



OpSource[™]
The SaaS Delivery Experts

**OpSource SAS 70 Type II
Audit Report Summary**
Helping Our Customers Achieve Compliance

WHITE PAPER

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What is SAS 70?

The Statement on Auditing Standards (SAS) No. 70 is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA) specifically for service providers. Essentially, a SAS 70 audit offers the service providers' customers third party validation that the service provider has effective internal controls in place.

There are two types of SAS 70 audits, both of which offer a report as the primary deliverable. In a Type I audit, the service organization provides a detailed description of internal controls to be examined by the auditor, such as:

- Aspects of the service organization's control environment; risk assessment processes; information and communication processes; and monitoring processes that may affect the services provided to user organizations, as it relates to an audit of financial statements;
- Control objectives and related controls; and
- Complementary controls that may be required at user organizations.¹

The auditor then issues a statement assessing the fairness of that description, as well as an opinion on whether the controls are suitably designed to achieve the objectives included in the description.

A Type II audit takes this an important step beyond. In a Type II audit, the service provider's controls are tested over a six-month period of time to determine if they are in fact operating effectively. A Type II report includes the same assessment as a Type I report, while also adding a thorough description of the tests applied and their results.²

SAS 70: What it Means for OpSource Customers

SAS 70 has grown in significance in recent years as companies strive to comply with heightened regulatory requirements. Federal legislation enacted in the wake of corporate accounting scandals and by public concern over the security and privacy of personal information has delineated new rules for the handling and reporting of data. The Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Gramm-Leach-Bliley Act of 1999, and particularly the Sarbanes-Oxley Act of 2002 are examples of legislation that have had a strong impact on companies' auditing and reporting processes.

In addition, the prevalence of outsourcing among today's businesses further drives the need for SAS 70 auditing. Sarbanes-Oxley defines corporate responsibility for financial reporting and specifies in section 404 that a company's management must issue assessments on the effectiveness of their internal controls and procedures. According to an article written by Christopher L. Schellman, co-founder of SAS 70 Solutions, "Many public companies, as part of their respective efforts to achieve compliance under Section 404, discovered that certain financial reporting controls that they relied upon were actually maintained by outsourced third-party service providers."³ In this situation, to be considered compliant a company must verify that its service provider's controls, in addition to its own, are effective.

Compliance with Sarbanes-Oxley doesn't come cheap. A survey conducted by Financial Executive International in 2004 found that the average cost of compliance in the first year with Section 404 was over \$3 million.⁴ SAS 70 auditing can help customers reduce these costs. Instead of sending in their own team of auditors to assess their service providers' internal controls, which is expensive and time-consuming, customers can provide their auditors

¹ Scott Coolidge, "FAQ," *Sas70.com*, 15 March 2006, <<http://www.sas70.com/faq/faq6.htm>> (4 April 2006).

² Eric Krell, "The Long Tentacles of Compliance," *Business Finance*, July 2005
< <http://www.businessfinancemag.com/magazine/archives/article.html?articleID=14449>> (4 April 2006).

³ Christopher L. Schellman "SAS No. 70: Evaluating Service Organizations' Internal Controls Is Key To Section 404 Compliance," *Florida CPA Today*, November 4, 2005
< http://www1.ficpa.org/ficpa/Members/FCT/Archives/2005/NovDec/E_SASNo70> (4 April 2006).

⁴ Financial Executives International, "FEI Special Survey on Sarbanes-Oxley Section 404 Implementation Executive Summary," July 2004
<http://www.fei.org/files/spacer.cfm?file_id=1133> (4 April 2006).

with a copy of their service providers' SAS 70 audit reports. By successfully completing a SAS 70 audit, service providers can offer customers a valuable tool for planning and streamlining the audit of their financial statements.

It is important to note here the distinction between the two types of audits. Many service providers have only obtained a Type I audit, which lacks the level of due diligence offered by a Type II audit. Type I reports do not state whether the controls described by the service provider are operating effectively, as a Type I audit does not include testing of those controls. Therefore, a Type I report cannot offer assurance to a customer's auditors "that the service provider's controls actually work."⁵

OpSource SAS 70 Type II Audit Results

By providing customers with its SAS 70 Type II audit report, OpSource can help them control the costs of regulatory compliance, as well as offer assurance that OpSource has established effective internal controls over the hosting of customer data. For its Type II audit, OpSource identified control objectives in the following areas that were then examined and tested by the auditors, including:

- Control Environment
- Physical Security
- Environmental Security
- Computer Operations (Backup & Storage and System Availability)
- Information Security
- Data Communications
- Customer Access

The information below summarizes the control activities for each of the above areas as described by OpSource, and the tests applied to the control activities by the auditing organization to determine that the controls were in fact operating effectively.

Control Environment

OpSource's entire organization is dedicated to delivering the highest levels of service to customers. The company has created a corporate culture that supports this mission. OpSource's stated objective for the control environment portion of the audit is that control activities provide reasonable assurance that discipline and structure are an integral part of OpSource's organization and influence the control consciousness of OpSource personnel. The following components were evaluated and tested by the auditing firm:

- Integrity and ethical values
- Commitment to competence
- Board of Directors and audit committee participation
- Management's philosophy and operating style
- Organizational structure and assignment of authority and responsibility
- Human Resources policies and practices

During the course of the audit, tests were applied by the auditing firm to the control activities stated above, such as evaluating the documentation and communication of company policy statements and codes of conduct, inspecting samples of confidentiality statements and insurance policy documents, and reviewing minutes from Board of Directors and management meetings. The auditors determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding its control environment.

Physical Security

OpSource realizes that security tends to be its customers' paramount concern, and considers the physical protection of the equipment that supports their applications to be a critical first layer of defense in our comprehensive approach to security. OpSource's objective for physical security is that control activities provide

⁵ Trent Gazzaway, "SAS 70: New Life for an Old Audit Standard," Financial Executive, May 2004.

reasonable assurance that business premises and information are protected from unauthorized access, damage, and interference. To determine that OpSource was meeting this objective, the auditing firm tested the following aspects of physical security:

- Visitor access
- Security systems (e.g. biometric hand readers, alarms)
- Security staffing
- Cameras and video surveillance

The auditors applied tests to related control activities. For example, the auditors observed that visitors were required to present identification upon arrival to the facility, and inspected a sample of visitor badges and work-visit tickets to ensure that badges were numbered. The auditors determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding physical security.

Environmental Security

An additional component of OpSource's comprehensive approach to customer protection involves environmental security. OpSource specified that its objective for environmental security is that control activities provide reasonable assurance that critical information technology infrastructure is protected from certain environmental threats. Aspects of environmental security tested by the auditors included:

- Fire detection and suppression
- Flood control
- Redundant HVAC
- UPS and generators
- Emergency evacuation procedures

The auditors applied tests to all of the control activities related to environmental security. Auditors conducted inquiries with key personnel and observed that equipment was in place and functioning properly. The auditors determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding environmental security.

Computer Operations: Backup & Storage

OpSource's backup and storage policies and procedures are designed to ensure continuous availability of customer applications. OpSource's objective for backup and storage is that control activities provide reasonable assurance of timely system backups of critical files, off-site backup storage, and regular off-site rotation of backup files. Auditors examined the following:

- Backup and restoration procedures
- Automated backup systems
- Backup performance monitoring
- Offsite storage

Tests were applied by the auditors to control activities related to backup and storage. For example, the auditors inspected third party backup system configurations to determine that backups were being performed at the stated frequency, and inspected backup retention configurations from the automated backup system to determine that backup media was being maintained for at least three months. The auditors determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding backup and storage.

Computer Operations: System Availability

Because system availability is crucial to its customers' abilities to conduct business, OpSource monitors and manages customer infrastructures on a 24x7x365 basis and has implemented procedures to ensure the rapid identification and resolution of any issues. OpSource specified that its objective for system availability is that control

activities provide reasonable assurance that systems are maintained in a manner that helps ensure system availability. Auditors examined:

- Troubleshooting procedures
- Escalation procedures
- Disaster recovery procedures
- Automated help desk ticketing system
- Automated e-mail notification
- Performance monitoring
- Business continuity plans

The auditors applied tests to control activities related to system availability, including inspecting business continuity plans and troubleshooting procedures, and observing the OpSource Customer Care Center to verify that employees were monitoring customer system performance. The auditors determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding system availability.

Information Security

In addition to ensuring physical security and environmental security for customer infrastructures, OpSource has designed a thorough information security strategy to safeguard customer data. OpSource specified that its objective for information security is that control activities provide reasonable assurance that system information, once entered, is protected from unauthorized or unintentional use, modification, addition or deletion, and that procedures are also in place to keep authentication and access mechanisms effective. Auditors examined:

- Password policies and procedures
- Operating system security controls
- Database security controls

The auditors applied tests to control activities, including inspecting password policies and procedures and user access lists, and determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding information security.

Data Communications

OpSource's multi-level security strategy also governs network security. OpSource specified that its objective for data communications is that control activities provide reasonable assurance that the security infrastructure limits unauthorized access to internal network and threats from connections to external networks are appropriately limited. Auditors examined:

- Redundant firewall system
- Intrusion Detection System (IDS)
- Vulnerability scanning

Tests were applied by the auditors to control activities related to the components of data communications security listed above. For example, the auditors inspected samples of IDS reports and vulnerability scans to verify that these activities were taking place. When the testing was concluded, the auditors determined that control activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding data communication.

Customer Access

OpSource provides customers with direct information on the functioning of their applications via the OptiView portal. OpSource customers can log into the portal and view this data at any time. For the audit, OpSource specified that its objective for customer access is that control activities provide reasonable assurance that customers can access the OptiView web portal in order to view reporting data. Auditors examined:

- OptiView performance monitoring
- Customer assistance

- Secure connectivity

Tests were applied by the auditors to control activities related to customer access. For example, the auditors observed customer support personnel and inspected the OptiView system monitoring dashboard to determine that portal monitoring was taking place. When the testing was concluded, the auditors determined that these activities were operating with sufficient effectiveness to provide reasonable assurance that OpSource achieved its stated objective regarding customer access.

Optimizing SaaS Delivery

In partnership with OpSource, software companies can reduce the costs and complexities of delivering their applications via the Software as a Service (SaaS) model, while simultaneously improving application availability, performance, and security.

OpSource On-Demandsm is a comprehensive SaaS enablement and delivery solution that combines services, processes, and technology to offer customers a high-value, low-risk path to SaaS success. OpSource On-Demand includes hardware and networking infrastructure, full-managed services, application management, 24x7x365 support, optional consulting services, and more, and is backed by a 100% application uptime guarantee. OpSource's Phased Delivery approach allows customers to take advantage of essential services and facilities needed in the early stages of an application's life, and then make use of additional services as the application grows and infrastructure and staffing demands increase.

OpSource On-Demand is distinguished from conventional application hosting providers in several key ways. OpSource On-Demand includes 24x7x365 call center support for both customers and customers' end users, delivered under the customer brand. OpSource On-Demand also includes Subject Matter Experts (SMEs) that are extensively trained on customers' applications to serve as an extension of their operations teams. Finally, OpSource On-Demand is available via an innovative Success-Based Pricingsm model.

OpSource is the only company to offer Success-Based Pricing, a pay-as-you-grow model, which eliminates high upfront fees and ongoing upgrade costs associated with the server-based pricing of conventional managed hosting. With OpSource On-Demand, it doesn't matter how many servers are needed—OpSource provides customers with everything that is required to successfully deliver SaaS. Once an application is properly sized and delivered, there is no increase in costs as new servers are added. OpSource charges customers on a "per unit" basis, with the unit (e.g. per user, per transaction, etc.) determined by the customer. As the application adds more units, customers pay only for the number of units sold—meaning that they pay only in relation to the success of the application.

Your Product. Your Customers. Your Brand.

About OpSource

OpSource™, the SaaS delivery experts, is focused on providing the operational infrastructure and ongoing services that enable software companies, On-Demand businesses, and Web applications providers to deliver and maintain the highest quality Web-based solutions. By choosing OpSource as a SaaS partner, OpSource customers are freed from infrastructure management and can focus on improving applications and acquiring new customers. The OpSource On-DemandSM infrastructure enables businesses to deploy SaaS and Web-based applications quickly, cost effectively, securely, and with high-quality standards. Companies at any stage in the application lifecycle, delivering any type of application, can benefit from our comprehensive services and expertise. OpSource is the only company to offer Success-Based PricingSM, a unit-based pricing model that allows businesses to begin with a modest minimum commitment and their expenses scale only when their revenue increases.

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