

Case Study:

Enhanced Reporting Gives Investors and Brokers Peace of Mind



*The Relationship Between
Service and Success*



A Sense of Assurance:

Enhanced Reporting Gives Investors and Brokers Peace of Mind

The Challenge

As a leading provider of web-based online brokerage and wealth management technology solutions, Scivantage has seen impressive growth since launching in 2000. Its proprietary technology automates key business practices and improves both productivity and customer relations. Its clients include five of the top 12 online brokerage firms, eight of the top 25 full-service brokerage firms, three of the top five bank broker-dealers and the number one asset management firm in the world.

Recent regulatory activity kicked that growth into hyper drive. New, complex regulations requiring brokers to track and report cost basis to both the IRS and their customers has boosted demand for Scivantage's cost basis and portfolio reporting product, Maxit®. As a result, more than a dozen new clients in the past two years – including such national and international corporations as Vanguard, Scottrade and Raymond James – selected Maxit as their cost-basis reporting solution. Many other leading and emerging financial institutions also utilize Scivantage's wealth management products, Scivantage Investor™ and Scivantage Professional™.

Scivantage needed a more thorough and straightforward way to show clients the rigorous controls it has in place. SAS 70 and its replacement SSAE 16 were not designed to address the most important issues to Scivantage clients.

With this influx of larger clients came a heightened need for transparency into the company's internal control structure. "They want to know that we are handling their clients' data the way they would handle it themselves," says Chris Fagan, Scivantage VP of Operations.

Maxit clients aren't the only ones with questions. Clients and prospects frequently ask Fagan to complete lengthy questionnaires and participate in meetings to explain how Scivantage is protecting their data and transactions.

Fagan knew that he needed a more thorough and straightforward way to show clients the rigorous controls Scivantage has in place. Like most technology companies, Scivantage had been providing its clients with its Statement on Auditing Standards No. 70 (SAS 70) report. However, SAS 70 and its replacement SSAE 16 were not designed to address issues such as security, processing integrity and availability of the system, which are the most important issues to Scivantage clients. (See sidebar, below.)

The Solution

Scivantage is not alone in its need for more rigorous assurance reporting. Recognizing that outsourcing critical functions can expose the user of the outsourced service to a variety of risks, the American Institute of Certified Public Accountants (AICPA) introduced in 2010 a new Service Organization Control (SOC) reporting structure to better meet the governance needs of the outsourcing community.

Scivantage leadership held extensive meetings with their auditors, Habif, Arogeti & Wynne LLP (HA&W), to discuss whether SOC reporting would address the company's needs. "We evaluated how to strengthen the Scivantage control environment and provided a better means of assurance reporting that would more effectively meet their clients' governance requirements," says Dan Schroeder, partner-in-charge of IT Assurance & Risk Management Services with HA&W.

After these meetings, Fagan met with his fellow management team members, and they decided to implement the rigorous SOC 2 Reporting for the control domains of Security, Processing Integrity and Availability. The strong focus on security that pervades SOC 2 was a determining factor in its selection.

"We decided that SOC 2 is the best fit for us because it provides our clients with the assurance that we are able to meet the stringent requirements of global financial institutions," Fagan says. "We consider ourselves to be meticulous about change management and security, but SOC 2 will provide our clients with greater transparency into just how rigorous our controls are."

SOC Reporting: New Options for Assurance

The new SOC reporting structure released by the AICPA in 2010 outlines three SOC reporting options:

- SOC 1 essentially replaces the SAS 70 report in that the auditor reports on the service organization's control structure as it relates to financial statement risk. However, the new Statement on Standards for Attestation Engagements (SSAE) 16 requires a much higher level of detail and transparency by requiring management to prepare a system description.
- SOC 2 provides the same level of transparency into operational and compliance risks as SOC 1 does into financial risks by requiring from management an assertion that covers both a detailed system description along with controls that address one or more of the AICPA's Trust Services Principles and Criteria (security, availability, processing integrity, confidentiality and/or privacy). Due to the level of detail and transparency required, SOC 2 reporting aligns well to user entity's GRC and ERM needs.
- SOC 3 is what was formerly known as a Trust Services Report. In this report, the service organization auditor issues an opinion as to whether controls over a defined system were operating effectively to meet criteria for one or more of the Trust Services principles. It is much less detailed than SOC 2 and is designed to support sales and marketing needs and more casual due diligence inquiries.

The Results

The increased transparency into the Scivantage control structure reduces the need for extensive questionnaires and makes it easier for prospects to choose to outsource to Scivantage. “Because SOC 2 is more detailed, it offers clients greater insight into how we manage their applications and protect their data,” Fagan says. “By allowing them to understand the intricacies of what goes on behind the scenes, it gives them peace of mind to make that decision to outsource services to us.”

HA&W has been an ideal partner in making the transition from SAS 70 to SOC 2, Fagan says. “HA&W, and Dan in particular, have been at the forefront of this migration and in helping to define the new accounting standards,” Fagan says. “By partnering with them, Scivantage is able to maintain our leadership position and demonstrate that we are on top of risk management trends.”

HA&W has made the process “painless” for Scivantage, Fagan says. Rather than simply identifying controls and sample documentation, the HA&W audit team has advised Scivantage on governance best practices that will work in their specific environment.

“They really have our best interests in mind, and they operate almost as if they are Scivantage employees themselves,” Fagan says. “They’ve taken the time to learn about our company and what each of our employees does.”

Fagan urges other service organizations to view SOC assurance reporting as an opportunity to demonstrate their commitment to clients. “They should embrace it rather than see it as a burden,” Fagan says. “Even though we’re busy right now dealing with the new cost-basis regulations, we’re not going to push it off for another time. We’re going to make sure that we do this migration properly and HA&W is going to make sure of that.”