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Correspondence Memorandum

Date: August 1, 2024

To: Audit Committee

From: Shellee Bauknecht, Auditor
 Office of Internal Audit

Subject: Third-Party Administrator (TPA) System and Organization Controls (SOC)
 1 Report Annual Review for Calendar Year (CY) 2023

This memo is for informational purposes only. No Committee action is required.

This memo provides an overview of the TPA SOC report review for CY 2023. The SOC report review is a component of the Department of Employee Trust Funds' (ETF's) TPA oversight procedures. In carrying out its responsibilities under the International Standards for the Professional Practice of Internal Auditing¹, the Office of Internal Audit (OIA) has an ongoing consulting engagement for TPA oversight as part of the FY 2024-FY 2025 Internal Audit Plan.

As part of the TPA SOC report review, ETF program managers assess user controls, the use of subservice organizations, and exceptions to control testing. ETF program managers may follow up with TPAs as needed to understand information provided in the SOC reports and its impacts on ETF programs. Additionally, ETF program managers obtain bridge letters for any reports that do not cover the entire calendar year.

A SOC 1 report focuses on control objectives and control activities relevant to the internal controls over financial reporting. OIA facilitates the annual SOC 1 Type 2 report review by engaging ETF program managers in understanding SOC reports and

¹ Standard 2050 – Coordination and Reliance: The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts; Standard 2110 – Governance: The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

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assisting in areas that may require additional understanding, including the user controls, subservice organizations, and exceptions to control testing. OIA may also recommend changes to the SOC 1 Type 2 review process from the prior year to continue improving the review. ETF's Bureau of Information Security Management manages the review of SOC 2 reports or other mutually agreed-upon security documentation due to its responsibility of ensuring information security at ETF. SOC 2 reports focus on system controls related to security, availability, processing integrity, confidentiality, and privacy.

CY 2023 SOC 1 Type 2 Report Review

The review of SOC 1 Type 2 reports for TPAs covering CY 2023 began in January 2024 and was completed in June 2024. The review included the following TPAs²:

- Optum Financial (Employee Reimbursement Accounts, Health Savings Accounts, and Commuter Benefits Accounts)
- Navitus (Pharmacy Benefit)
- Securian/Minnesota Life (Life Insurance)
- Delta Dental (Uniform Dental Benefit)
- The Hartford (Income Continuation Insurance)
- Empower Retirement (Wisconsin Deferred Compensation)

During the CY 2023 review, several control testing exceptions were noted and one TPA SOC report included a qualified opinion. However, these exceptions, including the deficiency that resulted in the qualified opinion, did not have a significant and adverse impact on ETF programs.

Staff will be at the Committee meeting to answer any questions.

² Similar to the prior year, a SOC 1 Type 2 report for the Wellness and Disease Management TPA, WebMD, was not available. Additionally, we note that the Wellness and Disease Management program is not financially significant for ETF.