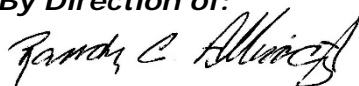


MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania Governor's Office

Subject: Service Organization Controls	Number: 325.13
Date: November 22, 2017	By Direction of:  Randy C. Albright, Secretary of the Budget
Contact Agency: Office of the Budget, Office of Comptroller Operations, Bureau of Audits, Telephone 717.783.0114	

This directive establishes policy, responsibilities, and procedures for the oversight and evaluation of a service organization's internal controls.

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for the oversight and evaluation of a service organization's internal controls.
- 2. SCOPE.** This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction. Commonwealth entities not under the Governor's jurisdiction should adopt similar policy.
- 3. OBJECTIVE.** To ensure the integrity of governmental functions, processes, or data provided or maintained by service organizations.
- 4. DEFINITIONS.**
 - a. Agency or Agencies.** Includes all departments, boards, commissions, and councils under the Governor's jurisdiction.
 - b. Internal Control.** A process that provides reasonable assurance of the achievement of an organization's objectives.
 - c. Service Organization.** A party external to commonwealth government that provides a service that is likely to be relevant to an agency's internal control.

5. POLICY.

- a. Agencies are responsible for the processes assigned to service organizations that are likely to be relevant to the agency's internal control. This responsibility includes oversight of each service organization's controls.
- b. Agencies must consider the following when determining the extent of oversight for the processes assigned to service organizations:
 - (1) the nature of services outsourced;
 - (2) the standards of conduct of the service organization's personnel;
 - (3) the quality and frequency of the service organization's enforcement of adherence to standards of conduct by its personnel;
 - (4) the magnitude and level of complexity of the service organization's operations and organizational structure; and
 - (5) the extent to which the service organization's internal controls are sufficient so that the agency and the service organization achieve their objectives and address risks related to the assigned operational process.
- c. Agencies oversight of service organizations can include defined monitoring activities, independent audits or other assessments, or a combination of both.
- d. Agencies must understand the controls that each service organization maintains, as well as how each service organization's internal control system interacts with the agency's internal control system.
- e. Agencies must ensure that proper contingency plans are in place in the event that a service organization's ability to provide services critical to the agency's core functions, processes, or data is compromised.

6. RESPONSIBILITIES.

- a. **Agencies.** Agencies are responsible for:
 - (1) Identifying service organizations within their purview.
 - (2) Evaluating appropriate levels of oversight, as well as determining which monitoring requirements, independent audits, or assessments are needed to confirm the operating effectiveness of a service organization's internal control system.
 - (3) Integrating monitoring, independent audit, and assessment activities into the contract process as appropriate, including:
 - (a) defining required monitoring reports and on-site activities during the procurement process;
 - (b) alerting potential service organizations to the need for independent audits or assessments during the procurement process;

- (c) assessing a potential service organization's ability to provide independent audits or assessments; and
 - (d) including independent audits or assessments in contract requirements.
 - (4) Communicating monitoring, audit, or assessment findings to service organizations.
 - (5) Developing, implementing, and monitoring corrective action plans based on monitoring, audit, or assessment findings, as needed.
 - (6) Developing up-to-date contingency plans for services provided by service organizations that are critical to the agency's core functions, processes, or data.
- b. Office of the Budget, Office of Comptroller Operations.** The Office of Comptroller Operations is responsible for:
- (1) Assisting agencies with determining the most appropriate monitoring, audit, or assessment type needed.
 - (2) Distributing resulting monitoring, independent audits, or assessments to the commonwealth's external auditors as necessary.

7. PROCEDURES. Agencies are to follow these procedures related to service organizations.

a. Identify all service organizations.

- (1) Review all current and future vendor contracts and relationships and determine if each vendor meets the definition of a service organization.
- (2) Maintain a record of each service organization and the services they provide.

b. Determine level of oversight.

- (1) Review services provided by service organizations.
 - (a) Note critical or sensitive services (e.g. financial transaction processing, data processing, or hosting).
 - (b) Note any subservice organizations, as well as the services they provide.
 - (c) Note any Federal oversight requirements.
- (2) Compare services against list of oversight options (see "[Guidance on Oversight Options for Service Organizations](#)").
- (3) Select the most appropriate oversight option.
 - (a) Maintain evidentiary documentation to support their selected oversight option.

- c. Execute oversight plan.
 - (1) Identify vendor reporting requirements based on selected oversight option.
 - (2) Ensure timely service organization reporting.
 - (3) Ensure compliance with contract requirements.
 - (4) Consider including selected oversight option and reporting requirements in the service organization contract.