



Financial Adviser

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Employee Benefit Plans — Is Outsourcing the Easy Answer?

In today's competitive market it is common for companies to outsource much of the administration of their employee benefit plans. Through carefully choosing capable and experienced third-party administrators (TPAs) and by establishing in-house monitoring procedures, management can significantly reduce the daily administrative duties relating to their employee benefit plans. In contrast, outsourcing to an ineffective TPA, without management closely monitoring plan activity, may actually open up the company to substantially greater risk.

In the initial selecting of a TPA, management often performs extensive interviewing of qualified providers and carefully weighs many factors prior to making their selection. Unfortunately, after the conversion process is completed and with the plan "seamlessly" handled by the TPA, it is not unusual for the plan sponsor to lose sight of the continued importance of monitoring the plan activity and the plan's TPAs.

The Importance of SAS Reports

In order to facilitate this monitoring process, many TPAs have subjected their operations to an independent review of their controls and procedures. This review is documented in a comprehensive report, "Report on Controls Placed in Operation and Tests of Operating Effectiveness," commonly referred to as the SAS 70 Report.

Contrary to management's common assumption that this is a report solely to be used by their plan auditors, this report is key to management's monitoring process. It provides a comprehensive narrative describing the control framework and system procedures, and a Type II report outlines not only the control objectives and the related controls, but also the results of testing performed.

Management's Role is Critical

Of extreme importance to management is the section of the report that outlines user control considerations. Management

needs to ensure that there are company controls in place to address these areas identified in which the TPA is not assuming responsibility. Some of the more common areas where sponsor procedures are imperative relate to participant eligibility, vesting, timeliness and completeness of contributions and loans in default status. These key areas are often not subject to controls at the third-party administration organizations.

A common misconception is that all SAS 70 reports are the same. This is not the case. The TPA actually determines the scope of the report and can limit the independent auditor's testing to only those areas where they maintain strong controls and, therefore, totally exclude testing that could identify weaknesses.

In an environment where not only the regulators, the Internal Revenue Service and the Department of Labor, are actively enforcing compliance with voluminous and complex rules, regulations and penalties, class action litigation suits are becoming the norm. Careful planning and establishing strong controls over the administration of your employee benefit plans will not only safeguard your employee's retirement assets, but also will help mitigate your fiduciary exposure. This monitoring by management is so important that the AICPA Employee Benefit Plan Audit Quality Center just issued the plan advisory, "Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions."

Is Outsourcing the Answer?

Oftentimes hiring an experienced TPA organization is the answer that makes both economical and practical sense. However, easy does not describe the monitoring process. It is imperative that management identifies knowledgeable company individuals that will continually monitor plan activity. ★

For more information about third-party administrators of employee benefit plans, contact Karen Benson at McGill, Power, Bell & Associates at 814/453-6954 or kbenson@mpbcpa.com.

