

**SOC 1 REPORT ON CONTROLS
PLACED IN OPERATION AND TESTS
OF OPERATING EFFECTIVENESS**

JULY 1, 2019 TO JUNE 30, 2020



**The Lutheran Church
Missouri Synod
Foundation**

**BROWN
SMITH
WALLACE** 

THE FIRM FOR GROWTH.™

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Section I

INDEPENDENT SERVICE AUDITOR'S REPORT
BY BROWN SMITH WALLACE, LLP



THE FIRM FOR GROWTH.®

Independent Service Auditor's Report

The Board of Trustees
The Lutheran Church Missouri Synod
Kirkwood, Missouri

Scope

We have examined The Lutheran Church Missouri Synod Foundation's (the Foundation) description of its investment management services system throughout the period July 1, 2019 to June 30, 2020 (description) and the suitability of the design and operating effectiveness of the controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in The Lutheran Church Missouri Synod Foundation's Assertion (assertion). The controls and control objectives included in the description are those that management of the Foundation believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the investment management services system that are not likely to be relevant to user entities' internal control over financial reporting.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of the Foundation's controls are suitably designed and operating effectively, along with related controls at the service organization. Our examination did not extend to such complementary user entity controls and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

The Foundation uses subservice organizations, U.S. Bank, to perform certain investment activity processing, investment valuation and investment custody functions; and Keystone IT, for IT infrastructure services and data backup. The description includes only the control objectives and related controls of the Foundation and excludes the control objectives and related controls of U.S. Bank and Keystone IT. The description also indicates that certain control objectives specified by the Foundation can be achieved only if complementary subservice organization controls assumed in the design of the Foundation's controls are suitably designed and operating effectively, along with the related controls at the Foundation. Our examination did not extend to controls of the subservice organizations and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

The Foundation's Responsibilities

In Section II, the Foundation has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. The Foundation is responsible for preparing the description and assertion, including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, the description is fairly presented, and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period July 1, 2019 to June 30, 2020. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of controls involves:

- performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion.
- assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description.
- testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in the description were achieved.
- evaluating the overall presentation of the description, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.

Inherent Limitations

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in investment management services. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.

Description of Test of Controls

The specific controls tested and the nature, timing, and results of those tests are listed in Section IV.

Opinion

In our opinion, in all material respects, based on the criteria described in The Lutheran Church Missouri Synod Foundation's assertion:

- a. The description fairly presents the investment management services system that was designed and implemented throughout the period July 1, 2019 to June 30, 2020.
- b. The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period July 1, 2019 to June 30, 2020 and subservice organization and user entities applied the complementary controls assumed in the design of the Foundation's controls throughout the period July 1, 2019 to June 30, 2020.
- c. The controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period July 1, 2019 to June 30, 2020 if complementary subservice organization and user entity controls assumed in the design of the Foundation's controls operated effectively throughout the period July 1, 2019 to June 30, 2020.

Restricted Use

This report, including the description of tests of controls and results thereof in Section IV, is intended solely for the information and use of the Foundation, user entities of the Foundation's investment management services system during some or all of the period July 1, 2019 to June 30, 2020, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities themselves, when assessing the risks of material misstatement of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Brown Smith Wallace, LLP

St. Louis, MO

July 24, 2020



Section II

THE LUTHERAN CHURCH MISSOURI
SYNOD FOUNDATION'S ASSERTION



July 24th, 2020

LCMS Foundation
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The Lutheran Church Missouri Synod Foundation's Assertion

The Foundation is the chartered trust and investment corporation of The Lutheran Church Missouri Synod. We have prepared the description of the Foundation's investment management services system throughout the period July 1, 2019 through June 30, 2020 for user entities of the system during some or all of the period July 1, 2019 through June 30, 2020, and their auditors who audit and report on such user entities' financial statements or internal control over financial statement reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by subservice organizations and user entities of the system themselves when assessing the risks of material misstatements of user entities' financial statements.

The Foundation uses subservice organizations U.S. Bank, to perform certain investment activity processing, investment valuation, and investment custody functions; and Keystone IT, for IT infrastructure services and data backup. The description includes only the control objectives and related controls of the Foundation and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with the related controls. The description does not extend to controls of the subservice organization.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of the Foundation's controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities

We confirm, to the best of our knowledge and belief, that:

- 1) The description fairly presents the investment management services system made available to user entities of the system during some or all of the period July 1, 2019 through June 30, 2020 for processing client transactions and delivering other information to clients as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the description:
 - a) Presents how the system made available to user entities of the system was designed and implemented to process relevant user entity transactions, including, if applicable:
 - i. The types of services provided including, as appropriate, the classes of transactions processed;
 - ii. The procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system;
 - iii. The information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in



- initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities;
- iv. How the system captures and addresses significant events and conditions other than transactions;
 - v. The process used to prepare reports or other information for user entities;
 - vi. The services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them;
 - vii. The specified control objectives and controls designed to achieve those objectives including, as applicable, complementary user entity controls, and complementary subservice organization controls assumed in the design of the controls; and
 - viii. Other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.
- b) Includes relevant details of changes to the investment management services system during the period covered by the description.
 - c) Does not omit or distort information relevant to the system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors and may not, therefore, include every aspect of the investment management services system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- 2) The controls related to the control objectives stated in the description were suitably designed and operating effectively throughout the period July 1, 2019 through June 30, 2020 to achieve those control objectives if subservice organizations and user entities applied the complementary controls assumed in the design of the Foundation's controls throughout the period July 1, 2019 through June 30, 2020. The criteria we used in making this assertion were that:
- a) The risks that threaten the achievement of the control objectives stated in the description have been identified by management;
 - b) The controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and
 - c) The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.



Mark G. Cannon

Senior Vice President / Chief Financial Officer

LCMS Foundation



Section III

THE LUTHERAN CHURCH MISSOURI SYNOD
FOUNDATION'S DESCRIPTION OF ITS SYSTEM

Overview of Operations

The LCMS Foundation (the Foundation) is the chartered trust and investment corporation of The Lutheran Church Missouri Synod. The Foundation was established in 1958 by a group of Lutherans as a stewardship ministry of the Church, dedicated to the belief that this new organization would, “be a vehicle which can, and under the blessing of God’s will, usher in a completely new era for our church.”

The Foundation Board of Trustees is responsible to the Synod and directs charitable estate planning and investment management services partners. The goal is to achieve total rates of return which exceed appropriate market benchmarks and return God’s gifts with increase.

The Foundation processes gifts of appreciated securities on behalf of all Synod-wide agencies. This means the Foundation works directly with donors who desire to gift an appreciated and marketable security to any LCMS entity listed in the Synod annual.

The Foundation uses both separately managed accounts and commingled funds in its investment portfolios. As part of its fiduciary responsibility, the Foundation imposes investment restrictions on managers of separately managed accounts and closely monitors the investment practices of managers of commingled funds. Rebalancing of investment strategies will be undertaken as needed to ensure the optimal investment structure is maintained despite market shifts.

With the assistance of our investment advisors, the Foundation has established a variety of investment options to meet the specific investing needs of a wide range of clients.

DESCRIPTION OF COMPUTERIZED INFORMATION SYSTEM ENVIRONMENT

The information system processing environment within the LCMS Foundation involves an array of systems and system processes. Applications run on Windows operating systems and SQL server platforms. Systems and related infrastructure are managed internally, with IT infrastructure services provided by Keystone IT. The Technology department is responsible for the administration, operation, maintenance, and monitoring of applications and infrastructure components. Data is backed up by Keystone IT.

The LCMS Foundation used the services of U.S. Bank for pricing of investment securities and custody of investment assets.

Relevant Aspects of Internal Control Environment

CONTROL ENVIRONMENT

The LCMS Foundation's control environment reflects the overall attitude, awareness and actions of management, driven by members of the Foundation's senior management team concerning the importance and emphasis given to controls in the Foundation's policies, procedures, methods and organizational structure.

RISK ASSESSMENT

The Foundation's risk assessment process includes identification, analysis and management of risks relevant to investment management services. The risk assessment process addresses the current control structure as well as identification of changed conditions that may impact the structure.

INFORMATION AND COMMUNICATION

The information system most relevant to the Foundation's operations is TrustProcessor. This system is used to record, process, summarize and accurately report donor and investment activity, valuations and fees. The Foundation utilizes Intacct as its General Ledger accounting system. JOSHUA is used as the Foundation's imaged document repository. Communication involves providing an understanding of individual roles and responsibilities pertaining to executing policies and controls. This communication is accomplished through various standardized policies and procedures within the organization. The information system components relevant to services provided to user organizations are described in this report.

MONITORING

Monitoring of the internal control systems is a process that assesses the quality of the internal control systems' performance over time. This is accomplished primarily by ongoing monitoring activities conducted by management to approve new client relationships, validate portfolio account valuations and reconcile client billing statements.

CONTROL ACTIVITIES

The LCMS Foundation's control activities include policies and procedures in place to ensure management's directives are implemented. They ensure that necessary actions are taken to address risks to the achievement of the Foundation's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Control activities as they relate to the purpose of this report are included in the process description portions of Section III below. The key control activities that support the Foundation's control objectives have been identified and tested in Section IV.

Description of Operational and Financial Management Activities

INVESTMENT ACCOUNT SET UP

New Accounts

Every account which is opened is required to have an investment agreement signed by an authorized representative of the congregation. The investment agreement defines the general terms and conditions regarding custody account, contact person, investments, additions and distributions, statements, fees and termination. Executed investment agreements are approved by an authorized representative of the Foundation.

The VP Gift Review and Design or Staff Attorney will receive the executed investment agreement funded with either cash or securities, which they will relay to the Trust Services Gift Processing group (TS GP) for processing. Upon receipt by TS GP, an investment folder is created containing the investment agreement along with any other documentation that may be provided by the congregation or institution.


TrustProcessor is the system of record used by the Foundation. TS GP personnel inputs new account information into TrustProcessor and enters the Trust Administrator responsible for the account's administration. TS GP personnel then prints out the Account Detail and Account Relationship Reports from TrustProcessor and adds it to the investment folder.

The Trust Administrator receives the investment folder for review and verification. The Trust Administrator verifies that the information in the documentation (name, address, fee schedule – as of October 2018, statement frequency, authorized signers and more) was correctly input to TrustProcessor for accurate administration of the account and compliance with the terms of the agreement and other documentation. The investment file is forwarded to the Recordkeeping Supervisor and Senior Clerk who image all documents onto the Rubex Imaging Archival System for electronic document access.

INVESTMENT ACCOUNT ADDITIONS AND REDEMPTIONS

Funding/Additions

Account funding/additions are received in the form of cash, check or securities. When funding the account with cash, TS GP prepares the entry to receipt into the account, attaching a photocopy of the cash received to the back of the form with the original bill attached to the front of the form. This documentation is relayed to the Investment Administrator for deposit.



If the account is funded by check, TS GP staff makes two copies of the check, one for the investment file and the other for attachment with the original check. When the account is funded with securities, TS GP obtains a price history from the Securities and Investment Manager with pricing based on the gift receipt date. The Securities and Investment Manager utilizes Bloomberg to report the value of the security (the median of the high/low price as of the date received). For bonds, the Foundation uses the posted market value. TS GP prepares the asset receipt entry and sends it along with the account file to the Trust Administrator for review. Securities are not sold by the Foundation until investment/ allocation instructions are provided by the client. Client additions are invested within 30 days of receipt and in accordance with the executed investment agreement or new or revised Letters of Direction.

Duties are segregated between initiation of investments and redemption requests by allowing Trust Administrators to only prepare investment and redemption requests, and only Investment Administrators or Operations Analysts processing transactions in TrustProcessor. TrustProcessor is configured to allow Trust Administrators to only initiate investment requests and Operations personnel to only approve/ process the investment requests.

Withdrawals

The Trust Administrator either receives correspondence from the congregation or institution regarding withdrawal of principal funds via letter of direction, which provides dollar amounts to be withdrawn, or per standing memo or contract terms.

The Trust Administrator verifies the requestor is an authorized representative on the account and executes the withdrawal request by preparing an Investment/Disinvestment Allocation form for the amount of the withdrawal or an equivalent number of shares (and fees, where applicable). Next, the Trust Administrator prepares a Demand Check Request Form for the withdrawal amount requested, which requires approval by the Trust Services Manager or Senior Trust Administrator.

Duties are segregated between the initiation of investment or redemption requests (Trust Administrators prepare investment/redemption request forms) and the processing of the related transactions (performed by the Operations Analyst).

For withdrawals from the Standard Funds, Investment/Disinvestment Allocation forms are submitted to the Investment Administrator. For withdrawals from the Thrivent Funds, Investment/Disinvestment Allocation forms are submitted to the Operations Analyst. For withdrawals from the Preference Funds and Money Market Funds, the Investment/Disinvestment Allocation forms are given to the Trust System Manager. Reconciliation for the Preference Funds and Thrivent Funds is needed for review at least a week prior to month-end so that notification of investment activity can be provided directly to Investment Managers prior to month-end. All transactions go into TrustProcessor as pending transactions, except for the Money Market Funds, which are processed on demand, and trades are processed at the end of the month.

The Demand Check Request Form is given to the Operations Analyst, who establishes a check request in the Beneficiary Edit Pending Check Register of TrustProcessor.

After adding the demand check request information into TrustProcessor, the Operations Analyst gives all Check Requests for the daily batch to the Senior Trust Administrator, Trust Services Manager or Trust Administrator for review against the daily Beneficiary Edit Pending Check Register.

The Senior Trust Administrator, Trust Services Manager or Trust Administrator will give the check requests for the current calendar date and daily Beneficiary Edit Pending Check Register to the Investment Administrator or VP of Investment Operations for printing of checks.

Checks are given to the Trust Administrator (if requested) for mailing with supporting documents or mailed directly to the congregation or institution.

The Trust Administrator then forwards all investment withdrawal documents to the Recordkeeping Supervisor and Senior Clerk for imaging into the respective file and “closes” the Investment account, if appropriate, in TrustProcessor.

INVESTMENT MANAGEMENT

A Statement of Investment Policies and Objectives outlines the LCMS Foundation’s investment strategies and guidelines. This Statement is reviewed and approved by the Board of Trustees annually.

The Board of Trustees approves the investment consultant and changes in investment managers. The Board of Trustees has established an Investment Committee which is responsible for developing the investment policy, recommending asset allocations, determine range of investment options, monitor investment managers, and recommend the investment consultant to the Board.

The investment consultant approved by the Board is engaged to advise the Foundation concerning its investment program in four primary areas:

- A. Development of Investment Strategy
 - The investment consultant recommends investment strategies which reflect the theoretical underpinnings and empirical evidence of market behavior.
 - Recommended investment strategies and structures will reflect the Foundation’s long-term goals of achieving its return objectives within an acceptable level of active risk relative to target portfolios.
- B. Selection of Investment Managers
 - The investment consultant will perform an in-depth analysis on managers in the consultant’s database to provide recommendations to the Foundation for the selection of new managers. The objective of the selection process is to hire appropriate best-in-class managers for the Funds.
 - This analysis will cover qualitative factors (investment philosophy and style, investment process, key portfolio management team members, ownership structure, client base, products, and assets under management) and quantitative factors (return and risk analysis of the portfolio relative to an appropriate benchmark, net performance over numerous time periods, and portfolio characteristics comparison of the portfolio and the benchmark).

C. Monitoring of Current Investment Managers

- The investment consultant performs a monthly analysis of the performance of each manager currently engaged by the Foundation. Performance is compared to an agreed upon benchmark index.
- Quarterly, the investment consultant performs an in-depth analysis of the performance and portfolio composition of each current manager. Portfolio composition data will be used to determine if the manager is staying within their management style as well as to develop style peer benchmarks for a more complete comparison of manager performance.
- Quarterly, the investment consultant reviews manager compliance with the Board's guidelines and policies. The results of this review for each manager will be included in the quarterly Executive Summary of Investment Performance.

D. Communication

- The investment consultant meets with the Foundation on a quarterly basis to discuss the consultant's manager analysis.
- A written summary report of the manager analysis will be provided to the Foundation, once a quarter.
- A written analysis of manager performance versus benchmarks will be provided to Investment-Operations monthly.


All transactions are processed, and accounts maintained by the Custodian, U.S. Bank. U.S. Bank is also responsible for valuing investments and providing data used to determine unit value and income factors for the Preference Funds. The LCMS Foundation and U.S. Bank have entered into a Custodian Contract, which outlines U.S. Bank's duties and responsibilities.

The Foundation has secure web access to the custodian's online client account system. Cash movement and trading activity are entered online. Primary use of the custodian's online client account system is for reporting. Other methods used for cash movement and trading activity include sending completed cash movement instructions directly to the Foundation's dedicated client service team at the custodian and placing trades directly with the custodian's Trade Services group via phone. All transactions are required to be approved by a second party.

PRICING OF INVESTMENTS

Monthly, pricing information and corresponding earned income reports supporting Unit Value and Income Factor calculations for each of the Preference Funds are received from U.S. Bank by the sixth business day of the month. The account reports for each manager are retrieved from the online client account system, as are the composite reports for each Preference Fund. The reports received are for all Preference Funds, except the Money Market Fund. Each account report contains data on net income, market value and accruals as well as net market value for each Fund Manager. The reports provide data necessary to calculate the Preference Fund Price and Income Factor used by the Foundation to complete the Common Fund Processing for all holders (both funds and accounts) of Preference Funds.

The monthly pricing process of the Common Funds provides the month-end valuation and income distribution for all accounts holding investments during the month and the price at which all transactions (purchases and redemptions) are processed at month end.



The Operations Analyst prepares a Common Fund worksheet based on the Unit Value and Income Factor report. Operations staff verifies that the Common Fund worksheet amounts agree to the Unit Value and Income Factor report. The Security Trades report from the TrustProcessor system contains a list of accounts purchasing or redeeming a particular Preference Fund during the respective month. This information comes from the Trust Administrators.

The VP of Investment Operations reviews the cash needs/expectations for the next month and prepares the necessary trades at the Fund level and the Fund manager level. These pending trades are given to the Trust System Manager to add to the trades received from the Trust Administrators.

Investment activity at U.S. Bank for Preference Funds is communicated to the custodian prior to month-end. Normal investment activity at the Fund Manager account level is also entered at this time. Quarterly, investment activity is reviewed and compared to the Statement of Investment Policies and Objectives by the Investment Consultant (NEPC LLC) to ensure compliance with the investment structure as approved by the Foundation's Board of Trustees. The results of the Investment Consultant's review are included in the quarterly Investment Summary report which is reviewed by the Board of Trustees.

The distribution of monthly income is calculated by multiplying the number of units for each account by the income factor. The Operations Analyst prepares the Statement of Condition for each of the 23 funds, which is verification that the information received from U.S. Bank agrees to the information in the TrustProcessor system. The Trust System Manager reviews for accuracy.

The approved Statement of Condition (containing principal market values and accrued income available to participants, units of participation and per unit values for principal and earned income) is reconciled to U.S. Bank reporting for all accounts comprising the Foundation's investment funds. Information is also reconciled to TrustProcessor participant reporting system.

The Operations Analyst posts the income distribution in TrustProcessor. Prior to final posting, the Trust System Manager reviews and approves the distribution. Following the valuation of account holdings and posting of income, fees that are assessed at the account level are calculated in the TrustProcessor system. Once the fees are calculated in TrustProcessor, the Trust System Manager posts the invoices in the system which automatically charges each account. To ensure fees appear reasonable from month to month, the Trust System Manager and VP of Investment Operations perform a review to compare total change in asset value from the prior month to the total change in fees from the prior month (+/- 5%). Fees should fluctuate up or down with the change in asset value.

REPORTING

Reporting is managed in the Trust Services Group. The Trust System Manager informs the Trust Administrators once the Investment Fund pricing and Fee processing have been completed so that they can prepare client reports and statements.

Review of Present Value Data

The LCMS Foundation Trust Services (TS) Group performs extensive due diligence auditing of present value report data and PV report output, to ensure optimal reporting accuracy. These risk management controls were instituted by Trust Services to maximize data integrity and client reporting outcomes.

Beneficiary birth/death dates and salutations/gender fields relative to split interest accounts are reviewed to ensure appropriate fields are populated. If beneficiary birth dates are missing, the donor/beneficiaries are contacted to obtain birth date information and eliminate name ambiguities. Where possible, data is updated prior to report generation. Vital statistic due diligence review maximizes actuarial computation integrity.

On an annual basis, TS proactively selects a sample of elder beneficiaries and compares system vital statistics against genealogy and other websites to identify unreported deaths. If unreported deaths are detected, family members/estates are contacted to procure a death certificate, or it is ordered from the state in which the donor died. Pertinent death date info is updated in the system to optimize PV reporting.

The third-party actuarial consultant performs an independent review of extract data, to verify that data-sets appear reasonable.

The TS Group reviews the present value report output for a selected number of ministries and sample audits output for accuracy and reasonableness, including:

- Charitable gift market values are reconciled back to the TrustProcessor system to verify report market value accuracy.
- Growth and discount rates provided by the Investment Group are reconciled back to Willis Towers Watson program front-end input to verify report rates were input by Willis Towers Watson correctly.
- Current Year PV report is compared with Prior Year PV report on a line by line basis to verify all account maturity projections appear consistent (maturity variances over two years are researched for accuracy/cause).
- A spreadsheet variance analysis is performed, with variances researched accordingly.
- Program formulas are randomly and periodically reviewed for consistency and reasonableness.
- Ministry Report recipient addresses are reviewed for accuracy.
- PV report gift grand totals are compared to previous fiscal year report grand totals and reconciled using New and Terminated Account reports as supplemental reconciliation tools. This process is performed for a sample selection of PV reports.

The Accountant compares comprehensive extract PV data with prior year PV data to adjust net present value of unrestricted and temporarily restricted assets reported on the Statement of Activities.

INFORMATION TECHNOLOGY

Logical Access

Logical access to U.S. Bank's system is restricted based upon job responsibilities and supports an effective segregation of duties. Process is configured to require independent entry and approval of transactions. Access reviews are performed annually for U.S. Bank access, TrustProcessor, and Active Directory.

Each Foundation employee is set up with a Windows Active Directory account and provisioned a workstation based on their need. TrustProcessor access will be provisioned if required based on job responsibilities. Foundation employees can only access TrustProcessor by authenticating into their workstation with their Active Directory credentials. The Security Protection Acceptance and Windows Active Directory policies define and enforce password complexity standards. A unique password and user ID combination is required to sign on to Active Directory.

Beginning August 2018, a "Network Service Request" form is completed when provisioning or deprovisioning employee system access. The form is submitted to the IT department which is responsible for provisioning or deprovisioning the required applications access. Additionally, a "New Employee" or "Employee Termination" checklist is completed for each new hire or termination. The checklist is required to be signed and dated by the employee's supervisor.

Physical Security

Upon entering the main LCMS building, guests are greeted by a guard and receptionist during building hours of 7:45 a.m. to 4:15 p.m. All non-employees are required to sign a visitor log, receive a visitor badge and must be escorted throughout the building. The LCMS Foundation's office within the main building is locked 24/7 and requires badge access to enter. Confidential data is housed in the server room and the vault, which are accessible by physical keys. Only the IT Director and the Executive Assistant have keys to the server room and vault.

Change Management

Change procedures are in place and reviewed by the IT Director to ensure that change requests follow a standardized procedure via the change request form.

Change request for TrustProcessor are submitted via change request forms to division supervisors. The supervisors are responsible for evaluating the change request and, if applicable, sending the request to the third-party developer with a copy to the IT Director. Once a change request is submitted, a SmartSheet is automatically filled out for tracking purposes. Once the request is completed by the developer, the IT Director will load the change to the test environment where it is reviewed and tested by the division supervisor. Once testing has been completed successfully, the division supervisor will approve the change and it can be loaded into production.



VENDOR MANAGEMENT

The LCMS Foundation has established a Vendor Management policy and procedures which provide guidance for identifying, measuring, monitoring and mitigating risks associated with third-party providers. The policy is included in the Standard Operating Policies and Procedures which is reviewed annually by LCMS Foundation management.

The Foundation considers several factors when performing due diligence in selecting a Third-Party Vendor. The type and depth of due diligence varies depending on the scope of importance of the outsourced services as well as the risk to the Foundation from these services. Vendors are risk rated (High/Critical, Moderate, or Low) based on whether the vendor has access to critical company data, performs a critical business function, has an impact on revenue or expenses, whether the vendor is the only company providing the service/product, and whether it directly impacts the Foundation's ability to perform one or more critical business functions. Annually, critical vendors are assessed and reviewed by management. A current and executed agreement is in place with each critical vendor and the agreements are approved by authorized personnel at the Foundation.

Annually, attestation reports (or similar) for critical vendors are obtained and reviewed by management to evaluate the effectiveness of vendor's controls. Complementary user controls detailed in attestation reports, if applicable, are evaluated to verify these are addressed by management.



Control Objectives and Related Controls

The Foundation's control objectives and their related controls are included in Section IV, along with tests of operating effectiveness performed by the Foundation's Independent Service Auditor, Brown Smith Wallace, LLP. This format was used to eliminate the redundancy that would result from listing the control objectives and their related controls in Section III and repeating them in Section IV. Although the control objectives and related controls are included in Section IV, they are, nevertheless, an integral part of the Foundation's Description of the System and Controls and are the responsibility of the Foundation's management.

Complementary User Entity Controls

The Foundation's processing of transactions and the controls over the processing were designed with the assumption that certain controls would be placed in operation at user organizations. This section describes some of the controls that should be in operation at user organizations to complement the controls at the Foundation. User auditors should determine whether user organizations have established controls to ensure that:

- Instructions and information provided to the Foundation from clients or the governing instrument are authorized and in accordance with the provisions of the agreement, or other applicable governing agreements or documents between the Foundation and the user.
- Timely written notification of changes is adequately communicated to the Foundation, regarding the client's investment objectives.
- Timely written notification of changes in the designation of individuals authorized to instruct the Foundation regarding activities, on behalf of the client, is adequately communicated thereto.
- Timely review of reports provided by the Foundation of account balances and related activities is performed by the client and written notice of discrepancies is provided to the Foundation.

Complementary Subservice Organization Controls


The Foundation uses service organizations (subservice organizations) to provide custodial services and application services and to maintain data replicated for backup purposes. The description above does NOT include controls implemented at the subservice organizations. The chart below illustrates controls the Foundation “expects” to be implemented, suitably designed and operating effectively at subservice organizations to meet the trust services criteria listed below:

Control Objective	Expected Control
<p>Control Objective 3: Controls provide reasonable assurance that investment activity is reviewed, and securities income and fees are recorded to client accounts in a complete and accurate manner.</p>	<p>New accounts are set up on the Trust 3000 system by designated units according to request forms from administrators or relationship managers based on the terms of the governing agreement.</p> <p>An account review is conducted to verify the completeness and accuracy of account setup in the Trust 3000 system.</p> <p>Prices manually entered by a Pricing Specialist into the Trust 3000 system are reviewed and verified for accuracy by another member of the Pricing team. The reviewer signs off on the request to evidence performance.</p> <p>Marketable securities that do not receive a vendor price as of the last business day are reviewed and researched by the Pricing team. If no price is available, a report of those securities is prepared by the Pricing team and is provided to management for review. Management reviews the analysis monthly as evidenced by sign-off.</p> <p>The daily NAV calculation is prepared and reviewed for accuracy and reasonableness by a separate member of the NAV team.</p>
<p>Control Objective 5: Controls provide reasonable assurance that logical access to systems and applications is restricted to authorized users.</p>	<p>Access to the client’s accounts require submittal of such request by the client and a secondary review and approval is performed internally.</p> <p>Data is protected by industry standard encryption during the entire synchronization, storage and replication process.</p> <p>Vulnerability assessments are performed at least annually.</p>
<p>Control Objective 6: Controls provide reasonable assurance that physical access to facilities is restricted to authorized personnel and safeguards are established to provide protection of physical assets.</p>	<p>Physical access to facilities that house IT resources, servers and related hardware such as firewalls and routers is restricted to authorized individuals by key systems and monitored by video surveillance.</p> <p>Physical access cards are managed by building staff. Access card usage is logged and reviewed by staff.</p> <p>Operational monitoring systems are in place and include periodic reports of aggregate data from calls, alarms and problems from facilities and includes data for capacity and usage.</p>



Section IV

INDEPENDENT SERVICE AUDITOR'S DESCRIPTION OF TESTS OF CONTROLS AND RESULTS



The Foundation's Control Objectives, Related Controls and Independent Service Auditor's Tests of Controls and Results

This section presents the following information provided by the Foundation:

- The control objectives specified by the management of the Foundation.
- The controls established and specified by the Foundation to achieve the specified control objectives.

Also included in this section is the following information provided by the Independent Service Auditor, Brown Smith Wallace, LLP:

- A description of the testing performed by the service auditor to determine whether the Foundation's controls were operating with sufficient effectiveness to achieve the specified control objectives. The service auditor determined the nature, timing and extent of the testing performed.
- The results of the service auditor's tests of operating effectiveness.

OPERATIONAL CONTROLS

Client Account Maintenance and Set-up and Processing of Client Additions			
Control Objective 1: Controls provide reasonable assurance that documentation for the opening of and additions to client accounts is received, reviewed, and completely and accurately established in the applicable system.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
1.01	Executed investment agreements are required on all new accounts and are approved by an authorized representative of the LCMS Foundation.	Inspected a sample of new accounts to determine that investment agreements were executed by the client and approved by an authorized representative of the LCMS Foundation.	No exceptions noted.
1.02	New account information is entered into the TrustProcessor system by Trust Services Gift Processing and independently reviewed by the Trust Administrator.	Inspected a sample of new accounts to determine that account information was accurately entered into the system and independently reviewed by the Trust Administrator.	No exceptions noted.
1.03	An independent review of the valuation of assets/additions received is performed by the Trust Administrator or Investment Operations Supervisor as evidenced by the sign-off on the principal contribution/journal entries worksheet.	Inspected a sample of client additions to determine that an independent asset valuation review was performed by the Trust Administrator or Investment Operations Supervisor.	No exceptions noted.
1.04	TrustProcessor is configured to invest clients' funds in accordance with their executed investment agreements or new or revised Letters of Direction.	Inspected a sample of client additions to determine that funds were invested in accordance with the most recent investment agreement or Letter of Direction.	No exceptions noted.
1.05	Duties are segregated between initiation of investments and redemption requests by allowing Trust Administrators to only prepare investment and redemption requests, and Operations Analysts only processing transactions.	Inspected a sample of client additions and withdrawals to determine that the transactions were prepared by the Trust Administrator and processed by an Operations Analyst.	No exceptions noted.

Client Account Maintenance and Set-up and Processing of Client Additions			
Control Objective 1: Controls provide reasonable assurance that documentation for the opening of and additions to client accounts is received, reviewed, and completely and accurately established in the applicable system.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
1.06	Changes to account information (address, remittance, and investment preferences), are entered into the TrustProcessor system by Trust Services Gift Processing and independently reviewed by the Trust Administrator.	Inspected a sample of new accounts and account changes to determine that account information was accurately entered into the system and independently reviewed by the Trust Administrator.	No exceptions noted.

Authorization and Processing of Client Withdrawals			
Control Objective 2: Controls provide reasonable assurance that client withdrawals are authorized and processed in a complete and accurate manner.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
2.01	Account withdrawals are required to be authorized by the client or an authorized representative.	Inspected a sample of withdrawals to determine these were approved by the client or authorized representative prior to disbursement.	No exceptions noted.
2.02	Account withdrawals are approved by the Senior Trust Administrator, Trust Services Manager or Trust Administrator.	Inspected a sample of withdrawals to determine that these were approved by the Senior Trust Administrator, Trust Services Manager or Trust Administrator prior to disbursement.	No exceptions noted.
2.03	Distribution requests are verified for accuracy by the Senior Trust Administrator, Trust Services Manager or Trust Administrators against the Check Request Edit List (check register).	Inspected a sample of withdrawals to determine that withdrawal requests were reviewed for accuracy against the Check Request Edit List by the Senior Trust Administrator, Trust Services Manager or Trust Administrators.	No exceptions noted.
2.04	Duties are segregated between initiation of investments and redemption requests by allowing Trust Administrators to only prepare investment and redemption requests, and Operations Analysts only processing transactions.	Inspected a sample of client additions and withdrawals to determine that the transactions were prepared by the Trust Administrator and processed by an Operations Analyst.	No exceptions noted.

Review and Processing of Investment Activity and Income			
Control Objective 3: Controls provide reasonable assurance that investment activity is reviewed, and securities income and fees are recorded to client accounts in a complete and accurate manner.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
3.01	The Statement of Investment Policies and Objectives, which outlines the Foundation's investment strategies and guidelines, is reviewed and approved annually by the Board of Trustees.	Inspected Board of Trustees meeting minutes to determine that the Statement of Investment Policies and Objectives was reviewed and approved by the Board in the past 12 months.	No exceptions noted.
3.02	Quarterly, the investment consultant reviews the investment managers' compliance with the Board's guidelines and policies. Results of this review are included in the quarterly Investment Summary report reviewed by the Board of Trustees.	Inspected a sample of quarterly Investment Summary reports to determine the reports prepared by the investment consultant were presented to and reviewed by the Board of Trustees.	No exceptions noted.
3.03	Monthly, the Statement of Condition is reconciled against TrustProcessor and U.S. Bank statements for all accounts comprising the Foundation's investment funds and reviewed and approved by the Foundation Operations Supervisor.	Inspected a sample of investment funds to determine that the Statements of Condition were reconciled against TrustProcessor and U.S. Bank and approved by the Operations Supervisor.	No exceptions noted.
3.04	Monthly, income distribution is posted in TrustProcessor by an Operations Analyst and reviewed by the Operations Supervisor.	Inspected a sample of investment funds to determine that income distribution was posted monthly in TrustProcessor by an Operations Analyst and reviewed by the Operations Supervisor.	No exceptions noted.
3.05	Fees at the account level, as defined in the account agreement, are automatically calculated by TrustProcessor once income is posted in TrustProcessor.	Inspected a sample of account fees and verified that fees were calculated automatically and accurately in accordance with the account's fee schedule.	No exceptions noted.

Review of Present Value Data			
Control Objective 4: Controls provide reasonable assurance that present value data is reviewed for reporting accuracy and completeness of input data and report output.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
4.01	Beneficiary birth/death dates and salutations/gender fields for split interest accounts are reviewed by the Trust Services Group (TS) to validate appropriate fields are populated.	Inquired of management to determine the semi-annual review process is in place. Inspected the review process that was performed for the most recent present value extract to determine it was reviewed for accuracy by the TS Group.	No exceptions noted.
4.02	The present value of split interest accounts report is prepared annually by the investment consultant. The TS reviews the third-party actuary results for errors or issues.	Inspected the annual present value of split interest accounts report to determine that it was reviewed for errors or issues by the TS Group.	No exceptions noted.
4.03	Annually, TS selects a sample of elder beneficiaries to search for unreported deaths. Pertinent death date information is updated on the system for accurate Present Value reporting.	Inspected the most recent present value extract to determine that the TS Group performed a review to identify unreported deaths. Inspected a sample of clients in which an unreported death was identified to determine that the date of death was recorded in TrustProcessor.	No exceptions noted.

Logical Security			
Control Objective 5: Controls provide reasonable assurance that logical access to systems and applications is restricted to authorized users.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
5.01	Logical access to the U.S. Bank system is restricted based upon job responsibilities and supports an effective segregation of duties.	Inquired of management to determine segregation of duties is in place. Inspected a list of authorized management users with access to the custodial system to determine that access to the system is appropriate based on job responsibilities.	No exceptions noted.
5.02	Access to the Foundation's systems and network are restricted through Active Directory credentials.	Inquired of management to determine the use of Active Directory credentials. Inspected password configurations for Active Directory and Foundation systems to determine that access is restricted through Active Directory credentials.	No exceptions noted.
5.03	Password complexity standards enforce control over access control software passwords.	Inspected password configurations to determine that passwords are configured to LCMS password policy.	No exceptions noted.
5.04	A Network Service Request Form is completed when provisioning or deprovisioning employee system access. The completion of this form is evidenced in the New Employee/Termination Checklist signed off by the employee's Supervisor.	Inspected a sample of new hires and terminated employees to determine that the corresponding New Employee/Employee Termination checklist was completed, including the task for Network Service Request form, and the checklist was signed off by the employee's Supervisor.	No exceptions noted.
5.05	An annual review of user access is performed by management.	Inquired of management regarding the annual user access review process. Inspected the annual review to determine that management approved annual review of user access.	No exceptions noted.
5.06	Unique user ID and password are required for network access.	Inspected Active Directory report to determine that user IDs and passwords are required and unique for network access.	No exceptions noted.

Physical Security			
Control Objective 6: Controls provide reasonable assurance that physical access to facilities is restricted to authorized personnel and safeguards are established to provide protection of physical assets.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
6.01	Access to the Foundation building requires authentication with a valid badge. Visitor access to the building is logged and visitors are escorted to prevent unauthorized access.	Observed the presence of proximity badges required for entry into the building outside of the main door and the receptionist requiring all visitors to sign a log.	No exceptions noted.
6.02	Access to the Foundation outside of regular business area is restricted to authorized personnel.	Observed the doors to the main entrance being locked outside of business hours, and all other entries being locked with proximity badges required to open them.	No exceptions noted.
6.03	Physical assets (check stock, deeds, etc.) are stored in a secured vault. The vault is locked, and access restricted to authorized personnel.	Observed the server room and secured vault being locked. Inspected documentation to determine that access is limited to specific Foundation employees.	No exceptions noted.

Change Management			
Control Objective 7: Controls provide reasonable assurance that implementation of new software and changes to existing software are authorized, tested, approved, and documented.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
7.01	Change management policies and procedures are in place to provide guidance and governance for different types of changes to information systems and data, including emergency changes.	Inspected the Change Management policies and procedures to determine that procedures are in place and include emergency changes.	No exceptions noted.
7.02	Changes to TrustProcessor are tested and approved prior to implementation into production.	Inquired of management on the change management process. Inspected a sample of changes to TrustProcessor to determine changes were tested, documented and approved in accordance with change management procedures.	No exceptions noted.
7.03	Change request forms are utilized for system software and computer hardware changes.	Inspected a sample of system software and hardware change requests to determine changes utilized a change request form.	No exceptions noted.
7.04	Testing of changes to TrustProcessor are conducted in a test environment prior to implementation of the production environment.	Inquired to management that software changes are tested in a segregated environment prior to being loaded into production. Inspected system settings to determine that a test and production environment are present.	No exceptions noted.

Vendor Management			
Control Objective 8: Controls are in place to provide reasonable assurance that management has proper oversight and contracting procedures over third-party services providers.			
Ref	Controls Specified by the Foundation	Tests Performed by Brown Smith Wallace	Results of Tests
8.01	A Vendor Management policy, which provides guidance for identifying, measuring, monitoring and mitigating risks associated with third party providers, is included in the Standard Operating Policies and Procedures which is reviewed annually by LCMS Foundation Management.	Inspected the vendor management policy for annual approval and to determine it provides guidance for identifying, measuring, monitoring and mitigating risks associated with third party providers.	No exceptions noted.
8.02	Annually, attestation reports (or equivalent) for critical vendors are obtained and reviewed by management to evaluate the effectiveness of the vendor's controls. Complementary user entity controls detailed in attestation reports, if applicable, are evaluated to verify these are addressed by management.	Inspected a sample of critical vendors to determine documentation evidencing that an attestation report (or equivalent) was reviewed by LCMS Foundation management. Inquired of management about review of complementary user entity controls to determine these are identified and evaluated.	No exceptions noted.
8.03	Annually, critical vendors are assessed and reviewed by management.	Inquired of management about due diligence documentation for critical vendors. Inspected the most recent annual vendor risk assessment to determine that it was performed.	No exceptions noted.
8.04	Executed agreements are in place with each critical vendor and are approved by the appropriate level of management.	Inspected a sample of critical vendors to determine an executed service agreement is in place and was approved by the appropriate level of management.	No exceptions noted.



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