeeping. We also found most plan administrators in our sample did not make a determination of fair value of plan assets by way of a prudent investigation.

EBSA has not consulted with federal or state regulators on this topic, nor has it conducted an assessment of regulators' examinations of custodians. EBSA has not formalized into regulatory guidance a requirement that plan administrators identify and adequately support the fair value of hard-to-value investments nor implemented the 2006, 2008, and 2011 ERISA council recommendations on the same subject.

WHAT OIG RECOMMENDED

We recommended EBSA continue to seek repeal of the limited-scope audit provision and work within its existing authority to increase protections to participants.

EBSA generally agreed with our findings and recommendations. EBSA stated it believes there are interpretive and regulatory steps that it can take with respect to the report recommendations. EBSA also stated it has formed an inter-office task group to evaluate the OIG and ERISA Council recommendations.