



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Date: September 7, 1995

Bulletin: 95-010

AUDITOR OF STATE BULLETIN

TO: ALL PUBLIC OFFICES

SUBJECT: STATEMENT ON AUDITING STANDARDS NO. 70, (SAS 70)
"PROCESSING OF TRANSACTIONS BY SERVICE ORGANIZATIONS"

"Statements on Auditing Standards" set professional requirements the Auditor of State (and contracting IPA's) must follow. SAS 70 is a relatively recent pronouncement that has important effects on many audits this office performs. The following summarizes the key requirements of SAS 70:

Governments often use "service organizations" to process accounting transactions on their behalf. When a government has delegated an accounting function to an outside organization (called a service organization), SAS 70 imposes certain additional audit requirements. Examples of service organizations include:

- Payroll processing organizations
- Third party insurance administrators
- Deferred compensation administrators
- Non-statutory tax collection agencies
- Bank trust departments that make investment decisions or that issue debt or make debt service payments on behalf of a government
- School district accounting consortiums

Service organizations do not include those whose responsibility is limited to processing transactions specifically authorized by the user organization, such as a bank that processes checking accounts, or broker-dealers executing transactions authorized by the user organization.

Service organizations pose a unique audit challenge, since SAS 70 requires the Auditor of State to assume audit responsibility for accounting processes performed at the service organization. Service organizations oftentimes are not located in the same city or even the same state as the auditee. If an auditor is unable to obtain needed documentation of a service organization's accounting and control processes through the auditee, he or she may have to resort to performing procedures at the service organization to avoid an opinion qualification. Such additional procedures would obviously entail additional, and perhaps significant audit costs.

Fortunately, SAS 70 also prescribes reports (called SAS 70 reports) that a service organization's auditors can prepare for our use. Fiscal officers of governments employing service organizations should discuss the implications of such organizations with their auditors during the planning phase of their next audit (or preferably sooner).

If SAS 70 reports are not prepared for those service organizations processing material transactions, user organizations should consider negotiating a clause in their service contract requiring such a report.

This Bulletin is intended as guidance for interpreting and complying with SAS 70 objectives, but is not is not a substitute for the Statement. Those addressing service organization considerations must refer to SAS 70 for guidance.

Questions regarding this Bulletin can be referred to Frederick R. Kruse at (614)728-7111.

Jim Petro, Auditor of State
State of Ohio