



# Committee for Senior Business Administrators

## *Segregation of Duties*

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# Segregation of Duties



**Segregation of duties is critical to effective internal control.**

# Roles & Responsibilities – Internal Controls



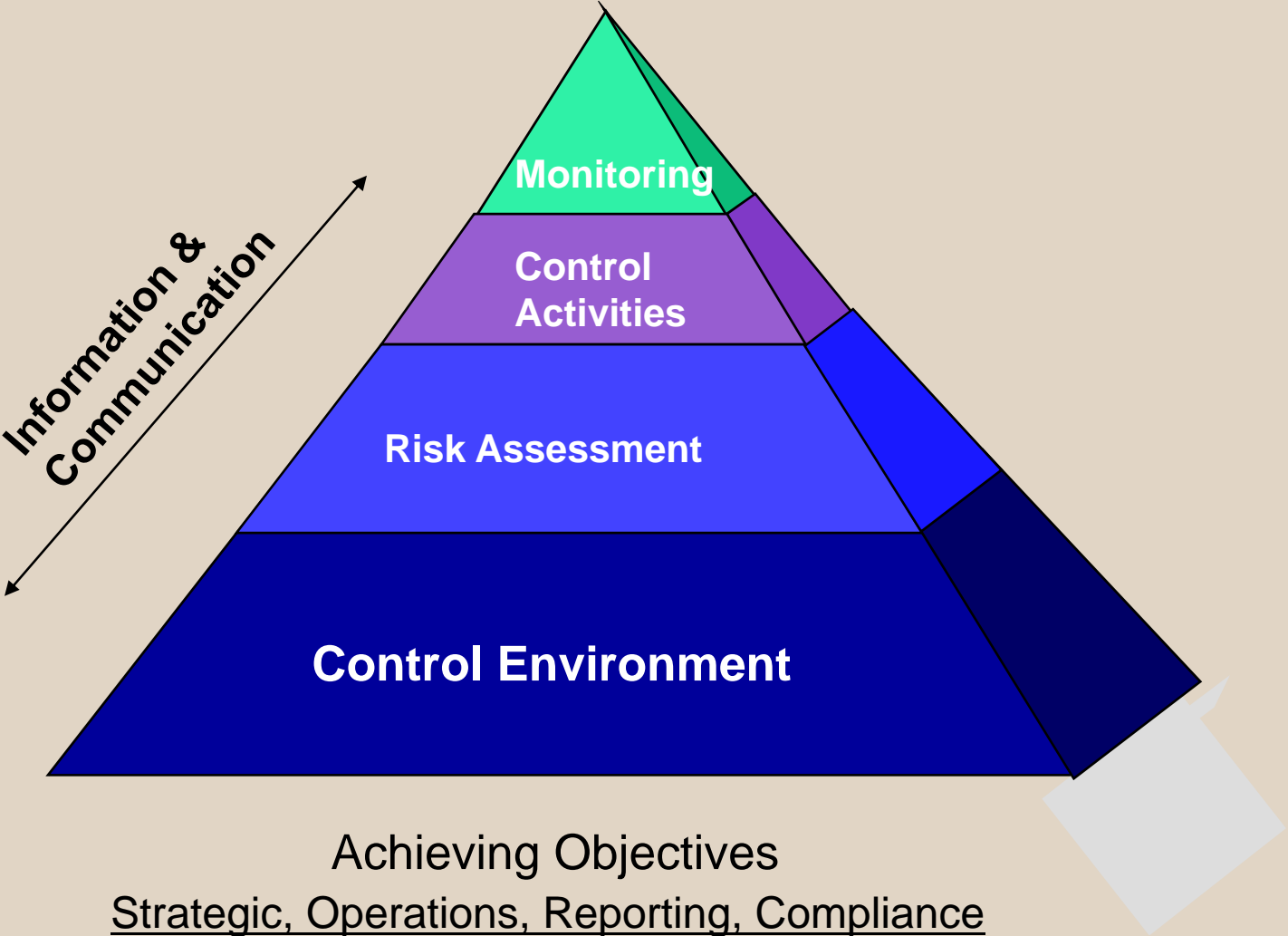
Everyone in an organization has responsibility for internal control.

- **Everyone** is responsible for executing internal control activities and notifying supervisors of weaknesses in, and opportunities to enhance internal controls.
- **Management** is responsible for implementing internal controls.
  - Establish and monitor the operation and effectiveness of controls
  - Ensure appropriate segregation of duties exist between functions
  - Ensure that effective compensating controls are in place when adequate segregation of duties cannot be achieved.
- **Board of Regents** provides guidance and oversight.
- **Internal Auditors** evaluate the effectiveness of control systems, and contribute to ongoing effectiveness.

**Definition:** A *process* effected by an entity's *personnel* (board of directors, management, and other personnel) designed to provide *reasonable assurance* regarding the *achievement of objectives* in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

# Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework



# Control Environment



- Serves as a foundation for the other components and sets the tone for the organization's
  - Integrity
  - Ethical values
  - Competence
- Starts with the attitudes and habits of those in charge
- Establishes a culture of integrity or encourages laxness and dishonesty

# Risk Assessment

- Every organization faces a variety of risks from external and internal sources that must be assessed.
- Risk assessments include identifying, analyzing, and managing risks relevant to the achievement of the organization's objectives.

# Control Activities



- Policies and procedures that help ensure management directives are carried out.
- Control activities occur throughout the organization, at all levels and in all functions.
- Includes activities such as **segregating duties**, performing verifications/reconciliations, reviewing operating performance, securing assets, etc.

# Monitoring



- Ensures that the internal control system continues to operate efficiently and high risk areas are effectively managed
- Can be assessed through:
  - Ongoing monitoring activities such as regular management and supervisory activities; and/or
  - Separate evaluations such as self-assessments.
- Internal control deficiencies are reported to the appropriate management level

# Information and Communication



Ties other components together

- Information is:
  - Delivered to people timely and in an useful format
  - Exchanged up, down, and across the organization and with external parties
  - Provided to help personnel understand their role in the internal control system and how their activities relate to the work of others

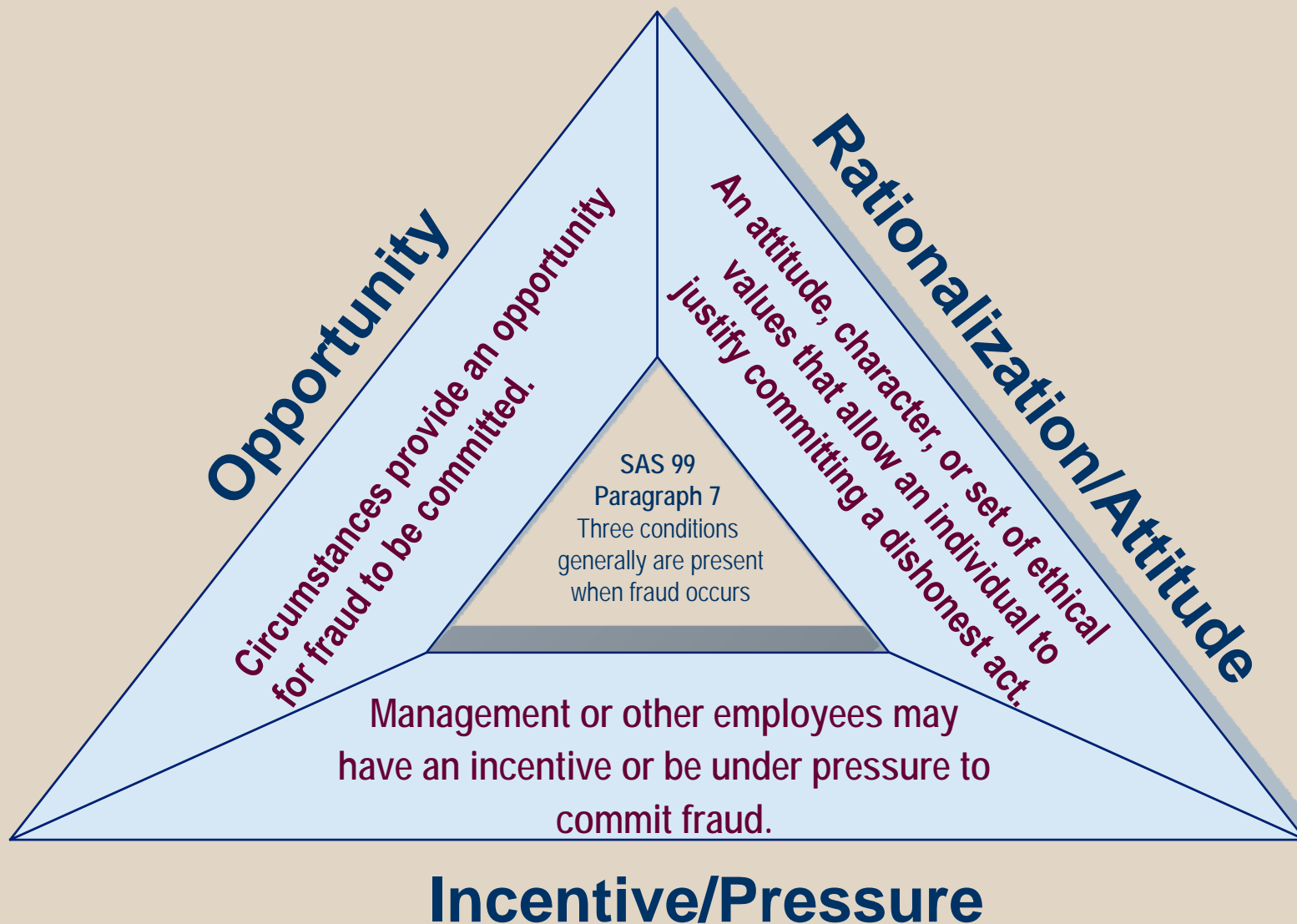
# Segregating Duties and Fraud



- Good internal controls (segregating duties) is the most effective way to deal with fraud.

# The Fraud Triangle

(Source: State Auditor's Office)



# Opportunity

- Opportunities exists due to inadequate internal and/or compensating controls.
  - Lack of segregation of duties
  - Limited or no managerial oversight
- Organizations can control “Opportunity”.

# Typical Profile

- 93% of people who committed fraud had no prior conviction (2008 Report to the Nation on Occupational Fraud and Abuse)
- Is the ideal, indispensable, trusted, long-term employee
- Excellent attendance record
  - Comes to work even when very sick
  - Few days off/doesn't take long vacations
  - Willing to stay late and work weekends
- Performs job extremely well
- Always willing to take on additional responsibilities

# Why Segregate Duties?



- Segregating duties provides benefits such as:
  - Protects employees by taking away the “Opportunity” side of the Fraud Triangle
  - Deters fraud (it is more difficult to commit fraud when it requires collusion of two or more persons)
  - Increases ability to detect errors/irregularities (more than one individual participates in the transaction process)

# What is Segregation of Duties?



- Functions are divided so that no one person has control over all parts of a transaction or process.
- In general, the following duties should be segregated among different people:
  - Custody of assets
  - Recordkeeping
  - Authorization
- The more negotiable the assets, the greater the need for proper segregation of duties – especially when dealing with cash, negotiable checks, and inventories.

# Custody of Assets

- Custody of assets is the access to or control over physical assets such as cash, checks, equipment, supplies, or materials.
- Examples include:
  - Physical access or handling of cash/checks at any stage in the collection and depositing process (includes transporting deposits).
  - Access to safes, lock boxes, file cabinets or other places where money, checks or other assets are stored
  - Receiving items purchased
  - Maintaining inventories (storage, distributing, etc.)
  - Safekeeping of parking permits, event tickets, etc.

# Recordkeeping



- Recordkeeping is the process of creating and maintaining records of revenues, expenditures, assets, and liabilities. These may be manual records or records maintained in the financial systems.
- Examples include:
  - Preparing vouchers, billings, and requisitions
  - Entering charges or posting payments to an accounts receivable system
  - Maintaining inventory records
  - Creating journal entries
  - Entering hours worked or leave taken
  - Preparing reconciliations/verifications of FAMIS statements

# Authorization



- Authorization is the process of approving transactions by an authorized individual.
- Can be either written or electronic
- Examples include:
  - Signing vouchers or travel reimbursement requests
  - Signing leave or payroll documents
  - Signing work orders or service requests
  - Signing purchase requisitions
  - Approving write-offs or adjustments
  - Initiating/authorizing a departmental purchase
  - Sending e-mails authorizing a transaction (i.e., transfers between accounts)

# Incompatible Duties



- Incompatible duties exist when one person performs more than one of the three duties – custody of assets, recordkeeping, and authorization.
- Typically exist in smaller organizations - the smaller the organization, the more difficult to implement segregation of duties.

# Incompatible Duties – Revenues



## Examples:

- Receiving cash/checks (payment on account) and posting the payment on the accounts receivable accounting records (custody of assets and recordkeeping).
- Receiving cash/checks (payment on account) and approving write-offs on accounts (custody of assets and authorization).
- Receiving cash/checks and preparing customer invoices (custody of assets and recordkeeping).
- Depositing cash/checks and reconciling FAMIS statements (custody of assets and recordkeeping).
- Supervisor who reconciles the FAMIS statements is the back-up for employees who collect and prepare deposits (recordkeeping and custody of assets).

# Incompatible Duties - Expenditures



## Examples:

- Authorizing an expenditure and receiving the asset that was purchased (authorization and custody of assets).
- Approving one's own payroll, travel expenses, or other reimbursements (authorization and custody of assets).
- Using the Purchasing Card and reconciling the statements (authorization, custody of assets and recordkeeping).
- Approving payroll documents and distributing payroll checks (authorization and custody of assets).

# Incompatible Duties – Inventory

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## Examples:

- Receiving inventory items and maintaining inventory records (custody of assets and recordkeeping).
- Receiving cash/checks for the sale of items and performing the inventory count (custody of assets and recordkeeping).

# Incompatible Duties – Information Technology



## Examples:

- Having supervisory access rights in the departmental bookkeeping system and on occasion backs up the person who collects and prepares deposits (authorization and custody of assets).
- Making an adjustment and having the ability to delete the logs that tracked the activity (recordkeeping and authorization).
- Having supervisory access rights and physical access to departmental inventories, assets, and/or equipment (authorization and custody of assets).

# Compensating Controls



- Compensating controls are procedures designed to reduce the risk of errors or irregularities in those instances where duties cannot be fully segregated and requires a second person (i.e., supervisor) to perform a detailed review.
- This can be done through:
  - Inquiry and observation (i.e., asking questions, performing surprise cash counts, physically observing the items purchased, verifying the number of inventory items, etc.)
  - Reasonableness tests ( i.e., for the collection of conference registration fees, compare sign-in sheets to cash deposited.)
  - Reviewing exceptions or transactions that appear out of the norm.

# Reviewing Segregation of Duties in Your Department



- Review each type of process (i.e., revenues, expenditures, inventory, payroll, etc.)
  - Document the procedures in the process and who performs each duty
  - Categorize each duty as Custody of Assets, Recordkeeping, or Authorization (color code)
  - Determine if there are incompatible duties (one person performing two or more)
  - If duties are not segregated, change the process by:
    - Segregating duties by adding another person to the process and/or realigning duties among the current personnel
    - Implementing compensating controls

# Inventory Example



ABC Department purchases laptops and portable printers for their graduate students.

Process: IT Technician researches and recommends which laptops and printers to purchase. Based on the IT Technician's approval, the Administrative Assistant initiates the order and enters information in FAMIS. IT Technician receives, sets up, and distributes the laptops and printers. IT Technician receives and manages number of laptops, parts, and printer supplies; and annually inventories computer equipment. Department Head signs vouchers and approves the annual inventory certification. The Department Head reviews reconciliations prepared by the Administrative Assistant.

# Inventory Example



## IT Technician

Authorizes purchase of computers and printers

Receives and sets up laptops and printers

Distributes the laptops and printers to students

Receives and manages number of laptops, parts, and printer supplies

Performs the annual physical inventory of computer equipment

## Administrative Asst.

Enters purchase requisition in FAMIS

Reconciles the FAMIS account

## Department Head

Signs voucher in FAMIS

Reviews and signs the FAMIS account reconciliation

Signs the annual inventory certification

# Inventory Example



## IT Technician

**Authorizes purchase of computers and printers**

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Enters purchase requisition in FAMIS

Reconciles the FAMIS account

Blue – Custody of Assets  
Green – Recordkeeping  
Red - Authorization

## Department Head

**Signs voucher in FAMIS**

**Reviews and signs the FAMIS account reconciliation**

**Signs the annual inventory certification**

# University Risk and Compliance (URC)



## Questions?

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