Service Organizations (SO)

Governmental entities must evaluate vendor contracts to determine if they create a service organization relationship.

For assistance, see Vendor vs. Service Organization

If a service organization relationship is established, the governmental entity:

MUST:

- Establish controls over SO activity, including accounting and compliance monitoring procedures, to ensure that:
  - SO activity is accurately reported on the governmental entity's financial statements;
  - SO is in compliance with the contract between the governmental entity and SO; and
  - SO is in compliance with applicable federal, state, and pass-through entity requirements.

SHOULD:

- Consider the implications of the service organization acting on-behalf of the governmental entity for various activities reported on the financial statements and subject to compliance requirements, especially considering Federal compliance implications if the service organization is paid with Federal grant dollars.
  - Federal grant dollars are subject to allowable cost, allowable activities, eligibility, and other requirements. The SO must be aware of the implications of Federal compliance requirements.
  - For further information, see General Federal Resources, including *Responsibilities Under Uniform Guidance Act 2 CFR 200*, available on the Auditor of State (AOS) Website.
- Ensure the service organization is aware that auditors will need support from them during the audit process.

In accordance with American Institute of Certified Public Accountants (AICPA) Auditing Standards (AU-C) 402 *Audit Considerations Relating to an Entity Using a Service Organization*, auditors may utilize the service organization's current, relevant service organization control report (SOC 1 Type 2) to gain assurances over the controls in place at the service organization level. For further information, see AICPA Attestation Standards (AT-C) 320.

Disclaimer: This is a tool to help governmental entities understand the audit impact of service organizations. It does not contain all relevant guidance and is not meant to be a substitution for reviewing the requirements contained in the Uniform Guidance, Governmental Accounting Standards Board (GASB) Codification, and AICPA Standards.