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Best Practices - External Service Providers (Finance/Accounting Functions)

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Section I – Use of External Service Providers

Types of Finance/Accounting functions for consideration - The CFO view that Finance is a small business with various disciplines

- Property accounting and reporting (including lease administration)
- Fund accounting and portfolio consolidation
- Cash management and treasury services
- Client reporting
- Internal audit
- Fund administration and investor statements
- Custodial services
- Tax compliance
- Performance measurement

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Reasons why we use external service providers – The Business Strategy

- Expertise in a specific area – Are we investment advisors or property managers?
- Cost and scalability – How to increase growth in AuM without increasing growth in head count.
- Professional staff focus should be on investment reporting – How much of your group's time is spent on administrative functions?

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Reasons why we don't use external service providers – The Control Factor

- Increased risks associated with loss of control
- Increased costs associated with the need for additional controls to mitigate increased risks
- Lack of commitment because service provider goals and objectives are not aligned with your goals and objectives

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Trends and Best Practices - Examples of functions being outsourced

- Property management accounting and lease administration
- Internal audit
- Tax compliance
- Fund administration

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Section II – Managing internal controls when using external service providers

Why? Because it is our business.

- Fiduciary responsibility to our clients as investment advisors to protect their assets
- Regulatory responsibility – SEC rules/Investment Advisers Act of 1940
- Enterprise Risk Management – Mitigating the risk exposure associated with use of external service providers

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Ways to manage internal controls

- SAS 70/SOC/ISO reports - Do the reports cover all significant services in your agreements ?
- Other documented policies and procedures - Do they contain strong internal controls and/or does the provider have an internal review/quality assurance program in place?
- System controls – Do the service providers work in your systems and do your systems have the appropriate security levels and segregation of duties built into them?
- Risk management and compliance program – Does the service provider have such programs?
- Your internal audit programs – What program do you have in place?



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Section III – The Accountability

Accountability for Performance

- Selection Process – Finance should be a part of the due diligence process where possible but at a minimum should review the agreements before executed
- Agreements – Establish clear and detailed expectations in the agreements with repercussions
- Alignment of interests - Fee structure and use of incentives
- Training and documented policies – Spend sufficient time in the on-boarding process
- Termination of contract – Last resort