

FIDUCIARY ADVISER AUDIT

March 2008

SUMMARY

ERISA Subsection 408(g)(5)¹ requires an annual audit and a written report to plan sponsors to document fiduciary advisers' compliance with Section 408(g) of ERISA, as amended by PPA, entitled Provision of Investment Advice to Participant and Beneficiaries.

This proposal is intended to satisfy the requirements of Subsection 408(g)(5).

REPRESENTATION

Subsection 408(g)(5) requires that the auditor be independent and that it represent its training, expertise or proficiency to conduct the audit in writing.

DALBAR has a 30-year history recognized by industry and government as an independent third party expert in the business of providing evaluations, ratings and due diligence. DALBAR certifications are recognized as mark of excellence in adviser services, communications, electronic and telephone services. DALBAR is the only ratings firm with SEC no-action letter exempting its evaluations from the testimonial rule. Given its history, reputation and its extensive involvement in fiduciary adviser training, DALBAR meets and exceeds the expertise and proficiency required to conduct Section 408(g) audits.

Subsection (g)(5) provides that an auditor is considered to be independent if it is not related to the fiduciary adviser to the plan and is not related to any person providing investment options under the plan.

¹ ERISA Subsection 408(g)(5):

- (5) ANNUAL AUDIT- The requirements of this paragraph are met if an independent auditor, who has appropriate technical training or experience and proficiency and so represents in writing—
- (A) conducts an annual audit of the arrangement for compliance with the requirements of this subsection, and
 - (B) following completion of the annual audit, issues a written report to the fiduciary who authorized use of the arrangement which presents its specific findings regarding compliance of the arrangement with the requirements of this subsection.

For purposes of this paragraph, an auditor is considered independent if it is not related to the person offering the arrangement to the plan and is not related to any person providing investment options under the plan.

DALBAR.com

While it may be engaged to provide services to the Fiduciary Adviser, including the audit being proposed here, DALBAR is not an employee, investment adviser representative or registered representative of the Fiduciary Adviser, its advisers, affiliates or any other securities firm. Nor is DALBAR an agent of the Fiduciary Adviser, as it has no authority to act on the Fiduciary Adviser's behalf.

SCOPE OF AUDIT

This audit proposal is based on the presumption that the Fiduciary Adviser has complied with the requirements for selection and monitoring as defined in the Department of Labor notice FAB 2007-01 and all applicable securities laws.

The requirements in the Section 408(g) subject to this audit are:

	Requirements	Method of Assessment
1	Eligible Investment Advice Arrangement	Plan sponsors are contacted to confirm the written agreement that meets the requirements set forth in Section 408(g).
2	Records retention	Fiduciary Adviser must show that adequate records are maintained per 408(g).
3	Level compensation ²	Fiduciary Adviser must disclose sources and amounts of compensation to establish that it was not affected by advice given.
4	Recommendations unbiased ³	Records are examined to determine that adviser recommendations are in line with investment mix of benchmark advisers.
5	Compliance with terms of EIAA and required disclosures	A representative sample of participants who use the adviser are asked about the services rendered and if they received the required disclosure documents.
6	Compensation is reasonable	Compensation level of adviser is compared on a per participant basis to benchmark advisers.

PRE-REQUISITES

The Fiduciary Adviser provides the following to support the audit:

- Contact person who is available to respond to questions and requests from DALBAR.

² Applicable only to level fee fiduciary advisers

³ Applicable only to conflicted fiduciary advice through a certified computer model

- Audit Disclosure forms (part A from Fiduciary Adviser and Part B from each investment adviser representative)
- Form ADV
- List of all plans under agreement with Fiduciary Adviser, including contact information
- List of all participants being advised by Fiduciary Adviser, including contact information
- Standard agreement (EIAA) and each variation between:
 - Adviser & plan
 - Adviser & participant
- Disclosures made to plans and participants that are not contained in agreements provided above
- Report of compensation received and source of compensation from all plans and participants under agreement
- Random requests to produce documentation applicable to specific plans and specific participants:
 - Executed EIAA
 - Investment alternatives available in the plan
 - Participant agreement and disclosure made to participant
 - Basis for recommendation (such as questionnaire, computer model, asset allocation tool, formula, etc.)
 - Recommendation made to participant
 - Other communication with participant

DELIVERABLES

Results of the audit are provided in two separate documents:

- Audit Report contains the findings that are reviewed by the Fiduciary Adviser and amended if necessary then delivered to plan sponsors.
- Management Letter contains observations and recommendations and is delivered only to the Fiduciary Adviser.

COSTS

The cost quoted below is based on:

- Fiduciary Adviser being in compliance with the requirements for selection and monitoring as defined in the Department of Labor notice FAB 2007-01 and all applicable securities laws.
- Fewer than ten IARs providing fiduciary adviser services to plans.
- Fewer than 25 plans and fewer than 500 participants have engaged the Fiduciary Adviser.
- One EIAA template in use for all plans with only minor variations.
- Level compensation is achieved without fee offsets to plan sponsors.
- Plans do not contain company stock and there are no self-directed brokerage windows.
- Records are retained electronically and can be delivered in a timely manner.

The cost of the annual audit is non-refundable and consists of:

An engagement fee of \$12,500, paid upon acceptance and every year thereafter.

A per adviser fee of \$250, paid with submission of audit disclosure forms.

Travel expenses, if necessary.

ACCEPTANCE

To accept this proposal, please sign below and forward to DALBAR with payment of the engagement fee within 30 days.

Accepted by:

Name: _____

Signature: _____

Title: _____

Date: _____

Please [contact DALBAR](#) for more details.

DALBAR.COM

4