Monitoring Outside Service Providers

Aspect of benefit plan administration that is different from normal corporate financial operations – significant involvement of third parties:

• Payroll processing
• Participant account recordkeeping
• Processing of rollovers and distributions
• Claims processing for health plans
• 5500 preparation
• Nondiscrimination and other compliance testing
• Trust accounting
• Investment management

Monitoring Outside Service Providers

Hiring an outside service provider is a fiduciary function. In making decisions on hiring, you must keep fiduciary responsibilities in mind, three of which are:

• Acting solely in the interest of participants and beneficiaries
• Acting prudently
• Paying only reasonable expenses
Monitoring Outside Service Providers

Overview of Fiduciary Duties

• Document initial selection process
  – Consider more than one provider
  – Compare and contrast costs and services
• Have a plan for monitoring each provider
  – Who will monitor?
  – What reports, activities will be considered?
  – How frequently will monitoring occur?
• Actually monitor and take any necessary follow up action
  – Who will make sure monitoring is taking place?
• Document the results of the follow up action
  – Who will document and how will information be retained?

DOCUMENTATION SERVES AS EVIDENCE THAT FIDUCIARY RESPONSIBILITIES WERE PERFORMED

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Monitoring is a key component to internal control – and since so much of the processing is outsourced – plan sponsors have to include the transactions at outside services providers in what they monitor.

One of top ten responses auditors hate to hear:
  “I don’t know. (Insert name of provider) does all of that for us.”
Monitoring Outside Service Providers

• What does monitoring involve?
  – Top level - Evaluating performance against contracted services
  – Detail level - Reviewing actual reports provided against expectations

Monitoring Outside Service Providers

Evaluating performance against contracted services:
  – Do they charge what you agreed to pay?
  – Do they perform all agreed upon services?
  – Are the reports they provide timely and accurate?
  – Does anyone complain about the services?
  – Are they responsive?
  – Do they communicate regularly and clearly?
Monitoring Outside Service Providers

Reviewing actual reports provided against expectations:
- Reconciliation to your records – did they process everything you sent them?
- Review for reasonableness – is there anything that does not look right?

Examples, for a TPA of a 401(k) Plan:
- Review of distributions – are they being paid only to participants who have had a distributable event – i.e. death, disability, retirement, termination, hardship, etc?
- Review of contributions – have they reported everything you remitted to the custodian? Are they properly classified by source (employer vs. employee; pre-tax vs. Roth)?
- Review of expenses paid – do you recognize the vendors being paid, understand the services being charged?
Monitoring Outside Service Providers

Examples, for a TPA of a 401(k) Plan:
– Review of rollovers – are they for employees you recognize?
– Review of forfeitures – do amounts being forfeited look appropriate? Are they being used and if so, are they being used in accordance with the plan?
– Review of loans issued/repayments made – Do you recognize the employees being paid? Are all loans being repaid? Does the interest rate look correct?

Other Considerations

Is there a SOC-1 report covering the processing of transactions by the service organization?
– Helps you understand the processing that they do
– Clearly identifies the controls they expect you to have in place
– Can help reduce audit cost if an unmodified opinion on a Type II report

YOU SHOULD BE REVIEWING THIS REPORT FOR EXCEPTIONS NOTED AND REVIEWING USER CONTROLS TO ENSURE YOU HAVE THOSE IN PLACE
Other Considerations

REMEMBER: GARBAGE IN / GARBAGE OUT

Be sure what you give the service provider as the basis for their processing is accurate

Other Considerations

Don’t forget IT controls when working with outside providers - assign access rights to the minimum number of people necessary
— read only access to those that do not need to input or change data;
— enough to provide ability to remit information timely if primary employee is on leave;
— terminate rights in a timely manner
Resources

- Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions – EBPAQC Plan Advisory (www.aicpa.org/InterestAreas/EmployeeBenefitsPlanAuditQualityCenter)
- Meeting Your Fiduciary Responsibilities – (www.dol.gov/ebsa/publications)

Q&A