

Tips for Plan Sponsors

A retirement plan's recordkeeping provider is a critical player in the game of fiduciary duty.

Testing the Competency of Recordkeeping Firms Just Got Easier

April 10, 2008
Dallas, Texas

Recordkeeping Firms Finally Get Certification

Businesses that provide recordkeeping services to retirement plans, which are also called Third Party Administrators, or TPAs, have a major impact on the ability of retirement plan officials to meet their fiduciary duty. Yet TPAs are not regulated by the government.

Recognizing plan sponsors' need to know which TPAs they can trust, the American Society of Pension Professionals & Actuaries ("ASPPA") organized a Task Force in May 2007 to develop a certification program.

From the outset, the Task Force wanted the program to rank alongside the excellence embodied within the ISO community's process standards. Using ISO as a guide turned out to be a natural fit for the recordkeeping business, which is heavily process oriented.

To learn more about ASPPA's program [click here](#) or visit www.rolandcriss.com and select Markets Served then Recordkeepers.

How Selecting a Recordkeeping Firm Puts You at Risk

Selecting service providers for retirement plans that are qualified under the Employee Retirement Income Security Act ("ERISA") can be risky business.

Until the past couple of years, plan sponsors have not given much attention to ERISA's rules governing how to pick recordkeepers, investment firms, custodians, and trustees. That has all changed, however, with the dramatic impact of; law suits against all sizes of ERISA plans, a huge change coming in 2009 to ERISA, and proposed new laws in development at the U.S. Congress.

Retirement plan officials are all too often overwhelmed by vendors who make claims of fiduciary friendliness that cannot be easily confirmed. The result is that many vital services acquired from recordkeepers, investment firms, custodians, and trustees contain hidden dangers.

Many plan officials fail to realize that the burden for exposing such dangers is theirs, not their service providers. Consequently, when trouble comes in the form of a Department of Labor sanction or participant law suit, plan sponsors' executives are left alone to make their own defense.

ERISA requires that plan officials select and monitor service providers using a **prudent process**. Learning which providers can be trusted, quickly is a key ingredient in an efficient selection and monitoring process. In light of the lack of standards of conduct among vendors, which has plagued the retirement plan industry for decades, a movement towards certification of [investment advisory](#) firms and [investment management](#) companies is well underway. Now, recordkeeping firms are getting certified, too.

ASPPA's [certification for recordkeepers](#) is a boon for plan sponsors. (*Please see the insert to the left for more about ASPPA*). ASPPA's decision to sponsor a certification program for recordkeepers has many positive implications for the retirement plan market. Key among them include; (1) a defined quality management system useful in selecting recordkeepers, (2) clarity of the scope of providers' business models, (3) independent certification of competency and capability, and (4) an integrated approach that meshes with investment advisory and investment manager certifications.

ASPPA Explores the SAS 70 Program

In its effort to align the recordkeeping industries' practices with the needs of retirement plan sponsors, ASPPA considered using a program managed by the American Institute of Certified Public Accountants ("AICPA"). Using the AICPA *Statement on Accounting Standard Number 70* ("SAS 70"), a certified public accountant conducts an audit of a service organization and produces a report.

A SAS 70 audit relies on the service organization to describe the processes that it wants to be audited. The SAS 70 report reveals the service organization's internal controls. It also contains the auditor's opinion about whether the design of the controls is suitable for achieving the objectives of the organization.

When ASPPA conferred with government regulatory agencies about their view of how a certification program for recordkeepers should be designed, ASPPA learned that the SAS 70 approach had a major flaw. Regulatory agencies want recordkeepers to be audited against a *defined standard* that contains *uniform practices*. In this way, retirement plan sponsors would be able to compare recordkeepers on an "apples to apples" basis.

A SAS 70 audit on the other hand, allows the organization being audited to describe its own controls which become the subject of an auditor's test. SAS 70 audits *do not* follow a required format nor utilize a specific technical standard. Rather, service organizations are permitted to disclose their control objectives and activities in a variety of fashions and using a variety of technical standards.

Furthermore, the ASPPA certification program focuses on the processes that are essential in helping retirement plan officials satisfy their fiduciary duty. A SAS 70 audit, however, provides no opinion of a service organization's fiduciary support competency.

In summary, the SAS 70 program's lack of a uniform benchmark, combined with its failure to define specific fiduciary support practices, quickly disqualified it for the government and ASPPA's purposes. Consequently, ASPPA chose an approach to certification that was designed specifically for the retirement plan sponsor market. Compared to a SAS 70 audit, an ASPPA certification has a great deal more relevancy to plan sponsors in fulfilling their fiduciary duty.

The chart shown below is a summary comparison of key features between the ASPPA and SAS 70 programs:

ASPPA Certification vs. SAS 70	ASPPA Certification	SAS 70 Audit
Qualifies TPAs for industry self-regulated status	Yes	No
Certification standard designed to support fiduciaries	Yes	No
Unites TPAs with investment firms' requirements	Yes	No
Audit applies uniformly to all TPA business models	Yes	No
Tests corporate governance controls and practices	Yes	No
Inspects disclosures and conflicts of interest	Yes	No
Independent committee decides pass/fail	Yes	No
Annual audit required to maintain certification	Yes	No
Audit methodology uses international standard	Yes	No
Audits conducted by accredited fiduciary specialists	Yes	No

Faced with the opportunity to build a certification program from scratch, with input from the Securities and Exchange Commission, the Department of Labor, plan sponsors, recordkeeping industry executives, CEFEX, and Roland|Criss, ASPPA defined a standard that is built on 17 critical practices. [Click here](#) and request your copy. Every plan sponsor should review them and insist that their current recordkeeper gets certified.

Recordkeeping Firms Use a Standard Built on ISO's Example

In order to develop an ISO-like standard, ASPPA requested help from CEFEX. Based in Toronto, Canada, CEFEX is an international certification body. With deep roots in the ISO arena, CEFEX had already introduced standards for investment managers, investment advisors, and investment stewards when ASPPA called.

Collectively, CEFEX refers to investment managers, investment advisors, and investment stewards as "Investment Fiduciaries." (Investment stewards include retirement plan sponsors, public pensions, foundations, and endowments.) CEFEX's certification programs for Investment Fiduciaries are substantiated by relevant pension laws such as ERISA and the Pension Protection Act of 2006, trust laws, court cases, and industry best practices.

As the leading fiduciary audit firm in the U.S., Roland|Criss was asked by ASPPA and CEFEX to develop the audit methodology that would be used to test recordkeepers. While conducting fiduciary audits, it was inevitable that Roland|Criss' would come to understand the support that fiduciaries need from their service providers. Although recordkeepers are not fiduciaries in their role as a "bookkeeper", ASPPA saw the value in having help in developing industry practices from a group that knows what fiduciaries need. Roland|Criss is the audit firm for ASPPA's program.

Now More than Ever, Plan Sponsors Can Know Who to Trust.

ASPPA's program, with its 17 practices for recordkeepers, closes the loop on the provider side of the retirement plan market. Plan sponsors may now hire recordkeepers, investment advisors, and investment managers that have been certified against standards that uncover previously hidden dangers. ASPPA's program makes the job of proving prudence for plan sponsors easier when selecting their retirement plan's recordkeeper.

Your Plan's Officials Should Learn More about ASPPA Certified Recordkeepers

The Department of Labor has been very clear about the use of outsourced service providers like TPAs. Its many statements on the issue emphasize that the use of service providers does not reduce the responsibility of corporate executives for selecting them prudently. If your plan is not using an ASPPA certified recordkeeper, it should.

Click here www.rolandcriss.com for more information about the importance of selecting the right service providers. Improve your fiduciary safety.

Roland|Criss is the nation's leading provider of risk management solutions to retirement plan sponsors. Roland|Criss is also the manager of certification assessments of investment advisors, investment managers, and recordkeepers for CEFEX and ASPPA. Roland|Criss does not sell investment products or manage retirement plan assets. It does not offer recordkeeping, administration, or custodian services to pension plans. It specializes in assessments and certifications of plan sponsors and service providers' practices against a defined standard of excellence.

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