Credit Union Service Organization Compliance

How do SOC reporting and PCI requirements affect your overall compliance strategy?

May 15 2012

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Your Speakers

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PCI Compliance

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Agenda

- What is PCI?
- Why should I care about this standard?
- Who has interest in our organization's initiatives pertaining to PCI?
- How can I leverage PCI DSS initiatives (i.e. with GLBA; IT General Controls Testing)
- Why is it important to know where cardholder data may be stored?
- What should I consider when starting the PCI initiative?
- Where does the debit card fit in to the process?

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What is PCI?

- The Payment Card Industry (PCI) is comprised of:
  - Membership Association/Corporation
    - Visa International
    - MasterCard Worldwide
  - Independent Credit Card Networks
    - Discover Financial Services
    - American Express
    - JCB

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PCI Overview

- Payment Card Industry Security Standards Council LLC (PCI SSC – www.pcisecuritystandards.org)
  - Formed in September 2006 to:
    - Allow an open forum for the setting of cardholder security standards
    - Foster broad adoption of cardholder security standards
    - Create a unified, global system that is more accessible and efficient for all stakeholders – merchants, processors, point-of-sale vendors, financial institutions, and payment companies

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PCI Overview

- Payment Card Industry Security Standards Council LLC
  - Allow ‘Participating Organizations’ to be members and participate in the standards setting process
  - Responsible for maintaining and enhancing the PCI Data Security Standard
  - Responsible for development of new standards as necessary
  - Responsible for certifying Qualified Security Assessors (QSA) and Approved Scanning Vendors (ASV)

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PCI Overview

- The PCI policies, standards and procedures were developed to:
  - Encompass several separate and individual data security efforts
  - Create a common set of data security standards that are critical to the security of the payment infrastructure
  - Ensure a consistent “standard of care” is used to protect payment account, transaction and authentication data

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PCI Overview

- The PCI policies, standards and procedures were developed to:
  - Protect the individual card brand trademarks from adverse publicity
    - “x number of Visa/MasterCard/AmEx/Discover/JCB accounts revealed in breach at ABC Corporation”
    - The card brand is usually the first thing in the headline, not the organization that released the information

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Why should I care about this standard? It is required…(sort of)

- The PCI SSC has stated:
  - All organizations that store, process, or transmit card holder data must be in compliance with the PCI DSS.
- Typically part of the contract for card services that the organization is PCI compliant
  - Part of the card brands (VISA, MasterCard, etc) operating rules
  - In all new contracts, older contracts may not have requirement
  - Level really only effects the “validation” requirements of the organization

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Why should I care about this standard? Card Brand Compromise Penalties

- Organizations proven to be non-compliant or whose merchants or agents are non-compliant will be assessed:
  - Non-compliance fine (egregious violations $500K+)
  - Forensic investigation costs
  - Issuer/acquirer losses
    - Unlimited liability for fraudulent transactions
    - Potential additional issuer compensation (e.g., card replacement)
  - Dispute resolution costs
- Fines are assessed by card brands but passed to merchants and agents via contract terms

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Why should I care about this standard? Keep your name out of the paper

- New data breaches are reported daily
  - Stealing credit card numbers has become a business
  - Organized crime groups look for anyway to get numbers for various purposes
  - Loss of customer confidence if breached
- Famous breaches:
  - TJMMAX, Heartland, Hannaford, etc.

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Why should I care about this standard? Safe Harbor status

- "Safe Harbor" status provides organizations protection from fines and compliance exposure in the event its merchant or service provider(s) experiences a data compromise
- To attain "Safe Harbor" status:
  - Members MUST be in FULL COMPLIANCE with the PCI DSS at the time of the breach (as demonstrated during a forensic examination)
  - Members MUST have validated FULL COMPLIANCE PRIOR TO the compromise

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Why should I care about this standard? Safe Harbor status

- Submission of a Report on Compliance (ROC) alone does NOT provide a member “Safe Harbor” status
  - Compromised members MUST have adhered to ALL of the requirements at the time of the breach

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Who has an interest in your organization's PCI initiatives?

- Organizations who have access to cardholder data (credit card numbers, expiration dates, names)
- Organizations that process cards on behalf of others
- Organizations who outsource cardholder related processes, but still have access to the cardholder information
- Organizations who co-brand debit cards with one of the card brands.

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How can I leverage PCI DSS initiatives? (with GLBA, FFIEC IT controls reviews)

- Map out the control requirements for the various compliance type of initiatives (PCI, GLBA, IT GCC testing).
  - DSS Requirement 12 (12.1.2) can map to GLBA's IT risk assessment requirement
    - Includes an annual process that identifies threats, and vulnerabilities, and results in a formal risk assessment.
- Analyze where overlap may exist (there are many).
- Determine how to best leverage the controls so data is gathered once, but used across requirements, when possible.

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Why is it important to know where cardholder data may be stored?

- It becomes the scope
- Remember, the assessment scope applies only to the **card holder data environment (CDE)**
  - Card holder environment: systems that **store, process or transmit** cardholder data
- No segmentation? Then you *must* include *everything* in scope.
  - This is where most organizations start
  - This approach rarely (never?) leads to a clean ROC

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Why is it important to know where cardholder data may be stored?

- Generally speaking, most organizations don't do well the first time through
  - Costs money
  - Wastes time
- It's an opportunity for improvement:
  - By learning from the mistakes of others, you can be better prepared
- Most often, the issues are one of a few preventable issues that could help make compliance an easier process

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Why is it important to know where cardholder data may be stored?

- Difficulty in compliance is normally in one or more of these areas:
  - Inappropriate scope
  - Insufficient documentation
  - Unnecessary (or inappropriate) data storage
  - Application issues (particularly legacy applications)
  - Compensating controls (that don’t compensate)
  - Bad timing

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Cardholder data at credit unions

- Debit card processing - is your core application provider PA-DSS approved?
- POS terminals at branches, i.e. cash advances
- Paper records at branches and locations, i.e. loan applications, credit reports, etc.
- New card set up (debit card/ATM) involves card holder data
- Inactivated card stock
- Any information exported to end user apps

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Summary – Top Things to Prepare for PCI

- Identify the repositories and data flow of card holder data in your organization
- Implement segmentation where feasible
- Determine if vendors that access card holder data are addressing PCI compliance
- Application providers are PA-DSS certified
- Physical security of paper records containing cardholder data
- Control of exports, extracts or transfers of data to less secure environments

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Service Organization Control (SOC) Reporting

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- SAS 70 History and Need for Change
- Internal Control Reporting Options
- New Guidance
- New Terminology
- What Does this Mean for Service Organizations?
- What Does this Mean for User Entities?

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History and Need for Change

- SAS 70 issued in 1992
  - Overview
  - Purpose
- Effects on SAS 70's caused by SOX:
  - "Stakeholders grew, and grew, and grew…"
    - Procurement agents requiring SAS 70 in RFPs
    - Salespeople promising SAS 70s to customers
- 2011- service organizations and user organizations often request them for non-financial controls

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History and Need for Change

- Need for realignment of guidance with market uses and perceptions
  - "…no, we can't do SAS 70 to assess how 'green' your company is…"
  - Additional reporting options
- Convergence with international standards
- Emerging needs, complexities and types of service organizations

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Internal Control Reporting Options

	SSAE16 (SOC 1)	SOC 2	SOC 3	Other Reports
GUIDANCE	AICPA Attest Standards (SSAE 16)	AICPA Attest Standards (AT101) Trust Services Principles	AICPA Attest Standards (AT101) Trust Services Principles	AICPA Attest Standards (AT101)
EXAMPLE PROJECTS	• Auditor to auditor opinion report for financial reporting controls • Audit entity meets definition of service organization • CPA firm responsible for the adequacy of the procedures	• Opinion report on system security, availability, processing integrity and confidentiality/or privacy • Detailed like SOC1 • CPA firm responsible for the adequacy of the procedures	• Opinion report on system security, availability, processing integrity and confidentiality/or privacy • Client description is not audited • CPA firm responsible for the adequacy of the procedures	• Doesn't fall under SSAE 16 or Trust Services Principles • Reporting on the design of internal controls • CPA firm responsible for the adequacy of the procedures
REPORT DISTRIBUTION	• Report distribution to service organization users • Issued by licensed CPA	• Intended for non-auditor audience (e.g., CIO) • Issued by licensed CPA	• Intended for non-auditor audience (e.g., CIO) • General use report • Issued by licensed CPA	• May be issued for general or restricted use • Issued by licensed CPA

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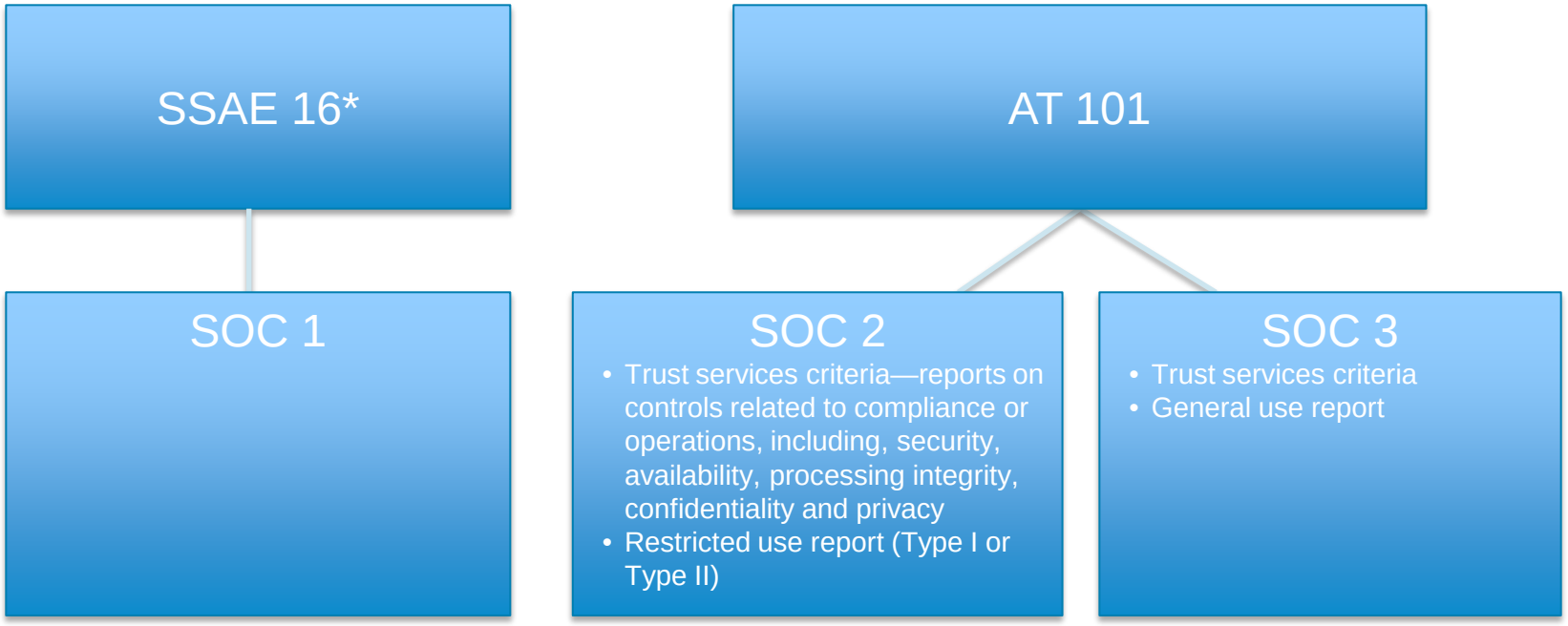
Service Organization Controls Reports

The hierarchy of available reporting standards is depicted below:



**ISAE3402 is the corresponding international standard*

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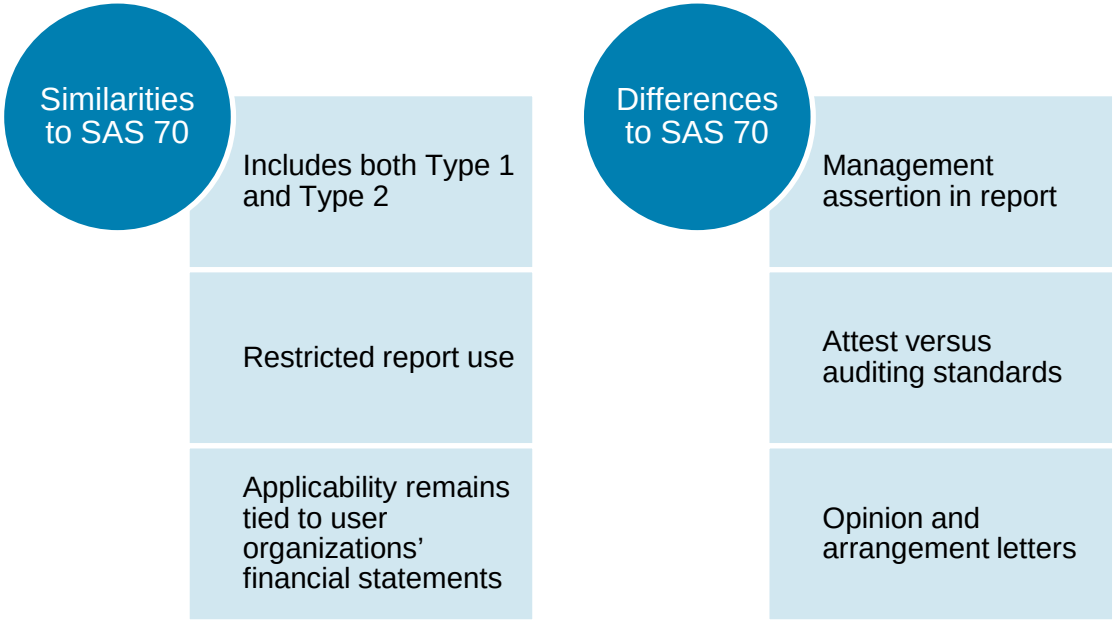
SSAE 16

- Governed by Statement on Standards for Attestation Engagements No. 16 (SSAE 16)
- New terminology - Service Organization Control Report 1
- Effective for periods ending on or after June 15, 2011



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User Considerations for SOC Reports

- How are the reports used by financial statement auditors?
- What is of interest to financial statement auditors?
- What is required by financial statement auditors?
- Can a SOC 2 or SOC 3 report be used by a user financial auditor to satisfy any of its audit requirements?
- Other considerations?

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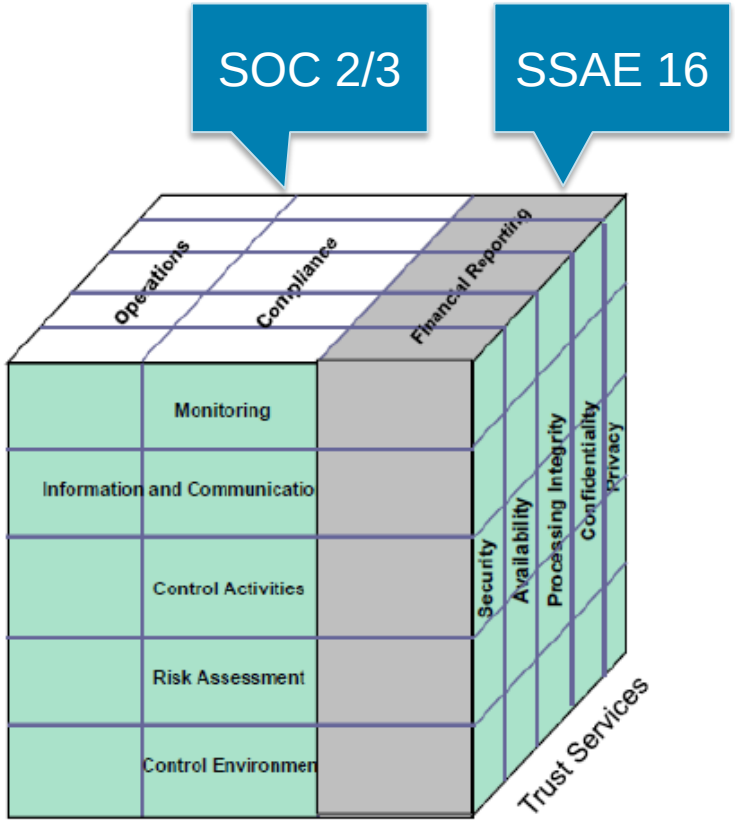
SOC 2 and SOC 3 Overview

- Cloud Computing / SaaS / PaaS / IaaS outsourcing
- Subject Matter
  - Operational
  - Compliance
  - Non-Financial
- Better “fit”



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Trust Principles and Criteria

- AICPA framework which included high level principles and related detailed criteria
- Principles include
  - Security
  - Availability
  - Processing Integrity
  - Confidentiality
  - Privacy
- Criteria include detailed control standards that need to be achieved

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What does this mean to service organizations?

Engagement activity	What clients will notice
Arrangement Letter	• Updated wording for the letter to align with the new guidance
Planning	• Enhanced validation of the control objectives included in the report • Discuss the need for subservice organizations to sign a management representation letter (for inclusive method reporting)
Fieldwork	• No significant changes
Management Representation Letters	• Addition of management's assertion relating to the design and effectiveness of relevant internal controls will be included in the representation letter • Obtain a management representation letter from subservicers included in opinion
Reporting	• The new report format will include management's assertion and the opinion's language will be changed to align with the new standard

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What does this mean to credit union user entities?

Engagement activity	What user entities will notice
Report Sections I and II	• Updated wording for the opinion and formal management assertion appears in the report to align with the new guidance • Subservice organization requirements
Report Section III	• Enhanced validation of the control objectives included in the report
Nature, Timing & Extent of Testing	• No significant changes
Report Use for CU User Entities	• SOC 1 (support of financial statement audit) • SOC 2/3 (support of resident objectives)
User Control Considerations	• Internal/external requirements

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