

**BENEFIT PLANS ADMINISTRATIVE  
SERVICES, LLC.**  
**(A subsidiary of Community Bank System, Inc.)**

**REPORT ON CONTROLS PLACED IN OPERATION  
AND  
TESTS OF OPERATING EFFECTIVENESS  
For the Period October 1, 2007 to September 30, 2008**

**BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC.**  
**Report on Controls Placed in Operation**  
**and Tests of Operating Effectiveness**  
**For the Period October 1, 2007 to September 30, 2008**

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**Independent Service Auditors' Report**

**To The Board of Directors of**  
**BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC.**

We have examined the accompanying description of controls related to the Retirement Plan Administrative Services of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC**. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC's** controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC's** controls; and (3) such controls had been placed in operation as of September 30, 2008. The control objectives were specified by the management of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC**. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned applications presents fairly, in all material respects, the relevant aspects of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC's** controls that had been placed in operation as of September 30, 2008. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC's** controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, which are presented in section IV of this report, to obtain evidence about their effectiveness in meeting the related control objectives described in section IV, during the period from October 1, 2007 to September 30, 2008. The specific controls and the nature, timing, extent, and results of those tests are listed in section IV. This information has been provided to user organizations of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC**, and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion the controls that were tested, as described in section IV, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in section IV were achieved during the period from October 1, 2007 to September 30, 2008.

The relative effectiveness and significance of specific controls at **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC**, and their effect on assessments of control risk at user

organizations are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The descriptions of controls at **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC.** is as of September 30, 2008, and information about the tests of the operating effectiveness of specific controls covers the period from October 1, 2007 to September 30, 2008. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls or failure to make needed changes to the systems or controls, may alter the validity of such conclusions.

This report is intended solely for use by the management of **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC.**, its users, and the independent auditors of its users.



BARONE, HOWARD & Co., CPA's, PC

**January 8, 2009**

## **THE ORGANIZATION'S DESCRIPTION OF RELEVANT CONTROL STRUCTURE POLICIES AND PROCEDURES**

### **Overview of the Organization:**

Benefit Plan Administrators was established in 1973 as an independent third party administrator of qualified pension and profit sharing plans. In 1996, the company was acquired by Community Bank System, Inc. (CBSI) and was rebranded as Benefit Plans Administrative Services, LLC (BPA). BPA is now a subsidiary of Benefit Plans Administrative Services, Inc. (BPAS) which has been expanded to include Harbridge Consulting Group, LLC (HCG), Hand Benefits and Trust Co., (HB&T), Flex Corp, and Hand Securities Inc. (HSI).

On July 31, 2004, BPAS acquired the assets and business of a Syracuse based defined benefit and health and welfare practice from PricewaterhouseCoopers, LLP. HCG provides actuarial and health and welfare consulting services.

On May 18, 2007 BPAS completed its acquisition of Hand Benefits & Trust, Inc. (HB&T), a Houston, Texas based provider of employee benefit plan administration and trust services.

On July 9, 2008 BPAS acquired the assets and business of the Philadelphia office of Alliance Benefit Group (ABG) MidAtlantic from BenefitStreet, Inc. ABG is a Philadelphia, PA based provider of employee benefit plans administration services.

Currently, BPAS is organized into five professional groups; BPA, HCG, HB&T, Flex Corp., and HSI. BPAS maintains five offices in Utica and Syracuse, NY, Pittsburgh and Philadelphia, PA, and Houston, TX.

CBSI is a registered bank holding company with two primary operating subsidiaries; Community Bank, N.A. and BPAS, Inc.

### **Services Provided:**

BPA provides pension administration services to approximately 1780 plans throughout the U.S. and Puerto Rico. The company provides design consulting, document preparation, and administrative services to sponsors of defined contribution type plans.

HB&T provides employee benefit trust services for approximately \$3.960 billion in assets in addition to serving as custodian for all daily valuation plans administered by BPA. HB&T administers sub-advised Collective Investment Funds (CIF).

BPA acts as an agent for HB&T when BPA has been contracted to provide third-party administration and consulting services with respect to an employee benefit plan, and the bank/trust company has fiduciary, agency or custodial responsibility.

BPA's daily valuation system serves in the dual capacity of a participant record keeping system and a trust accounting system. As such, BPA's daily valuation system is performing both BPA and HB&T functions through a series of seamless and integrated transactions.

### **Applicability of Report:**

This report has been prepared to provide information on BPA's control policies and procedures which may be relevant to the internal control structure of pension administration customers whose accounts are serviced by BPA. The activities of CBNA, HB&T, HSI, and CBSI are beyond the scope of this report.

**Purpose and Description of Control Structure Features:**

BPA's description of its control structure features is intended to provide interested parties with information about the organization's structure features which may be relevant to its customers.

An entity's internal control structure consists of the policies and procedures established to provide reasonable assurance that specific objectives will be achieved. An understanding of the relevant features of an internal control structure should include an understanding of the entity's environment and accounting systems as well as a knowledge of the design and operation of the control policies and procedures in place.

As this description is intended to focus on those internal control structure features of BPA which may be relevant to its customers, it does not encompass all of the aspects of BPA's internal control structure.

**Description of Control Environment Elements:**

Generally, an entity's control environment represents the collective effect of various factors on establishing, enhancing or mitigating the effectiveness of specific policies and procedures. Such factors include the following:

- Management's philosophy and operating style.
- The entity's organizational structure.
- The functioning of the Board of Directors and its committees, particularly the Audit Committee.
- Methods of assigning authority and responsibility.
- Management's control methods for monitoring and following-up on performance including internal audit procedures.
- Personnel policies and practices.
- Various external influences that affect an entity's operation and policies, such as examinations by regulatory agencies.

The control environment reflects the overall attitude, awareness and actions of the Board of Directors, management and others concerning the importance of controls and their emphasis within the entity.

**Organizational Structure:**

BPA activities are overseen by the Board of Directors of BPAS and CBSI. BPA operates within its own organization chart, the most recent of which is included on page 6 and 7 of this report. HB&T maintains its own Board of Directors which oversees the activities of BPA performed under an inter-company agreement.

BPA activities and operations are conducted in accordance with established policy and procedure manuals, which have been developed and continually updated by the management of the company. The Internal Audit Unit within CBSI assists in the development and implementation of policies and procedures. Upon the implementation of new policies and procedures or changes to existing policies and procedures, the Internal Audit Unit performs certification procedures to ensure that the policies and procedures have been properly implemented.

BPA is organized into four departments, each with a Unit Manager and Senior Staff Member:

- Finance
  - Accounting
  - Office Management
  
- Operations
  - Daily Valuation Operations
  - Applications Programming
  - Mutual Fund / Document Services
  - Defined Contribution Plan Administration
  - Conversion Unit
  
- Systems
  - LAN Management
  - Systems Analysis
  - Telecommunications
  
- Business Development

Responsibilities are allocated among departments and personnel so as to segregate the following functions:

- Document preparation
- Input of transactions
- Distribution processing
- Reconciliation activities
- Consulting and compliance monitoring

**Disaster Recovery System:**

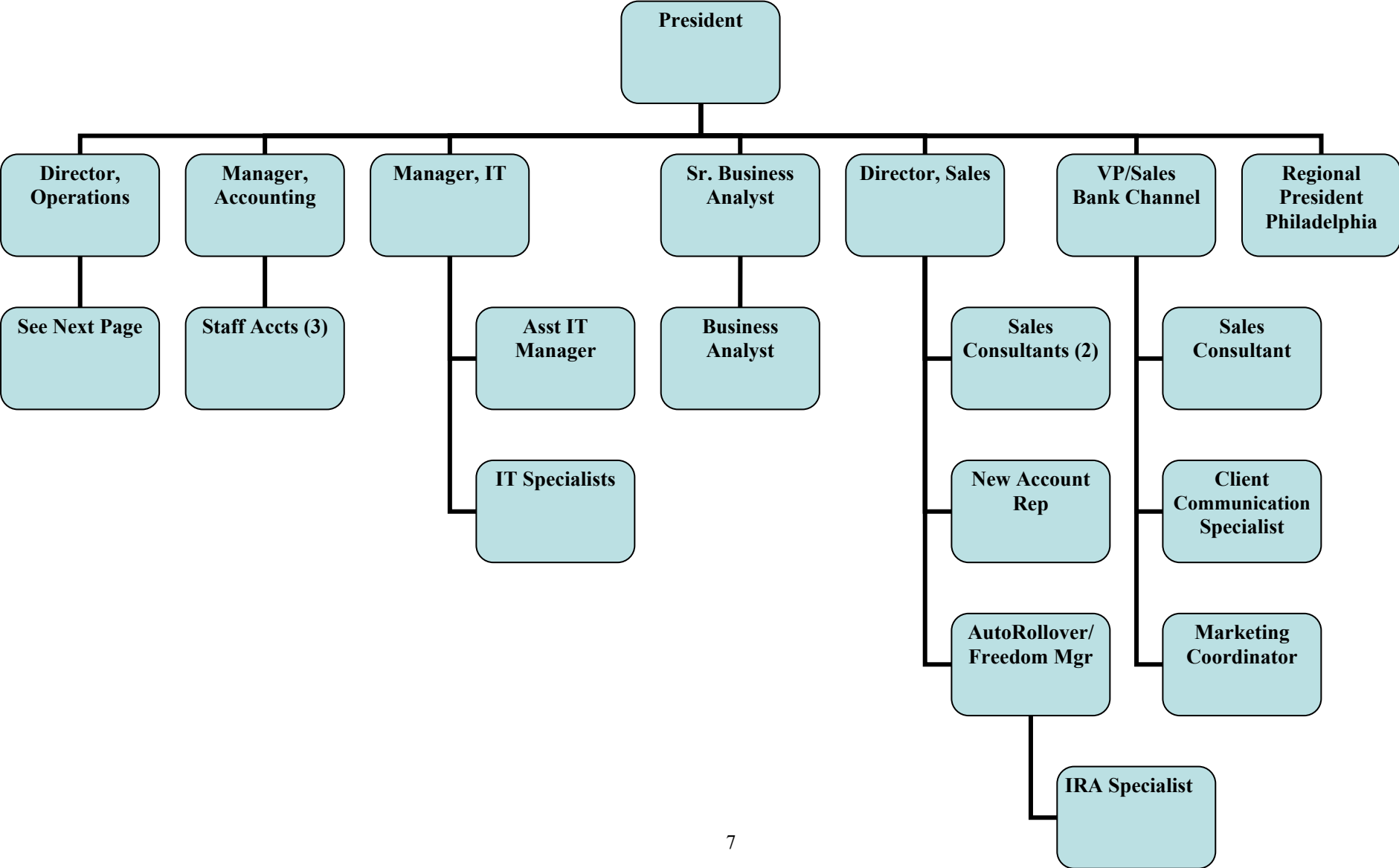
- **Anti-Virus Software:**

Anti-Virus software is located on all servers and workstations. All servers and workstations are updated from a central server that searches for updates on a daily basis. The status of all servers and workstations is scanned from a control station daily. Alerts are displayed at workstations and at the control station. Incoming and outgoing e-mail is checked by two additional Anti-Virus/Spam software engines which run on the e-mail server. Additionally, all servers are protected by multiple firewalls. Antivirus software also guards the gateway.
  
- **Backup / Recovery:**

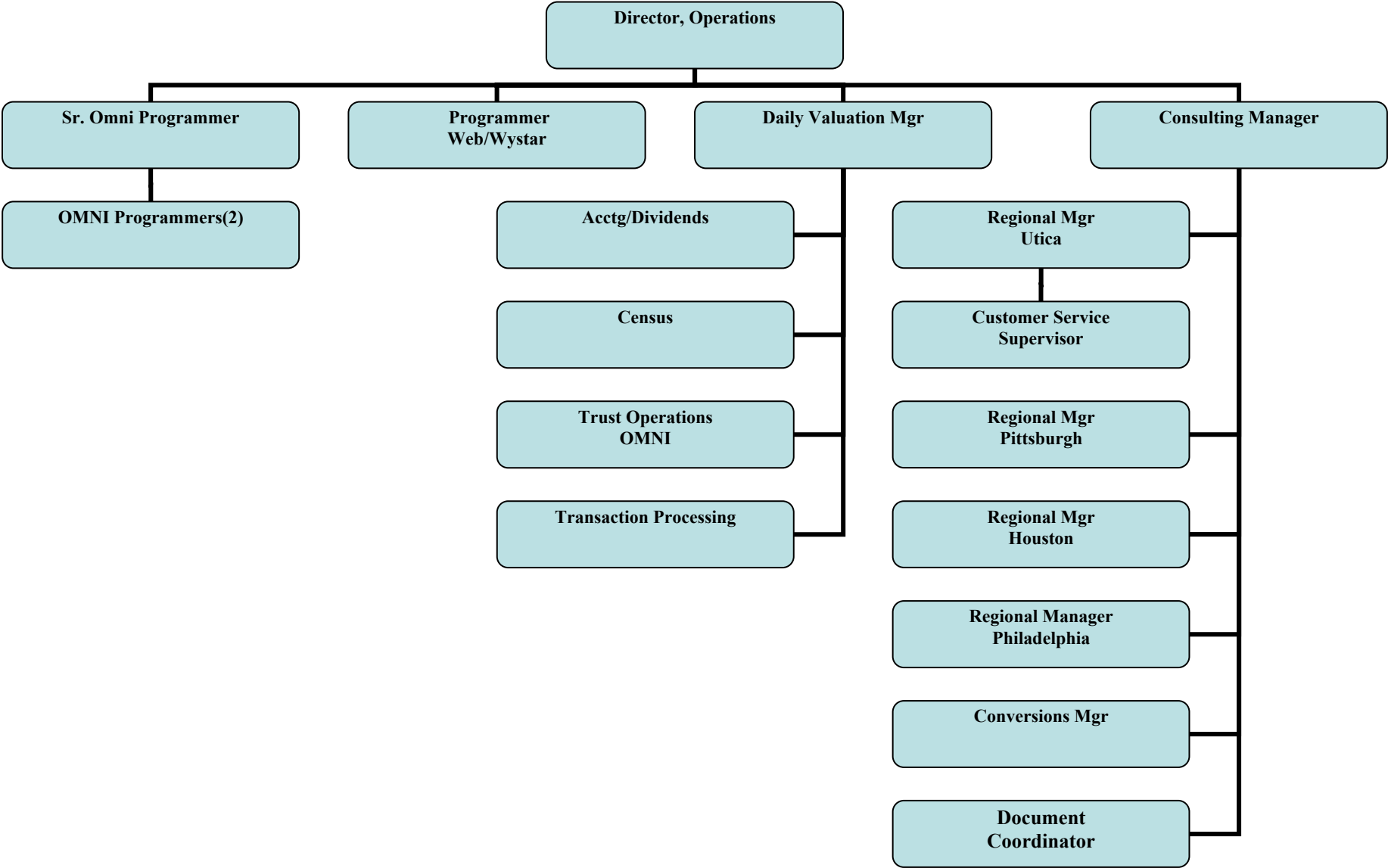
All data, control, system recovery files and installation directories, Omni Plus applications and Omni Plus database files are backed up daily to our tape backup system. The Omni Plus application and its database files are also backed up to a secondary location on the Omni server and an Omni backup file server system. The Omni Plus data is also replicated in real-time to our Disaster Recovery site. Validation tests are performed periodically to ensure that the databases are in sync. to the database are made. Validation tests are performed periodically to ensure that the databases are in sync.

- **Off Site Tape Storage:**  
Current backup tapes and archived tapes are cycled through our off site tape storage facility.
- **Power Recovery Room:**  
The power recovery room is an environmentally controlled room containing telephone and computer equipment. In the event of a power loss, the power recovery room and all servers would be powered by a back up generator.

Benefit Plans Administrative Services, LLC  
Organizational Chart (Page 1)



**Benefit Plans Administrative Services, LLC  
Organizational Chart (Page 2)**



**Management Controls:**

A formal management information and reporting system exists which permits monitoring by management of key control and performance measurements. All required functions for plan administration are entered into a computerized tracking system which lists tasks, unit responsibilities and priority status.

**Human Resource Policies and Procedures:**

The organization has formal hiring practices that are designed to ensure that new employees are qualified for their job responsibilities. All prospective employees are interviewed by two Managers. Hiring policies include requiring the candidate to have obtained a minimum level of education and experience for the position, pre-employment tests, and management's completion of reference and background checks.

Training of personnel is accomplished through supervised on-the-job-training, seminars and regular in-house educational courses. All employees are required to complete an examination in basic retirement plan administration within the first year of employment. In addition, Plan Consultants are required to complete a certification program sponsored by a professional association. Department managers are also required to conduct regular in-house training sessions so that all personnel are informed about changes in systems and tax regulations.

Formal performance reviews are conducted after 30, 90, and 180 days for new employees and on an annual basis after one year of service. Employees are evaluated on objective criteria based on performance and an overall rating is assigned. The evaluation of those employees rated less than satisfactory are reviewed to determine appropriate actions to improve performance.

The organization has a formal code of conduct which, among other things, establishes rules of conduct for all employees. Specifically, employees are prohibited from divulging confidential information regarding customer affairs.

**Internal Audit:**

BPA's activities are subjected to a continual internal audit program. Audits are conducted by CBSI's Audit Department and are scheduled based on formal risk ratings. The Internal Audit Department is under the general supervision of the Audit Committee of CBSI's Board of Directors and has unrestricted access to all functional areas within BPA. The activities of the Internal Audit Department are conducted in accordance with an audit plan which is approved by the Audit Committee. The audit plan is developed with appropriate consideration given to regulatory factors, prior audit results, external audit findings, risk exposure and input from relevant members of management. The audit program is designed to evaluate compliance with policies, procedures, applicable laws and regulations to which BPA and its customers are subject. The Audit Committee meets periodically to monitor progress compared to the audit plan. Upon the completion of an audit, an internal control rating is assigned based on qualitative measures of internal controls and the effectiveness of the organization's operations. Audit findings are documented in formal written reports which are submitted to members of management and the Audit Committee. Management is then required to submit, within a specified period of time, a written response which discusses the intended resolution of reported items.

**Insurance Coverage:**

The organization maintains insurance coverage against major risks. Coverage includes professional services, trust services, as well as other business liabilities. Coverage is provided by

insurance companies which are considered, by senior management of CBSI, to be financially sound. Amounts of coverage are carried at levels that senior management and the Board of Directors of CBSI believe is reasonable given the size and scope of BPA's operations.

**Regulatory Oversight:**

BPA, as a subsidiary of CBSI, is subject to regulation by the Federal Reserve. As such, CBSI and its subsidiaries are required to file periodic reports and are subject to periodic examination.

**Information Systems:**

Each of the following systems were purchased from external vendors or developed in-house:

**OMNIPLUS:** A PC-based record keeping system utilized to administer certain types of defined contribution plans and all daily valuation plans. A subsystem of the OMNIPLUS platform aggregates all individual mutual fund and company stock transactions for daily valuation plans into net trading positions. Purchased from SunGard Corporation.

**RELIUS:** A PC based system used to generate IRS Form 5500 reports, 1099R's, 1099 Div's and 5498's. Purchased from SunGard Corporation.

**STRATEGY:** A PC based system used to allocate employer year-end contributions and forfeitures, and perform general non-discrimination tests under I.R.C. Sections 401(a)(4) and 410(b). Purchased from Strategy, LLC.

**CENSUSPRO:** An internet based system used by plan sponsors to enter and transmit periodic employee census data. This is a proprietary system developed in-house, utilizing software engineer expertise from The PCA Group, Inc. in Rochester, New York.

**CLIENT/TASK MGMT:** A PC based work flow and contact management system that tracks completion dates for all tasks performed by BPA and Harbridge employees ("BPAS"), as well as a sophisticated client contact and plan management tool. This is a proprietary system developed in-house, utilizing software engineer expertise from The PCA Group, Inc. in Rochester, New York.

**VISUAL ACCOUNTMATE (VAM):** A PC based accounting system used primarily for billing and accounts receivable, and as a "shadow booking" system of the parent company's accounting system. Purchased from Accountmate Software Corporation.

**FundLINX:** A PC based trade management system that pushes and tracks trades processed from the OMNIPLUS record keeping system to the National Security Clearing Corporation ("NSCC"), including confirmation and settlement of the trades at each underlying fund family. The system also included Position and Revenue Management modules to assist in OMNIPLUS to Fund reconciliation and Fund revenue tracking.

**Description of the Organization's Interactions:**

On a daily basis, BPA interacts with a variety of external parties to provide services for BPA customers. A brief description of those parties and the nature of their interactions include the following:

- **Customers** engage BPA for plan administration and consulting services. They provide BPA with census information and verify contribution amounts for trading on daily valuation systems.

- **Investment Advisors** refer their customers to BPA for plan administration services. For balance forward plans, these advisors supply asset information to BPA for trust accounting purposes. BPA provides them with information for contribution and distribution processing.
- **CBNA/HB&T:** HB&T is a Texas Chartered Non-Depository Trust Company. CBNA with its depository trust powers, provides settling bank services to HB&T. All of the mutual fund accounts that BPA supports with its daily valuation system are maintained either in the name of “CBNA” or “HB&T” as Custodian for all Plans Administered by BPA, or as “CBNA” or “HB&T” as custodian for “name of plan”. BPA’s daily valuation system communicates purchase and redemption information to the fund companies through the NSCC. Transactions for all mutual funds are traded using T+0 prices. Trades are settled by CBNA through a single net wire transfer on T+1.
- **Payroll Service Bureaus** directly transmit census information to BPA on behalf of many clients.
- **National Security Clearing Corporation** is a clearing house used to transfer all HB&T mutual fund trades to the individual mutual fund companies.

### **Description of Transaction Processing:**

#### **New Account Activity:**

An account is initiated when a customer requests services and executes the proper agreements to retain the company. A New Account Review Committee meets weekly to review new accounts and monitor the set-up or conversion. If the Employer has a direct relationship with BPA, an OFAC (Office of Foreign Assets Control) scan is performed to verify that the Company is not on any of the government’s watch lists. An engagement letter is used for all record keeping services. Daily valuation clients also execute Fund and Custodial or Directed Trustee Agreements. A Conversion Specialist is assigned to manage the conversion of new plans. Upon completion of the conversion, the plan is assigned to a Plan Consultant for ongoing servicing. The Plan Consultant reviews plan documents and ensures the plan is properly coded into the system. Coding involves parameters for vesting, eligibility, allocation methods, etc. BPA no longer accepts non-daily valuation defined contribution engagements.

#### **Transaction Processing:**

All transactions for daily valuation plans are processed by the OMNIPLUS unit. Once a plan is established, participant data is captured electronically and is loaded into the system. Investment percentages must be entered for plans with multi-fund investment accounts. Participant records are updated through the census data files, Voice Response Unit (VRU), and Internet. BPA does not accept census data or investment changes in hard copy format. The OMNIPLUS unit also generates participant and plan level reports, allocates dividends and processes fees payable from plan assets.

#### **Census Reporting:**

All census-gathering activities are coordinated by the census unit. BPA accepts census information in three formats. 1) Where clients use a payroll service bureau, BPA arranges to have relevant data transmitted directly from those service bureaus to BPA in a standard format. The information is read directly into the BPA plan administration system. 2) The census data may be entered and transmitted through an internet based reporting system (CensusPro) 3) Certain clients maintain in-house payroll systems. They provide BPA with an electronic transmission. The information is then processed in the same manner as payroll service bureau information. Manual paper census reporting is accepted in rare instances, and only on a temporary basis.

For daily valuation plans, contribution data reported to BPA is processed in edit mode to ensure that contributions are being reported for eligible plan participants. Contributions for employees who have

not met the age and service requirements as set forth in the plan document, and loan payments for loans that have already been discharged are rejected. BPA will resolve any transaction that has been rejected in edit mode before it proceeds with the processing of a contribution file. Contribution information on files without rejected transactions are communicated back to the client via fax or email in the form of a trade verification. Clients are required to acknowledge, by their signature, approval of the contribution amounts for each contribution cycle and indicate that funds have been sent to the custodian for trading, or are available through ACH. Note: The custodian for all daily valuation plans is HB&T. All custodial services for BPA's daily valuation plans are performed at BPA's offices by dual employees (employed by both BPA and HB&T).

**Distribution Processing:**

Requests for Distribution forms from terminated participants are processed through the BPALine and BPAWeb. The electronic requests create print jobs with forms that are specific to each plan. The forms are mailed to the participants' home addresses with instructions to complete and return to BPA. Returned forms are reviewed by the plan consultants or a distribution specialist; and if a transaction is approved, a task is posted in BPA's Plan Manager System. The OMNIPLUS unit processes the distribution in the system. A distribution log is sent to the Trust Operations unit at BPA which issues checks. For non-daily valuation plans, a transmittal letter is sent to the trustees or broker with instructions on each distribution.

Hardship Withdrawals and Traditional Loans are processed in the same manner as distributions for participants. The transaction is initiated by the participant through the BPALine or BPAWeb. A forms package is sent to their home address, the completed forms are reviewed by the plan consultant or distribution specialist, and a task is entered in the Plan Manager System. For loans, an amortization schedule is sent to the employer with instructions to commence payroll deductions for the loan repayments. For hardship withdrawals, notice is sent to the employer with instructions to suspend 401(k) contributions if applicable.

During 2005, BPA began offering the ReservePlus Loan program to its clients. Participants within plans that have adopted the program may submit a request to establish a credit line up to the amount currently available as a loan to them. They enroll in the program via BPAWeb. Assets are transferred from the core funds to the ReservePlus Loan Fund, where they continue to earn dividends. The earnings are transferred back to the participant's core funds on a monthly basis. The participant receives an access vehicle (check/card) to access their ReservePlus Loan account. The participant receives a monthly statement reporting the loan balance, minimum payment due and a summary of the previous month's transactions and the amount still available to them. Loan payments are submitted to ReservePlus. ReservePlus transmits information to BPA regarding loans to be defaulted due to insufficient or untimely payments.

**Trust Accounting:**

BPA performs trust accounting services for all balance forward plans and certain daily valuation plans. Trust accounting involves the preparation of income statements, balance sheets, IRS Form 5500 information returns and other reconciliation functions.

**Employer Allocations:**

Certain defined contribution Plan Consultants are qualified to allocate year-end employer contributions, including forfeitures. The Consultants must review the eligibility and allocation provisions within the plan document and examine the allocation in edit mode.

**Discrimination Testing:**

Certain defined contribution Plan Consultants are qualified to generate discrimination test reports. The test reports are reviewed by Plan Consultants who issue corrective action instructions when required.

**Voice Response Unit (VRU):**

BPA maintains a voice response system for daily valuation plans. The system is supported by the OMNI Unit. They issue Personal Identification Numbers (PIN), to control access, and letters of confirmation to plan participants. Instructions on the allocation of participant's accounts are captured through the VRU and are processed by the OMNIPLUS team. Confirmation letters are issued to participants on the first business day following execution of the trade.

**Autotrade System:**

All investment transfers for daily valuation plans must be processed by participants through either the BPA VRU or BPA Web. Employees receive one PIN, which allows them to access both systems.

**Valuation Reports:**

For defined contribution plans, the annual reports are posted on BPA's Sponsor Website. Reports include an annual summary participant statement, a trust asset report, detail of participant balances, loan and distribution reports, applicable discrimination reports and a copy of IRS Form 5500 information returns. The Plan Consultant reviews the reports.

**User Control Considerations:**

BPA's processing of transactions and the controls over the processing were designed with the assumption that certain controls would be placed in operation at user organizations. This section describes some of the controls that should be in operation at user organizations to complement the controls at BPA. User auditors should determine whether user organizations have established controls to ensure that:

- Instructions and information provided to BPA from user organizations are in accordance with the provisions of the plan agreement, trust agreement or other applicable governing agreements or documents between BPA and the user organization.
- Physical and logical access to BPA's systems via terminals at user locations are restricted to authorized individuals.
- Timely written notification of changes to the plan, its objectives, participants, and investment managers is adequately communicated to BPA.
- Timely written notification of changes in the designation of individuals authorized to instruct BPA regarding activities, on behalf of the user organization, is adequately communicated to BPA.

- Timely review of reports provided by BPA of user organization account balances and related activities is performed by the user organization, and written notice of discrepancies is provided to BPA.
- Timely written notification of changes in related parties for purposes of identifying parties-in-interest transactions is adequately communicated to BPA.
- User organizations should ensure that all Internal Revenue Service requirements and filings for the plan have been met.
- User organizations should ensure that the plan continues to meet the requirements of the Employee Retirement Income Security Act (ERISA) and the Department of Labor.
- Authorized Plan Representatives should be responsible for monitoring the timeliness of changes to user organization accounts.
- Authorized Plan Representatives should ensure that all participant enrollments are properly authorized.
- Users of the BPA Sponsor Web and CensusPro should implement controls surrounding User IDs and passwords established for account use. Passwords should be different from the User ID, contain both letters and numbers, be difficult to guess and be routinely changed.

## **Privacy Policies**

The framework of the Organization's privacy policies are as follows:

- Management – BPA defines, documents, communicates, and assigns accountability for its privacy policies and procedures.
- Notice – BPA provides notice about its privacy policies and procedures and identifies the purposes for which personal information is collected, used, retained, and disclosed.
- Choice and Consent – BPA describes the choices available to the individual and obtains implicit or explicit consent with respect to the collection, use, and disclosure of personal information.
- Collection – BPA collects personal information only for the purposes identified in the notice.
- Use and Retention – BPA limits the use of personal information to the purposes identified in the notice and for which the individual has provided implicit or explicit consent. BPA retains personal information for only as long as necessary to fulfill the stated purposes.
- Access – BPA provides individuals with access to their personal information for review and update.
- Disclosure to Third Parties – BPA discloses personal information to third parties only for the purposes identified in the notice and with the implicit or explicit consent of the individual.
- Security – BPA protects personal information against unauthorized access (both physical and logical).

- Quality – BPA maintains accurate, complete, and relevant personal information for the purposes identified in the notice.
- Monitoring and Enforcement – BPA monitors compliance with its privacy policies and procedures and has procedures to address privacy related complaints and disputes.

## SECTION III

### **BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC. INFORMATION PROVIDED BY BARONE, HOWARD & Co., CPAs, PC The Service Auditor**

#### **Purpose and Scope of Report:**

This report on the control structure policies and procedures placed in operation and our test of their operating effectiveness is intended to provide interested parties with information sufficient to understand the flow of transactions relating to BPA services and to rely on certain control structure policies and procedures in place at BPA. This report, when combined with an understanding of the internal control structure in place at BPA user locations, is intended to permit an evaluation of the total internal control structure in place for BPA customers.

Our examination of the control structure policies and procedures of BPA was restricted to the control objectives and the related procedures specified by BPA and were not extended to procedures in effect at user locations or other control procedures. The examination was performed in accordance with AICPA Statement on Auditing Standards No. 70, "Reports on the Processing of Transactions by Service Organizations," as amended by AICPA Statement on Auditing Standards No. 88, "Service Organizations and Reporting on Consistency." It is each user organization's responsibility to evaluate this information in relation to the internal control structure in place at each user location in order to assess the total internal control structure. If an effective user internal control structure is not in place, BPA's internal control structure may not compensate for such weaknesses.

#### **Tests of Operating Effectiveness of Policies and Procedures:**

##### **Control Environment Elements**

The control environment represents the collective effect of various elements in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. In addition to tests of specific control procedures described below, our procedures included tests of what we considered to be the relevant elements of BPA's control environment including:

- BPA's organizational structure and approach to segregation of duties.
- The functioning of the officers of BPA and their oversight responsibilities.
- Management control methods.
- Personnel policies and practices.

Our tests of the control environment included:

- A review of BPA’s organizational structure, segregation of functional responsibilities, accounting, processing and personnel policies.
- Discussions with management, operations, administrative and other personnel who are responsible for developing, ensuring adherence to and application of control structure policies and procedures.
- Observations of personnel in the performance of their assigned duties.

The control environment was considered in determining the nature, timing and extent of the testing of the operation of control policies and procedures relevant to achievement of the control objectives.

### **Control Policies and Procedures**

Our tests of the effectiveness of control structure policies and procedures included such tests as we considered necessary in the circumstances to evaluate whether those policies and procedures, and the extent of compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from October 1, 2007 to September 30, 2008. Our tests of the operational effectiveness of control structure policies and procedures were designed to cover a representative number of transactions throughout the period for each of the control policies and procedures listed in Section II, which are designed to achieve the specified control objectives. In selecting particular tests of the operational effectiveness of control structure policies and procedures, we considered:

- The nature of the items being tested.
- The types and competence of available evidential matter.
- The nature of the audit objectives to be achieved.
- The assessed level of control risk.
- The expected efficiency and effectiveness of the test.

### **Testing Performed:**

Testing performed of the operational effectiveness of control structure policies and procedures were as follows:

<u>Test</u>	<u>Description</u>
Inspection:	Inspected documents and reports indicating performance of the control structure policy or procedure.
Observation:	Observed application of specific control structure policies and procedures.
Inquiry:	Inquired of appropriate BPA personnel.

### **Results of Testing Performed**

The results of testing of the control environment elements and control policies and procedures were satisfactory to conclude that policies and procedures were operating effectively to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period October 1, 2007 to September 30, 2008.

## SECTION IV

### BENEFIT PLANS ADMINISTRATIVE SERVICES, LLC.

#### Control Objectives, Policies and Procedures and Tests of Operating Effectiveness

##### Administration Account Initiation

**Control Objective:**

New accounts are accepted and approved.

**Policies and Procedures:**

All new accounts are reviewed and approved by senior management at a weekly meeting of the New Accounts Committee. An Administrative Services Agreement is required prior to performing any record keeping services. Daily valuation clients also execute Directed Trust or Custodian Agreements. The Board of Directors of CBSI is notified at monthly board meetings of new accounts acquired.

**Tests Performed:**

BH&Co reviewed a selection of new account files to verify the existence of appropriate agreements and service agreement/engagement letters.

BH&Co reviewed a selection of new account files to verify that such accounts had been approved.

BH&Co inspected several new account acquisition lists prepared for the Board of Directors' information.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

New client information on file is complete and accurate.

**Policies and Procedures:**

A Conversion Specialist reviews new client plan documents and prepares a New Account Project Schedule to ensure that information items such as eligibility, vesting, methods of allocation and other pertinent provisions, are properly gathered for entry into the system. After the plan information is entered into the system, it is reviewed by the Plan Consultant for accuracy and completeness.

**Tests Performed:**

BH&Co inspected a selection of new account files and their related Plan Documents to ensure information had been gathered in a manner to promote accuracy and completeness for entry into the system.

BH&Co made inquiries that Plan Consultants compared maintenance reports with the Plan Specification Template and/or Plan Documents to ensure that information entered into the system is accurate and complete.

BH&Co reviewed a selection of new plans to verify that the Plan Consultant had taken steps to ensure a complete and accurate set-up of the new accounts.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Beginning plan assets are recorded properly.

**Policies and Procedures:**

The BPA Conversion Unit analyzes new clients' assets and enters the information into the OMNIPLUS accounting system. A Plan Consultant reviews the accuracy of the new information after it has been entered into the system. Trust accounting services for balance forward plans are performed by Plan Consultants. Trust accounting services for daily valuation plans are performed by the Daily Valuation Unit using the OMNIPLUS system.

**Tests Performed:**

BH&Co made inquiries of employees and inspected new account files for evidence of analysis and review.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

New accounts are to be reviewed within a reasonable time after funding to ensure compliance with applicable agreements and documents.

**Policies and Procedures:**

A Conversion Specialist is assigned to manage plan conversions and new set-ups. A Conversion Specialist, working in conjunction with the Plan Consultant, reviews all plan documents and ensures that the plan is properly coded into the system. Senior Management reviews new managed accounts initially and periodically compares them to applicable documents.

**Tests Performed:**

BH&Co reviewed a selection of accounts to ensure that there was evidence to indicate that Management had performed initial review within a reasonable time period after funding and had reviewed plans periodically, thereafter.

**Results:**

No exceptions were noted as a result of the tests performed.

## **Administration Account Maintenance**

### **Control Objectives:**

Changes made to client accounts are authorized and accurate.

### **Policies and Procedures:**

The Operations Unit receives requested changes from Plan Consultants resulting from plan amendments and/or changes in the law. BPA maintains open authorization for normal maintenance changes to plans. Any material change in plan design or change in investment objective is authorized in writing by the client. All plan amendments are signed by the client and maintained on the premises. Appropriate documentation is provided to the Plan Consultant for update of the system.

### **Tests Performed:**

BH&Co inspected a selection of accounts for authorization to make changes beyond normal maintenance.

BH&Co reviewed the standard BPA Administrative Services Agreement for authorization to make normal maintenance changes to plans.

BH&Co inspected a selection of client files to ensure that changes and amendment to plans were maintained for trust book reference and general plan operation.

BH&Co made inquiries and inspected BPA's processing of manual changes and balancing procedures to ensure that procedures are in place to update OMNIPLUS system manually where necessary.

### **Results:**

No exceptions were noted as a result of the tests performed.

### **Control Objective:**

Plan records are properly safeguarded.

### **Policies and Procedures:**

Original participant loan documents are scanned and stored electronically. The original copies are either stored in a locked fireproof safe at BPA, or sent to a secure offsite storage location. All other original plan documents are stored in lockable file cabinets in BPA's office, and/or scanned and saved electronically. Participant records and plan transactions are maintained by the OMNIPLUS computer system with a system of complete back-ups and restoration procedures in place.

### **Tests Performed:**

BH&Co made inquiries of Senior Management and other BPA personnel and inspected the premises to verify that records are maintained in lockable file cabinets.

BH&Co made inquiries of the Manager, IT Services to verify and inspect documentation of back-up and restoration procedures that are in place and in use.

### **Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Client accounts are maintained in compliance with client investment objectives, terms of the governing instrument, applicable laws and plan documents.

**Policies and Procedures:**

The Plan Consultants review the terms of applicable documents of client accounts when there are changes in the law or when there are plan amendments. The plans are reviewed to ensure compliance with the clients' investment objectives by the trust office if HB&T has fiduciary responsibility. **Tests**

**Performed:**

BH&Co reviewed a selection of client accounts to determine that the Plan Consultants had performed reviews of the plans when changes were made to the plan.

BH&Co inspected a selection of transactions for evidence of review.

BH&Co made inquiries and inspected participant and plan level reports to determine if changes were made to information as received.

**Results:**

No exceptions were noted as a result of the tests performed.

## **Administration Account Termination**

**Control Objective:**

Termination and account closure are authorized by the client.

**Policies and Procedures:**

Written authorization from the client is required to terminate or close an account. The authorization is maintained in the account file and is reported to the Board of Directors on a monthly basis.

**Tests Performed:**

BH&Co reviewed a selection of terminated accounts to verify that written authorization from the client was obtained and maintained in the file as are other documents accumulated in the termination process.

**Results:**

No exceptions were noted as a result of the tests performed.

## **Retirement Plan Services Contributions and Receipts**

### **Control Objective:**

Duties are properly segregated.

### **Policies and Procedures:**

BPA utilizes a comprehensive tasking approach to retirement plan administration. BPA maintains several departments wherein tasks to service a plan are performed by a number of employees at different stations and levels. The Plan Consultant is responsible for coordinating the tasks and for reviewing the results. After initial set-up and entry of plan provisions, contribution and participant loan repayment data are received electronically for OMNIPLUS or by hard copy for a small number of Balance Forward plans. The information is entered into the system by a data entry person for balance forward plans. The information is entered into the funds available report in access for daily plans. The transactions are then reviewed by the Plan Consultant in the normal course of plan administration. BPA receives funds to cover contributions, loans, and rollovers. BPA cannot directly accept wire transfers. Wire transfers are handled by the Central Wire Desk in DeWitt, NY who then notifies BPA of receipt.

### **Tests Performed:**

BH&Co made inquiries of BPA management regarding the segregation of duties and observed employees in the performance of their tasks to ensure that duties are properly segregated.

BH&Co reviewed deposit items from the BPA disbursement worksheet. The items were traced to the funds available report verifying amounts received and dates of receipt.

BH&Co reviewed documents and checklists along with authorizations and acknowledgments for tasks to be performed.

BH&Co inspected notifications of incoming funds, authorizations sent to the Wire Room and notification that funds had been transferred according to instructions.

### **Results:**

No exceptions were noted as a result of the tests performed.

### **Control Objective:**

Transactions are accurately processed.

### **Policies and Procedures:**

BPA Omni Operators perform edit checks and prepare transaction reports from the OMNIPLUS system. Another Omni Operator verifies the input to ensure that data was accurately entered. The entries are later compared to the Daily Trade Recap Report as an additional proof that information is entered accurately.

### **Tests Performed:**

BH&Co made inquiries and inspected edit checks and transaction reports from the OMNIPLUS system and traced the information to the Daily Trade Recap Report to determine that all data was accurately entered.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Contributions are allocated accurately to plan participants.

**Policies and Procedures:**

Contributions are recorded electronically by the OMNIPLUS system in accordance with plan parameters that ensure that contributions are accurately allocated between participants in the plan and among the investments held for the participant. Year end employer allocations are performed by exporting the pertinent data out of OMNIPLUS and into STRATEGY. STRATEGY handles various allocation formulas and performs the necessary discrimination testing.

**Tests Performed:**

BH&Co reviewed the OMNIPLUS application system manual to ensure that the system is designed to allocate contributions in accordance with plan parameters.

BH&Co inspected a sample of plans and verified that contributions were allocated according to plan parameters.

**Results:**

No exceptions were noted as a result of the tests performed.

**Retirement Plan Services**  
**Benefit Payments – Daily Valuation**

**Control Objective:**

Duties are properly segregated.

**Policies and Procedures:**

Segregation of duties exists between the authorization, distribution and recording of disbursements. When employers are responsible for the disbursement of funds directly, information is provided to the employer to facilitate proper payment action with confirmation to BPA that payment has taken place. Disbursements from plans are recorded and verified by the Plan Consultant in the normal plan accounting services.

Where BPA is record keeper for accounts held in the CBNA Trust Office, an Excel spreadsheet is used to record the information required to complete the disbursement (loans, distributions, rollover checks.) The information is faxed to CBNA Trust Office where the check is processed.

BPA processes disbursements (loans, distributions, rollover checks) for accounts where trades are placed through the BPA trading system.

**Tests Performed:**

BH&Co made inquiries of BPA personnel and observed them in the performance of their duties to ensure that duties are properly segregated.

BH&Co reviewed documents and checklists along with authorizations and acknowledgments for tasks to be performed.

BH&Co inspected a selection of client files for information sent to clients regarding benefit payment amounts and notification of payment action.

BH&Co made inquiries and inspected a selection of plan files to ensure that disbursements from plans are entered and properly accounted for.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

All disbursements are authorized individually or by blanket agreement with the client.

**Policies and Procedures:**

Plan Consultants or Distribution Specialists review disbursement requests to ensure that the transaction has been authorized by the client or is in agreement with the plan document and services agreement.

**Tests Performed:**

BH&Co inspected a selection of disbursements to determine if the disbursement was authorized by the participant or is authorized by the Administrative Services Agreement.

BH&Co inspected a selection of disbursements and verified that the distribution calculation was reviewed by a BPA senior staff person and / or manager.

BH&Co inquired of BPA employees regarding compliance with plan provisions to authorize disbursements for loans, hardship withdrawals, and distributions upon termination. BH&Co inspected a selection of disbursements and traced them to IRS Information Returns to verify accurate governmental reporting.

**Results:**

No exceptions were noted as a result of the tests performed.

**Retirement Plan Services**  
**Wire Transfers – Daily Valuation**

**Control Objective:**

Duties are properly segregated.

**Policies and Procedures:**

BPA receives funds to cover contributions, loans, and rollovers. BPA receives notification from the DeWitt Wire Room that funds have been received and BPA authorizes wire transfers of the funds by notification to the Wire Room. Confirmation is received from the Wire Room that the funds have moved according to BPA's authorization. Confirmations from the Wire Room are then verified for accuracy by a BPA OMNIPLUS daily valuation manager in the Utica, NY office.

**Tests Performed:**

BH&Co made inquiries of and observed BPA staff in the performance of their duties to ensure that duties are properly segregated and that wires do not originate in the Utica office.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Wire transfers are properly authorized by the client.

**Policies and Procedures:**

BPA's daily valuation services are limited to clients who contract with CBNA for custodial or trustee services. A Fund Service Agreement is executed between BPA wherein the client authorizes BPA to communicate wiring instructions to the plan custodian.

**Tests Performed:**

BH&Co reviewed a selection of client files to verify that they contain an executed Administrative Services Agreement, Directed Trust or Custodian Agreement, and Fee Disclosure Letter, as considered necessary for the level of service provided.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

All outgoing wire transfers are processed.

**Policies and Procedures:**

After Wire Authorization Forms are prepared, a BPA trust operations employee processes the Summary Trade Order Sheet. It is then reviewed by another trust operations employee or the BPA OMNIPLUS daily valuation manager prior to faxing the request to the Wire Desk in Dewitt and the HB&T Trust Office in Houston, Texas. The wire transfers are confirmed to BPA and a BPA operations employee ensures that all wire requests have been properly executed.

**Tests Performed:**

BH&Co reviewed a selection of wire transactions from the Summary Trade Order Sheet in order to verify that the transactions have been reviewed by a second trust operations person, or by the BPA OMNIPLUS daily valuation manager.

BH&Co inspected a selection of wire transfer confirmations to confirm that they had been traced to the Wire Transfer Request.

**Results:**

No exceptions noted were noted based on the tests performed.

**Control Objective:**

Autotrade transactions are reconciled on a timely basis.

**Policies and Procedures:**

Participants with plans using OMNIPLUS can execute transfers between funds within the plan by accessing the BPA Voice Response Unit or over the internet. Participants receive a PIN number. Participants receive confirmations both on screen and in the mail. Transactions are accomplished according to the Voice Response Unit and Website instructions. If a paper election form with a participant's initial investment elections is received, transactions are entered by an OMNI processor and the checklist of transactions is reviewed by another OMNI processor. Participant information is entered into the system through the OMNIPLUS record keeping software system. Investment percentage data are entered for plans with multiple fund investment accounts. Participant records are updated through the Census Data Files, Voice Response Unit and in rare, temporary instances, by manual transactions. Using software systems, participant and plan reports are generated, dividends are allocated and disbursements due from the plan are processed. Plan receipts and disbursements are balanced against plan assets for accuracy.

**Tests Performed:**

BH&Co reviewed BPA's home page using a test participant.

BH&Co reviewed a selection of Autotrade reconciliations.

**Results:**

No exceptions were noted as a result of the tests performed.

**Retirement Plan Services**  
**Accounting System – Daily Valuation**

**Control Objective:**

Duties are properly segregated.

**Policies and Procedures:**

A Plan Consultant or a Distributions Specialist approves disbursement requests and forwards the transaction to the Distribution Unit. BPA issues the checks for Daily Valuation Plans. For Balance Forward Plans, a transmittal letter is sent to the client or to the broker / agent of record for the disbursement.

**Tests Performed:**

BH&Co made inquiries of the Plan Consultants and observed them in the performance of their duties to ensure that duties are properly segregated.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

All disbursements are authorized by the Plan Consultant or Distribution Specialist.

**Policies and Procedures:**

All disbursement requests are checked against plan parameters, plan forms and plan specifications by the Plan Consultant or Distribution Specialist. All disbursement requests are reconciled on a disbursement worksheet and on the Summary Trade Order Sheet.

**Tests Performed:**

BH&Co made inquiries and inspected reconciliations of transfers authorized and transfers made. BH&Co inspected disbursement authorizations for the signature of a Plan Consultant or Distribution Specialist as authorization for the disbursement.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

All disbursement requests received are accurately processed.

**Policies and Procedures:**

Distribution requests are received from plan participants or employers. The requests are reviewed by a Plan Consultant or Distribution Specialist who compares them to plan documents to verify that the distribution request conforms to the rules regarding distributions to participants. The transaction is then entered into the Omni Plus System.

**Tests Performed:**

BH&Co made inquiries and observed Plan Consultants or Distribution Specialists verifying that requests are valid and in compliance with plan documents and then directing payment to be processed.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Distributions are allocated accurately from plan participants and plan funds.

**Policies and Procedures:**

Distributions are allocated by the OMNIPLUS system in accordance with plan parameters to ensure that distributions are accurately charged to the appropriate participant in the plan and against the assets held by the plan for the participant. The system maintains shares of investments by participants within the plan and allocates the transactions according to the plan parameters maintained in the system.

**Tests Performed:**

BH&Co reviewed the OMNIPLUS application system manuals to ensure that the system is designed to allocate distributions in accordance with plan parameters.

BH&Co inspected a selection of client files for correct allocation of disbursements in accordance with plan parameters.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

ReservePlus Loans are processed accurately and in accordance with plan documents.

**Policies and Procedures:**

Participants of plans that have adopted the ReservePlus Loan Program can request to establish a credit line through the BPAWeb. Assets are transferred from the core funds to the ReservePlus Loan Fund where they continue to earn dividends. The earnings are transferred back to the participant's core funds on a monthly basis. The participant receives an access vehicle (Check/Card) that allows them to access their ReservePlus Loan Account. The participant receives a monthly loan statement reflecting the current loan balance, minimum payment due, summary of previous month's transactions and current credit line available.

**Tests Performed:**

BH&Co reviewed a selection of authorization forms from plan sponsors to verify the adoption of the ReservePlus Loan Program.

BH&Co reviewed several loans from the roster of all ReservePlus Loans maintained by BPA and verified with each selected plan's accounting records.

BH&Co reviewed these same loans to either written spousal consent forms or to the BPA Website's loan request application.

**Results:**

No exceptions were noted as a result of the tests performed

**Retirement Plan Services**  
**Accounting System – Daily Valuation**

**Control Objective:**

Assurance that the plan asset information received is correct.

**Policies and Procedures:**

The annual report contains a statement that BPA relies on third party information for the valuation of assets. Plan Consultants reconcile information received. The reconciliation is reviewed by a senior staff member. If the information is doubtful, the client is contacted for additional information or clarification. Plans with more than one hundred participants must provide an Independent Auditors' Report regarding the plan assets.

**Tests Performed:**

BH&Co inspected a sample of plans for certification of IRS Form 5500 information and year-end census data.

BH&Co inspected a sample of plans for completion by the Plan Consultant and review by a senior staff member.

BH&Co inspected a selection of plans with over one hundred participants for evidence that an Independent Auditors' Report was available.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Benefit disbursements to participants are properly authorized.

**Policies and Procedures:**

Payments to participants are made by the Trust Operations Department. Confirmation of a participant's termination is usually obtained through census data provided by the employer or representative. The information may be received by phone and confirmed in writing by the employer. Terminating participants must complete the required forms and return them to BPA. Spousal consent is required for most distributions greater than \$5,000 and signatures must be notarized.

**Tests Performed:**

BH&Co inspected a selection of benefit disbursements for compliance with BPA's policies and procedures regarding authorization, spousal consent and notarization, where applicable.

**Results:**

No exceptions were noted as a result of the tests performed.

## **Retirement Plan Services Participant Record Keeping**

### **Control Objective:**

Plan information entered into the OMNIPLUS and WYSTAR software is complete and accurate.

### **Policies and Procedures:**

BPA receives census information electronically. The systems are updated automatically or manually as is appropriate. The census information updates the system for salaries, hours worked, social security numbers, and other data. Another data entry employee or a Plan Consultant reviews data entry to ensure accuracy and completeness.

### **Tests Performed:**

BH&Co made inquiries and inspected the employee data listing to verify that salaries, hours worked, social security numbers, and other data have been updated accurately.

BH&Co inspected the Processing Work Plan to verify that all data entry was reviewed by another person.

### **Results:**

No exceptions were noted as a result of the tests performed.

### **Control Objective:**

All plan loans, contributions, investment earnings, allocation changes, transfers and distributions are processed accurately to participants' accounts.

### **Policies and Procedures:**

Plan Consultants or a Distribution Specialist, receive written loan requests in the mail from participants. Participants request the loan forms from the BPA website. They are reviewed in the context of the plan document and, if approved, are forwarded to the Distribution Unit for further processing. BPA will issue the proceeds of the loan. If the plan allows, applications to establish a Reserve Loan Credit Line are completed on the BPA website.

Plan Consultants receive written applications for benefits from terminated participants. They are reviewed in the context of the plan document and, if approved, are forwarded to the Distribution Unit for further processing.

BPA receives Voice Response Unit (VRU) and internet investment transfer requests for or on behalf of participants. For OMNIPLUS, written confirmation is issued to the plan participant within five working days.

Participant fund election change requests for Balance Forward Plans are received in writing. Participant fund election change requests for Daily Valuation Plans are received by either the VRU or internet. The information is entered into the system and the transaction is reviewed by another team member. The request is traded and the request is confirmed in various ways depending on the method of the request.

**Tests Performed:**

BH&Co reviewed a selection of participant loan files for signed loan forms, signed loan approval forms, signed promissory notes and amortization schedules as well as to ensure that loans were approved as being within plan parameters.

BH&Co reviewed a selection of benefit applications to verify they were signed by the participant and, if applicable, had spousal consent and notarization.

BH&Co reviewed a selection of Enrollment and Allocation Forms and Transfer Confirmation Forms. They were compared to the Inter-Fund Transfer Log and Participant Enrollment Log to verify the accuracy of accounting data entry.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Customer plan is in balance prior to printing and mailing of participants' statements.

**Policies and Procedures:**

Fund positions are reconciled with the posting of each dividend declared.

Funds with a dividend frequency less frequent than quarterly are put on a monthly rotation schedule to assure at least an annual reconciliation. The reconciliation is accomplished by the generation of a global reconciliation report that compares the NSCC position files as of the 2<sup>nd</sup> of the month to the OMNI position for that same date.

All discrepancies greater than one share are researched. Action will be determined by the Team Leader of Trust Unit, Daily Valuation Manager, and/or Operations Manager (if necessary). All corrections must be made within 90 days.

**Tests Performed:**

BH&Co inspected a selection of funds from the global reconciliation report and traced the NSCC shares position to the actual fund statement.

BH&Co inspected a selection of funds from the global reconciliation report and traced the OMNI shares position to the OMNI system.

BH&Co inspected a selection of discrepancies from the global reconciliation report in excess of one share and traced to final disposition.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

Assurance that census data received from the client is accurate and complete.

**Policies and Procedures:**

The client or representative signs a statement representing the accuracy of data and that it may be relied upon. In the rare instance of the data received being manually prepared, it is entered into the system by Census Unit employee and reviewed by another. If it is received in electronic format, a senior member of the Daily Valuation Unit reviews a sample of the data to confirm that it is in appropriate fields for processing. Current information is compared to prior periods for reasonableness. Deviations are confirmed with the client.

**Tests Performed:**

BH&Co inspected a sample of plan files for evidence of client representation concerning the accuracy and completeness of census data and secondary review by a Plan Consultant.

BH&Co made inquiries and inspected client files to determine if there was evidence to indicate that Plan Consultants had reviewed and confirmed samples of data.

**Results:**

No exceptions were noted as a result of the tests performed.

**Retirement Plan Services**  
**Collection of Income and Fee Assessment**

**Control Objective:**

All income is recorded in the correct period, for the correct amount, in a timely manner, matched to proper securities and credited to the proper accounts. All accounts are charged applicable fees in accordance with the Service Agreement.

**Policies and Procedures:**

BPA processes dividend income based on an NSCC data feed, or actual fund statements. A Dividend Income Report is generated and compared to the investment statement by an Omni Unit employee. The Omni Unit employee also compares the shares held from the investment statement to shares held by all plans on the Holders List report. Incorrect or non-posted items are reconciled and proper plan and participant records are manually adjusted.

BPA processes fee transactions based on fee arrangements as quoted in the plan service agreement. Census information and asset values are determined and a team member compares the computation of the fee to the census maintenance form. The agreed fees are calculated and charged to the account.

**Tests Performed:**

BH&Co made inquiries of BPA personnel and inspected a selection of fund statements and compared them to the receipts and allocation summary.

BH&Co reviewed and compared the allocation rate in the dividend processing worksheet to the allocation factor on the earning base summary report to verify the accuracy of the allocation of investment income.

BH&Co reviewed and compared the monthly factor from the Omni fee maintenance form to the monthly factor in the information log to verify the accuracy in the allocation of fee transactions.

**Results:**

No exceptions were noted as a result of the tests performed.

## **Retirement Plan Services General Controls**

### **Control Objective:**

All accounts are valued accurately.

### **Policies and Procedures:**

Mutual fund transactions are reconciled to daily valuation plans on a daily basis. Funds transactions are determined to be in balance.

BPA maintains all daily valuation assets in omnibus or plan level accounts within mutual funds. Records are maintained, using OMNIPLUS software, allocating shares and investments to plans and participants. Mutual fund transactions are accumulated from participant and employer instructions, and then traded on a net basis. All mutual fund transactions are reconciled to plans on a daily basis. BPA does not act as custodian or trustee. Its function is to maintain the necessary records for plans and participants, reconciling frequently to assure accuracy. HB&T, functions as a custodian or a trustee.

### **Tests Performed:**

BH&Co inspected a selection of National Security Clearing Corporation confirmation statements and compared them to the Trade Recap Report to verify the accuracy of the fund name, trade date, transaction type, dollar amount and shares traded.

BH&Co inspected a sample of verification processes that were out of balance and traced the discrepancies to their final disposition.

BH&Co reviewed the latest financial statements of the trustee, CBNA.

BH&Co determined that CBNA maintains adequate insurance coverage for plan assets in its control.

### **Results:**

No exceptions were noted as a result of the tests performed.

### **Control Objective:**

Internal software is secure and changes to the software are properly authorized, tested and documented.

### **Policies and Procedures:**

Access to the programming area of the computer system is restricted to authorized personnel. The area is password protected and is only available from workstations of programming staff. Plan Consultants submit requests for changes to the Manager of IT Services. If changes are approved, they are forwarded to the Programmers/Analysts for testing, documentation and implementation.

**Tests Performed:**

BH&Co attempted to access programming areas from several workstations of non-programming staff. BH&Co traced a selection of programming changes to request sheets for authorization. BH&Co made inquiries regarding the extent of testing performed and reviewed a selection of program changes for documentation supporting testing. BH&Co inspected a selection of documentation for recent changes to the program.

**Results:**

No exceptions were noted as a result of the tests performed.

**Control Objective:**

The Organization's privacy policies address the security of personal information and that participant's are informed that precautions are taken to protect personal information.

**Policies and Procedures:**

Privacy policies adequately address security measures to safeguard the privacy of personal information whether in electronic, paper, or other forms. Security measures are consistent with sensitivity of the personal information. The Organization's privacy notice posted on the BPAWeb describes the general types of security measures used to protect the participant's personal information.

**Tests Performed:**

BH&Co reviewed the Privacy Statement and User Agreement posted on the BPAWeb to verify that it complies with the framework of the organization's privacy policies. BH&Co made inquiries as to whether employees are authorized to access personal information based on job responsibilities. BH&Co made inquiries as to whether authentication is used to prevent unauthorized access to personal information stored electronically. BH&Co made inquiries as to whether physical security is maintained over personal information stored in hard copy form, and encryption is used to prevent unauthorized access to personal information sent over the internet.

**Results:**

No exceptions were noted as a result of the tests performed.