

Assurance Report

2208 Service Organization Control (SOC) Report Review for Investment Vendors

March 3, 2022

Cindy Rougeou, LASERS Executive Director
The LASERS Audit Committee

BACKGROUND

This was a planned engagement on the fiscal year end (FYE) 2022 Audit Plan. The fieldwork for this engagement was completed on February 24, 2021.

LASERS Investments and Audit Services Divisions perform an annual review of the SOC reports for LASERS external investment managers and custodian bank, BNY Mellon. According to the American Institute of Certified Public Accountants (AICPA), "SOC for Service Organizations reports are designed to help service organizations that provide services to other entities, build trust and confidence in the service performed and controls related to the services through a report by an independent CPA". For our purposes, the service organization is the external investment manager or BNY Mellon and the entity/user entity is LASERS. The SOC 1 report includes controls at a service organization relevant to user entities' internal control over financial reporting.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this engagement included reviewing the SOC 1 reports and due diligence questionnaire responses from LASERS external investment managers and custodian bank, BNY Mellon.

The primary objectives of this engagement were to determine:

- Per the audit opinion and testing results in the SOC 1 report, whether LASERS external investment

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managers and custodian bank maintain adequate internal controls over the completeness and accuracy of monetary transactions and financial statement reporting.

- Per the due diligence questionnaire responses, whether LASERS external investment managers maintain adequate internal controls related to the firm, oversight (e.g., SEC), operations, compliance, and third-party vendor monitoring.
- The complementary user entity controls outlined in the investment managers and custodian bank SOC 1 report have been established and functioning properly at LASERS.

Procedures used to complete this engagement included:

- Reviewing the SOC 1 reports.
- Reviewing the due diligence questionnaire responses and related documentation provided by LASERS external investment managers.
- Conducting other inquiries considered necessary to achieve engagement objectives.

This engagement was conducted in accordance with the policies and procedures of the Audit Services Division.

ENGAGEMENT SUMMARY

LASERS requested a SOC 1 report from each external investment manager and BNY Mellon for review. Of the 54 LASERS external investment managers, 20 had a SOC 1 audit performed. BNY Mellon also had a SOC 1 audit performed. All the SOC reports received contained an unqualified opinion with no material or unresolved exceptions. An unqualified opinion is the highest level of opinion that can be issued. Additionally, LASERS reviewed the SOC 1 report section where the controls necessary for user entities was outlined and confirmed, per LASERS staff, that these were present at LASERS.

For the remaining 34 investment managers that did not have a SOC 1 audit performed, 14 provided their third-party administrator SOC 1 reports and confirmed that the complementary user entity controls outlined in the SOC 1 report have been established and functioning properly at their organization.

LASERS also sent a due diligence questionnaire to all 54 investment managers and responses were received from everyone with one exception, Sterling Partners. According to Investments, Sterling is no longer raising funds and has basically moved to minimal operations. LASERS commitment amount to their one fund is \$35 million with a contract expiration date of September 30, 2023. The fund has provided annual audited financials and our consultant will continue to monitor the firm. NEPC's last review was in October of 2021. The due diligence questionnaire responses were reviewed by Investments and Audit Services and no outstanding issues or concerns remain.

FOLLOW-UP

No follow-up is necessary.



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