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SOC Reporting Benefits Beyond Compliance

The True Value of SOC Reporting

Presented by:
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... Agenda

1. Service Organizations
2. Service Organization (SOC) Compliance Audit Types.
3. Benefits and Value of SOC Audits
4. Company Readiness and Next Steps
5. Q&A

1. Service Organizations

... Service Organizations

A service organization is an entity that provides services to other organization, often that could be performed internally.

Why businesses use service organizations:

- Access to specialized expertise
- Cost Effective
- Use of technology
- Increase efficiency
- Improved focus on core competencies - Offload responsibility

... Service Organizations

A service organization is an entity that provides services to other organization, often that could be performed internally.

Common examples in today marketplace

- Payroll Processors - Calculate and disbursement of employee salaries, wages, taxes, and deductions
- Medical Billing Services - Handles the billing and claims process for healthcare providers
- Retirement Plan Administrators - Entities that manage retirement account for clients
- Insurance Claims Administrators - Entities that manage retirement plans for companies
- Data Centers - Facilities that house computer systems and network equipment
- Managed Service Providers - IT services
- Software as a Service (SaaS) providers - Entities managing sensitive customer data in the cloud

... What are SOC Reports?

Service Organization Control (SOC) Reports are audit reports that assesses the controls of a service organization, providing assurance to users about the organization.

SOC engagements and reports are often issued by certified public accountants, to verify adherence to best practices.

These reports are relied upon by business owners, employees, auditors and other users to understand the control at a service organization that affect the reporting of their clients.

... Who are involved with SOC Reports?

Service Organization

- Provider of services that may impact a risk to a user's financial reporting, or that pose a business or compliance risk

Service Auditor

- A CPA who examines and reports on controls at a service organization

Users and User Auditor

- Clients of service organization and their financial auditors

... Why SOC Reports?

Investment in your organization

Establish an effective and efficient control environment

Creates high functioning teams

Provides business value by managing organizational risk

Supports efforts in compliance with rules, regulations and standards

These items lead to potential increase profit and a competitive advantage.

2. Service Organizations (SOC) Compliance Audit Types

... The AICPAs SOC Reporting Framework

The AICPA has defined 3 types of SOC engagement/reports. Each type of SOC engagement/report is designed to assist service organizations meet specific users needs.

- SOC 1 Report - Report on Controls at a Service Organization Relevant to User Entities Internal Control over Financial Reporting
- SOC 2 Report - Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy.
- SOC 3 Report – Trust Services Report for Service Organizations.

... SOC Reports: Types 1 and Type 2

Both types report on the fairness of the presentation of management's description of the service organization system.

- Type 1 also reports on the suitability of the design of the controls to achieve the related control objectives included in the description as of a specified date.
- Type 2 also reports on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description.

... SOC Reports: Types 1 and Type 2

Type 1 is used when:

- Organization is new to SOC reporting
- An understanding of system and controls is needed
- Significant changes were recent made to the organization
- Insuffiecent time or documentation to perform a Type 2

... SOC Reports: Types 1 and Type 2

Type 2 is used when:

- Organization's control system is established
- Controls are considered operating and effective
- Evidence available for examination, ideally for one year

... SOC Reports: Types 1 and Type 2

	SOC 1	SOC 2
Purpose	Report on controls relevant to user entities ICFR	Report on controls related to compliance and operations
Use of Report	Restricted	Restricted
Report Detail	Includes Testing Detail <i>Type 1 or Type 2</i>	Includes Testing Detail <i>Type 1 or Type 2</i>
AICPA Interpretive Guidance & Reporting Vehicle	SSAE 18, AICPA Guide	AT 101, AICPA Trust Services Principles, AICPA Guide

... Service Organization Compliance Audits - Types

SOC 1 - Evaluates an organizations internal controls over financial reporting

Example - ABC Manufacturing engages PayrollPay LLC to process its biweekly payroll

PayrollPay LLC is distributing output financial information to both the ABC Manufacturing employees and the ABC Manufacturing the Company. Pay.com has access to ABC Bank Accounts.

... Service Organizations - Financial Reporting

Common service organizations completing SOC 1 Audits - Focused on organizations utilized for information in the financial reporting process

- Payroll Processors - Calculate and disbursement of employee salaries, wages, taxes, and deductions
- Medical Billing Services - Handles the billing and claims process for healthcare providers
- Retirement Plan Administrators - Entities that manage retirement account for clients.
- Insurance Claims Administrators – Entities that manage retirement plans for Companies.

... Service Organization Compliance Audits - Types

SOC 2 - Evaluates an organization's information systems relevant to security, availability, processing, integrity, and confidentiality

Example - KMD Heart Specialist LLC engages MedicalBiller Inc to process its billing and process claims

MedicalBiller LLC is storing and managing personally identifiable information (PII) of KMD Heart Specialist LLC patients

Common service organizations completing SOC 2 Audits

3. Benefits and Value of SOC Audits

... Benefits and Value of SOC Audits

Investment in your organization

- Establish an effective and efficient control environment
- Creates high functioning teams
- Provides business value by managing organizational risk.
- Supports efforts in compliance with rules, regulations and standards

These items lead to potential increase profit and a competitive advantage.

... Benefits and Value of SOC Audits

Establishes an effective and efficient control environment:

- Implement and operate process and controls
- The audit assists in identifying gaps or weakness
- Streamlines processes and controls
- Offers peace of mind to owners, managers and customers

... Benefits and Value of SOC Audits

Creates high functioning teams:

- Greater productivity
- Improved attitude and performance
- Increased engagement and alignment to business objectives
- Clearly understand roles and responsibility
- Better information by which to make decision

... Benefits and Value of SOC Audits

Provides business value by managing organizational risk:

- Defends against bad actors
- Identifies weak links

Supports efforts in compliance with rules, regulations and standards :

- Many contracts require annual SOC audit
- HIPAA Compliance – individual health information
- GDPR Compliance - EU data collection laws

... **Benefits and Value of SOC Audits**

Compliance offers peace of mind to stakeholders internally as well as potential and existing customers.

Compliance wins deals – SOC reports can be a catalyst for growth.

4. Company Readiness

... SOC Audit Readiness

1. Are you a service organization?
2. What are your contractual obligations to report compliance?
3. Are your process and internal controls understood?
4. Are your process and internal controls documented?
5. Identify and select relevant control objective?
6. System description written? Flowcharts, Narratives?
7. Are your control objectives auditable for the desired reporting period? Is evidence available?

Questions



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