

Vendor vs. Service Organization

Contracts with vendors may establish either a vendor or service organization relationship.

Vendor

Does **not** provide services to the governmental entity that are relevant to the governmental entity's internal control over financial reporting.

Not responsible for complying with federal, state, or local laws or pass-through entity requirements for purchasing, report submission, etc

OR

Service Organization

Provides services to the governmental entity that are relevant to the governmental entity's internal control over financial reporting.

Responsible for complying with federal, state, and local laws as well as pass-through entity requirements for purchasing, report submission, etc

Governmental entities must closely evaluate their contracts to determine the relationship created.

Regardless of the relationship established, the governmental entity must procure the vendor or service organization in accordance with state and federal (if applicable) requirements and establish controls over the contractual activity.

For more information, refer to AICPA Auditing Standard (AU-C) 402 Audit Considerations Relating to an Entity Using a Service Organization