

34TH ANNUAL ISCEBS
Employee Benefits

Symposium

Increasingly Automated Plan Environments—How to Effectively Monitor Service Providers and Evaluate the Potential Expansion of Their Role to Cover Fiduciary Matters

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Session Overview

- Automation—Good or Bad?
- Changes Driven By Increasing Automation
- Effective Monitoring of Service Providers
- How to Review Service Provider Contracts

Automation—Good or Bad?

Automation is Only
As Good As the
Service Provider

Make Sure to
Look Under the Hood



Automation—Good or Bad?

Automation Can
Provide Better
Resources for
Participants



Automation—Good or Bad?

Automation Will
Change Your Role
With Respect to
the Plan

Don't Be Old
School



Automation—It's Here to Stay

Embrace Change
and Develop New
Skills to Successfully
Manage Your Service
Providers

Changes Driven by Plan Automation

Participants Now Go Online For:

- Enrollment and Elective Deferral Changes
- Benefit Payments
- Participant Loans

Changes Driven by Plan Automation

Things to Consider for Enrollment and Elective Deferral Changes:

- Accuracy and Timeliness of Census Data
- Procedures for Handling Payroll Deductions
- Building In Redundancy
- Successful Ongoing Monitoring

Changes Driven by Plan Automation

Things to Consider for Benefit Payments:

- Accuracy and Timeliness of Census Data
- Procedures for Hardship Withdrawals
- Who Maintains the Documentation?
- Should Plan Sponsor Approve?

Changes Driven by Plan Automation

Things to Consider for Participant Loans:

- Procedures for Setting Up Payments
- Building In Redundancy
- Who Maintains the Documentation?
- Monitoring for Defaults and Re-amortizations

Effective Monitoring of Providers

Benefits of An Effective Monitoring Program:

- Satisfy fiduciary responsibilities
- Gauge service quality
- Identify areas for improvement
- Save annual plan costs



Effective Monitoring of Providers

Understand the quality and effectiveness of the service provider's processes, procedures and controls over transactions used to produce the plan's accounting information and determine whether:

- Participant enrollments, receipt of contributions, investment changes and distribution requests are processed completely, accurately and timely and according to the instructions from the plan sponsor and participants
- Transactions for each investment option are made with correct market prices; ending investment balances are determined using the correct market prices and the proper net appreciation/depreciation is reflected in participant accounts

Effective Monitoring of Providers

Understand the quality and effectiveness of the service provider's processes, procedures and controls over transactions used to produce the plan's accounting information and determine whether:

- Participant and plan level account statements are complete, accurate and mailed on a timely basis
- Year end compliance tests are complete, accurate and performed timely
- Participant access to data via voice or internet is properly authorized and secured

Effective Monitoring of Service Providers

Understand the quality and effectiveness of the service provider's processes, procedures and controls over transactions used to produce the plan's accounting information and determine whether:

- Access to service provider physical facilities, software programs and data is limited to authorized individuals and controls exist to protect data
- Changes to existing system software and implementation of new system software are documented, tested and approved prior to promoting to production
- New plans, mergers and transfers are established in accordance with the plan document and participant, financial and demographic data are accurately recorded

Effective Monitoring of Providers

Reviewing and Analyzing Service Organization Controls (SOC) 1 Reports

- Type 1 SOC 1 Report (specific date and no opinion about effectiveness)
- Type 2 SOC 1 Report (specific period and opinion about effectiveness)



Effective Monitoring of Providers

Service Organization Controls (SOC) 1 Reports—Contents

- Overview of the service provider, organizational structure and control environment, including commitment to governance, ethics and compliance management
- Description of the service provider's plan services IT environment and processing systems

Effective Monitoring of Providers

Service Organization Controls (SOC) 1 Reports—Contents

- Description of general IT controls, including business systems, IT operations, information security management and IT control environment
- Description of business processes for key areas, including contribution and loan repayments, withdrawals and loans, contribution allocation changes, dividend processing, pricing, investment return, plan financial reporting and compliance testing

Effective Monitoring of Providers

Service Organization
Controls
(SOC) 1 Reports

Exceptions Found and
Management's
Comments



Understanding the Role of User Controls

Plan Sponsor (User) is Responsible for Establishing Controls:

- To determine employee eligibility
- To ensure payroll information sent to the service providers is accurate and complete
- To ensure accuracy of annual census information
- To determine when loans are in default

Understanding the Role of User Controls

Plan Sponsor (User) is Responsible:

- For notifying service providers of personnel changes affecting user access
- For reviewing transactions when requested by the service provider (such as hardship distribution requests)
- For notifying service providers of when and how to allocate forfeitures
- For reviewing plan reports provided by the service provider and notifying the provider of any discrepancies in a timely manner

How to Review Provider Contracts

According to the Department of Labor's publication "Meeting Your Fiduciary Responsibilities", hiring a service provider is a fiduciary function.

Plan sponsors should document the processes by which they evaluated the selected service provider and educated any committee members about their responsibilities.

How to Review Provider Contracts

Information to Gather on Each Provider:

- Financial Condition of the Provider
- Quality of Provider's Services
- Description of Provider's Business Practices

How to Review Provider Contracts

Considerations for Each Provider:

- Watch for Carve-Outs or Exclusions
- Procedures in Event of Operational Issues
- Contractual Financial and Control Measures