

Service Organization Control (SOC) Reports

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Resources Web Site
<http://ofm.wa.gov/resources/internal.asp>

Internal Control Flow

- Good internal controls over your agency's processes can help give you reasonable assurance that what you plan to achieve will actually be achieved.
- This remains true when a process includes an outside 3rd party that processes transactions for your agency.
- These are the steps to put in place effective controls.
 - Identify the **objectives** for each process.
 - Identify and assess the **risks** that could keep you from achieving your objectives.
 - Develop **controls** to mitigate the risk.

SOC Reports – Where they fit – An Example

- Process – Make client payments. The agency collects client data, then contracts with a 3rd party to calculate and make the payments and send a file to AFRS.
- Objective – Make payments accurately and timely.
- Risks
 - Inaccurate data will be entered for the client.
 - Payments will not be made timely.
 - Formulas to calculate the payment will be changed in error.
 - Confidential data will not be handled appropriately.
- Controls
 - New clients go through a verification of required paperwork.
 - There are controls over the AFRS feed to verify transmission.
 - There is review of the AFRS data before it is released.
 - **A SOC 2 report from the service organization is received and reviewed annually.**

SOC Reports Basics

- A Service Organization is a 3rd party that processes information or handles business transactions on behalf of customers.
- Outsourcing a task to a 3rd party does NOT relieve you of responsibility.
- A SOC report is prepared by an independent CPA on the 3rd party's processes and controls.
 - SOC 1 - controls relevant to internal control over financial reporting.
 - SOC 2 - controls relevant to the 5 trust principles.

5 Trust Principles Applicable to SOC 2

1. **Security.** The system is protected against unauthorized access.
2. **Availability.** The system is available for operation and use as committed or agreed.
3. **Processing integrity.** System processing is complete, accurate, timely, and authorized.
4. **Confidentiality.** Information designated as confidential is protected properly.
5. **Privacy.** Personal information is handled properly.

FY15 SOC Financial Certification Item

If our agency utilizes a service organization and

- (1) the dollar value is material to the state's CAFR or
- (2) a SOC report is required by federal regulation,

our agency has obtained a SOC report(s) and **attached**

- the period covered,
- the nature of the service provided
- a summary of the report(s) obtained
- follow-up action taken to address weaknesses

If a report is needed but not obtained or not available, we **attached**

- a description of the service provided
- the reason a report is needed but not obtained or not available.

For materiality, contact your agency's OFM Accounting Consultant.