

2010

# SEGREGATION OF DUTIES

SOLANO COUNTY

INTERNAL AUDIT DIVISION



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# SEGREGATION OF DUTIES

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## SEGREGATION OF DUTIES DEFINED

Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. Adequate segregation of duties reduces the likelihood that errors both intentional and unintentional, will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed.

The basic idea underlying segregation of duties is that no employee or group should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated are:

- Custody of assets
- Authorization or approval of related transactions affecting those assets
- Recording or reporting of related transactions
- Execution of the transaction or transaction activity

A detailed supervisory review of related activities is required as a compensating control activity if these functions cannot be separated in smaller departments.

No one person should:

- Initiate a transaction
- Approve a transaction
- Record a transaction
- Reconcile balances
- Handle assets
- Review Reports

**Note:** At least two sets of eyes are required for any transaction!



## REQUIREMENT FOR SEGREGATION OF DUTIES (SOD) CONSIDERATIONS

Ironically, no internal control audit standard or accounting pronouncement prescribes specific SOD requirements. However, maintaining a system of effective internal control does require appropriate separation of responsibilities. If internal control is to be effective, there needs to be an adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. In general, the flow of transaction processing and related activities should be designed so that the work of one individual is either independent of, or serves to check on, the work of another. Such arrangements reduce the risk of undetected error and limit opportunities to misappropriate assets or conceal intentional misstatements in the financial statements. SOD serves as a deterrent to fraud and concealment of error because of the need to recruit another individual's cooperation, via collusion, to conceal it.

At the most basic level, segregation of duties means that no single individual should have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure a crosscheck of duties.

If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities, they have generally been assigned or allowed access to incompatible duties or responsibilities. Some examples of incompatible duties are:

<b>An Employee who...</b>	<b>Should not...</b>
<b>Opens mail and endorses checks</b>	Handle cash receipts
<b>Prepares a document</b>	Approve that same document
<b>Handles cash receipts</b>	Endorse checks Maintain petty cash funds Receive deposit slips or corrections from bank
<b>Prepares bank deposits</b>	Receive deposit slips or corrections from bank Verify cash receipts Maintain petty cash fund Perform audit function

Duties or responsibilities can be broadly classified into:

- ❖ Authorization
- ❖ Custody
- ❖ Record-keeping
- ❖ Reconciliation

In an ideal system, different employees would perform each of these four major functions. In other words, no one person should have control of two or more of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties, especially when dealing with cash, negotiable checks and inventories.

## AUTHORIZATION

Authorization is the process of reviewing and approving transactions or operations.



*Some examples are:*

- *Verifying cash collections and daily balancing reports.*
- *Approving purchase orders.*
- *Approving time sheets, payroll certifications, leave requests and cumulative records.*
- *Approving change orders, computer system design or programming changes.*

Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

Authorization or approval is an important control activity. Authorization is the delegation of authority; it may be general or specific. Giving a department permission to expend funds from an approved budget is an example of general authorization. Specific authorization relates to individual transactions; it requires the signature or electronic approval of a transaction by a person with approval authority. Approval of a transaction means that the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate, accurate and complies with applicable laws, regulations, policies, and procedures. **Approvers should review supporting documentations, question unusual items, and make sure that necessary information is present to justify the transaction before they sign it. Signing blank forms should never be allowed.**

Approval authority may be linked to specific dollar levels. Transactions that exceed the specified dollar level would require approval at a higher level. **Under no circumstance should an approver tell someone that they could sign the approver's name on behalf of the approver. Similarly, under no circumstance should an approver with electronic approval authority share his password with another person.** To ensure **proper segregation of duties**, the person initiating a transaction should not be the person who approves the transaction. A department's approval levels should be specified in a departmental policies and procedures manual.

## CUSTODY

Custody is the process of having access to, or control over, any physical asset such as cash, checks, equipment, supplies, or materials.



*Some examples are:*

- *Access to any funds through the collection of funds or processing of payments.*
- *Access to safes, lock boxes, file cabinets, etc.*
- *Custodian of a petty cash fund*
- *Receiving any goods or services*
- *Handling or distributing paychecks*

Liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposition. Typically, access controls are the best way to safeguard these assets.

### *Separation of the custody of assets from accounting*

This practice reduces temptation and fraud. For example, the bookkeeper should not handle cash, and the cashier should not have access to ledger accounts.

In a computerized system, a person with custody of assets should not have access to programming or any input records. Similarly, an individual who handles programming or input records should not have access to tempting assets.

### *Separation of authorization of transactions from the custody of related assets*

To the extent feasible, persons who authorize transactions should not have control over the related asset. For instance, the same individual should not authorize the payment of a supplier's invoice and also sign the check in payment of the bill. Nor should an individual who handles cash receipts have the authority to indicate which accounts receivable should be written off as uncollectible.

## RECORD-KEEPING

Record-keeping is the process of creating and maintaining records of revenues, expenditures, inventories and personnel transactions. These may be manual records or records maintained in automated computer systems.



*Some examples are:*

- *Preparing cash receipt back-ups or billings, purchase requisitions, payroll certifications and leave records.*
- *Entering charges or posting payments to accounts receivable system.*
- *Maintaining inventory records.*

Documentation and record retention is to provide reasonable assurance that all information and transactions of value are accurately recorded and retained. Records are to be maintained and controlled in accordance with the established retention period and properly disposed of in accordance with established procedures.

## RECONCILIATION

Reconciliation is verifying the processing or recording of transactions to ensure that all transactions are valid, properly authorized and properly recorded on a timely basis. This includes following-up on any differences or discrepancies identified.

*Some examples are:*

- *Comparing billing documents to billing summaries*
- *Comparing funds collected to accounts receivable postings*
- *Comparing collections to deposits*
- *Performing surprise counts of funds*
- *Comparing payroll certifications to payroll summaries*
- *Performing physical inventory counts*
- *Comparing inventory charges to amounts purchased*
- *Reconciling departmental records of revenue, expenditures and payroll transactions to management reports.*



# Segregation of Duties Checklist



Business Cycle

# Cash Receipts



Process	Control Considerations	Recommendation
Payments Received	<p>Does the employee responsible for <b>opening payments/remittances</b> also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Record payments</li> <li>• Record or authorize write-offs or adjustments to customer accounts in the accounts receivable ledger</li> <li>• Reconcile the bank account(s).</li> </ul> <p>Does the employee responsible for <b>preparing the deposit</b> also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Record payments</li> <li>• Record or authorize write-offs or adjustments to customer accounts in the accounts receivable ledger</li> <li>• Reconcile the bank account(s).</li> </ul>	<p>The employee who is responsible for the receipt of cash <b>should not</b> have access to record or authorize transactions in the accounts receivable ledger and customer accounts. In addition, the person receiving the cash or preparing the deposit <b>should not</b> be responsible for recording cash transactions or preparing the bank reconciliation.</p> <p>The employee preparing the deposit <b>should not</b> be responsible for recording cash transactions in the accounts receivable ledger and customer accounts. In addition, the bank reconciliation <b>should be prepared by an employee who is not involved in cash receipt or cash disbursement activities.</b></p>

To enhance controls over the cash receipt process, the following compensating controls can be utilized:

- ✓ A lockbox system should be implemented to receive customer payments.
- ✓ Two employees should receive and open customer payments, create a listing of customer payments and prepare the deposit.
- ✓ Daily reconciliations of cash receipts to bank deposits, including lockbox receipts, should be performed.
- ✓ An employee who is independent of the cash receipts and deposit process should perform a detailed review of the accounts receivable aging or trial balance.
- ✓ **Internal audit** or an employee who is independent of the cash receipts process should periodically confirm accounts receivable balances with customers.



Process	Control Considerations	Recommendation
Adjustments	<p>Is the employee responsible for initiating adjustments to customer accounts be able to both record as well as authorize the adjustments to the customer accounts?</p> <p>Does the employee responsible for initiating and/or recording adjustments to customer accounts also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Receive customer payments</li> <li>• Prepare the deposits</li> </ul>	<p>Adjustments and write-offs to customer accounts should be reviewed and approved by an employee who does not have responsibility for recording these transactions. In addition, this employee should not be responsible for preparing the reconciliation of the accounts receivable subsidiary ledger to the general ledger account balance.</p> <p>Employees responsible for recording adjustments to customer accounts <b>should not</b> have access to customer payments or prepare the deposit.</p>
Bank Reconciliations	<p>Does the employee responsible for preparing bank reconciliations also have any of the following cash receipt or disbursement responsibilities:</p> <ul style="list-style-type: none"> <li>• Receive cash receipts</li> <li>• Prepare cash deposits</li> <li>• Generate or print checks</li> <li>• Execute or authorize wire transfers</li> <li>• Sign checks</li> <li>• Have access to blank check stocks</li> <li>• Review and approve the bank reconciliation</li> </ul>	<p>The preparer of bank reconciliations <b>should not</b> have the responsibility for recording cash receipt or disbursement transactions. In addition, bank reconciliations should be reviewed and approved by an employee other than the preparer. As a best practice, the reviewer should be in a supervisory-level position.</p>

To enhance controls over the bank reconciliation process, the following compensating controls can be utilized:

- ✓ Perform a review of cash receipt and cash disbursement entries in the general ledger.
- ✓ Perform a regular analytical review of the cash receipts and disbursements entries.
- ✓ Compare cash receipts and disbursement amounts to budgets.



Process	Control Considerations	Recommendation
<p>Purchasing</p>	<p>Does the employee initiating the purchase requisition also have the authority to approve the purchase requisition?</p> <p>Are the employees responsible for initiating a purchase requisition also responsible for initiating the purchase order presented to the vendor?</p> <p>Are the employees responsible for initiating the purchase order also responsible for reviewing and authorizing the purchase order?</p>	<p>Purchase requisitions should be reviewed and approved by someone other than the employee initiating the purchase requisitions.</p> <p><b>NOTE:</b> Purchase requisitions are an internal purchase request that is sent to the purchasing department. Purchase orders are documents sent to vendors by the purchasing departments.</p> <p>Purchase orders should only be generated by employees in the purchasing department. These employees should not have access to generate or authorize purchase requisitions.</p> <p>Employees responsible for authorizing purchase orders should not have access to initiate these purchase orders.</p>

A supervisory-level employee independent of the purchasing function reviews a report of total purchases as well as purchases over a predetermined threshold amount from new vendors. This report should be generated outside of the purchasing function.

A system report of all purchase orders issued to vendors should be generated and reviewed by a supervisory-level employee who is not involved in initiating purchase orders with vendors.

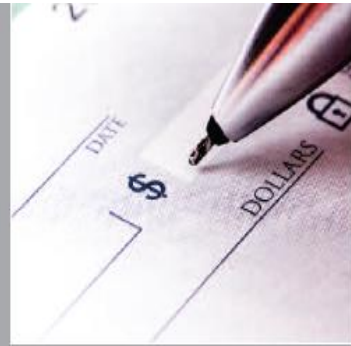


Process	Control Considerations	Recommendation
Purchasing	<p>Do the same employees who are responsible for initiating or approving a purchase order also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Modify the Vendor Master File</li> <li>• Records vendor invoices in the cash disbursement system</li> <li>• Receive vendor goods physically or in the system</li> <li>• Modify inventory records</li> <li>• Reconcile inventory records.</li> </ul> <p>Are the same employees responsible for approving the purchase order also responsible for approving the vendor invoice for payment?</p>	<p>Employees involved in the purchasing function <b>should not</b> have record-keeping responsibilities in the cash disbursement system. Specifically, these employees should not be able to modify the Vendor Master File, record vendor names, receive goods, reconcile or write-off inventory or obtain custody of inventory either directly or by influencing the shipment of inventory.</p> <p>Employees involved in the purchasing process should not be responsible for approving vendor invoices. Instead, this approval should be restricted to the employee who initiated and authorized the purchase requisition or a person independent of the purchasing function.</p>
Receiving	<p>Do employees involved in receiving the goods from the vendor also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Involved in the purchasing process (authorization or record-keeping responsibilities)</li> <li>• Modify the Vendor Master File or any relevant record-keeping function</li> <li>• Record invoices</li> <li>• Record returns</li> </ul>	<p>Employees who are responsible for the receipt of goods from vendors should not be involved in the purchasing or cash disbursement process.</p>

To enhance controls over the procurement process, the following compensating controls can be utilized:

- ✓ A system report of purchase orders issued to vendors should be generated and reviewed by a supervisory-level employee who is not involved in initiating purchase orders with vendors.
- ✓ An employee independent of the purchasing process checks the bills of lading to the receiving reports to inventory accounting.

# Cash Disbursements



Process	Control Considerations	Recommendation
Vendor Set-up	<p>Does the employee responsible for Vendor Master File maintenance (i.e., adding, deleting or modifying vendor accounts) also perform:</p> <ul style="list-style-type: none"> <li>• Record vendor invoices</li> <li>• Approve vendor invoices</li> <li>• Print checks</li> <li>• Sign checks</li> <li>• Execute wire transfers</li> <li>• Authorize wire transfers</li> </ul> <p>Is the vendor change report that outlines all changes made to the Vendor Master File for a specified period of time reviewed and approved by someone who does not have responsibility for modifying the Vendor Master File?</p>	<p>The employee with responsibility for modifying the Vendor Master File should not be responsible for entering vendor invoices in the cash disbursement system or have the ability to generate and authorize cash disbursements.</p> <p>The Vendor Master File change report should be reviewed by a supervisory-level employee who does not have access or responsibility to perform these functions.</p>
Cash Disbursements	<p>Do the employees responsible for approving invoices and payments also have the ability to record payables?</p>	<p>Employees responsible for authorizing vendor invoices and payment should not have the responsibility for recording invoices in the cash disbursement system.</p>

To enhance controls over the cash disbursement process, the following compensating controls can be utilized:

- ✓ An employee independent of the accounts payable and disbursement process performs a review of a systems report outlining the Vendor Master File changes.
- ✓ Perform a regular analytical review of the cash disbursements.
- ✓ Require cash disbursement checks to have dual signatures.



Process	Control Considerations	Recommendation
<p>Cash Disbursements</p>	<p>Do the employees responsible for recording vendor invoices have the ability to:</p> <ul style="list-style-type: none"> <li>• Print checks</li> <li>• Sign checks</li> <li>• Access blank check stock</li> <li>• Execute wire transfers</li> <li>• Distribute vendor checks</li> </ul> <p>If a facsimile or check signature stamp is used for signing checks, is the signature stamp maintained by the employee authorized to sign checks?</p> <p>Do the employees responsible for printing checks or who have access to blank check stock also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Create the positive pay file</li> <li>• Transmit the positive pay file to the bank</li> <li>• Have access to bank notifications about discrepancies between the positive pay file and checks presented at the bank</li> <li>• Respond to bank notifications about discrepancies between the positive pay file and checks presented at the bank</li> <li>• Prepare the bank reconciliations</li> <li>• Review and approve the bank reconciliations</li> </ul>	<p>Employees responsible for printing vendor checks <b>should not</b> have responsibility for recording disbursements. In addition, employees responsible for distribution of vendor checks should not be involved in the cash disbursement process.</p> <p>The employee whose name is on the signature stamp should maintain the custody of the stamp in a secure location.</p> <p>Employees responsible for printing vendor checks <b>should not</b> have responsibility for creating and/or transmitting positive pay files to the bank. In addition, they should not be responsible for addressing and resolving bank notifications regarding discrepancies between the positive pay file and the checks presented at the bank. These employees should not prepare or approve the bank reconciliations.</p>

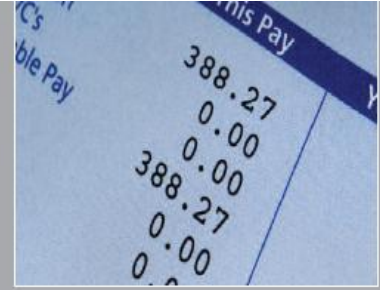


Process	Control Considerations	Recommendation
Cash Disbursement	<p>Do the employees authorized to sign checks also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Create the positive pay file</li> <li>• Transmit the positive pay file to the bank</li> <li>• Have access to bank notifications about discrepancies between the positive pay file and checks presented at the bank</li> <li>• Respond to bank notifications about discrepancies between the positive pay file and checks presented at the bank</li> <li>• Prepare the bank reconciliations</li> <li>• Review and approve the bank reconciliations</li> </ul> <p>Is the employee responsible for creating, transmitting and resolving discrepancies between the positive pay file and the checks presented to the bank involved in any of the following duties:</p> <ul style="list-style-type: none"> <li>• Record vendor invoices</li> <li>• Create the check file</li> <li>• Sign checks</li> <li>• Maintain custody of the signature plate (if one is used)</li> <li>• Have access to the blank check stock</li> </ul>	<p>Employees responsible for signing vendor checks should not have access to create and transmit positive pay files to the bank. In addition, they should not be responsible for addressing and resolving bank notifications regarding discrepancies between the positive pay file and the checks presented at the bank. These employees should also not prepare or approve the bank reconciliations.</p> <p>The employee responsible for the positive pay file should not be involved in recording vendor invoices, nor should they be able to generate or sign checks. In addition, this employee should not have access to the blank check stock or have the ability to initiate wire transfers.</p>
Wire Transfers	Can one employee initiate and approve (release) a wire transfer?	Initiation and approval (release) of wire transfers should be segregated between two employees.



Process	Control Considerations	Recommendation
Wire Transfers	<p>Does the person responsible for approving (releasing) wire transfers also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Prepare bank reconciliations</li> <li>• Review and approve the bank reconciliation</li> <li>• Record invoices in the cash disbursement system</li> <li>• Review and authorize journal entries in the general ledger</li> <li>• Modify the Vendor Master File</li> </ul>	<p>The employee responsible for approving and releasing the wire transfer payments to the vendor should not have responsibility for modifying the Vendor Master File, recording vendor invoices and journal entries, or be involved in the bank reconciliation process.</p> <p><b>NOTE:</b> Best practices suggest a tiered-level approval should be implemented so that wire transfers above a certain threshold are reviewed, approved and released by additional authorizers who have been granted authority in the organization to release payments over that threshold.</p>
Accounts Payable Reconciliation	<p>Is the employee who is responsible for recording accounts payable transactions in the cash disbursement system also responsible for reconciling the cash disbursement sub-ledger to the general ledger?</p> <p>Is the reconciliation of the cash disbursement sub-ledger to the general ledger reviewed and approved by someone other than the preparer of the reconciliation?</p>	<p>An employee who is independent of the cash disbursement process should reconcile transactions to the general ledger.</p> <p>Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.</p>





Process	Control Considerations	Recommendation
Human Resources	<p>Does the employee responsible for initiating modifications (e.g., add/delete employees, charges to employee information) to the Employee Master File also have the ability to approve or record these changes?</p> <p>Do the employees responsible for maintaining the Employee Master File (e.g., adding/deleting employees, changes to compensation) also perform any of the following functions:</p> <ul style="list-style-type: none"> <li>• Make decisions regarding hiring or termination of personnel</li> <li>• Have access to the payroll system (or payroll module)</li> <li>• Involved in the payroll process</li> <li>• Generate payroll checks</li> <li>• Receive payroll checks for distribution</li> </ul>	<p>All changes to the Employee Master File should be reviewed and approved by a supervisory-level employee (other than the employee initiating the change) in the Human Resources department prior to being recorded in the system.</p> <p>Employees responsible for modifying the Employee Master File should not have access to the payroll system, be involved in the payroll process, distribute payroll checks or make hiring or termination decisions.</p>

A system report of all changes to the Employee Master File should be generated for review. A supervisory-level employee who does not have access to modify the Employee Master File should review this report and match the changes to approved Personnel Action Forms.

To enhance the controls over the payroll process, the following compensating controls can be utilized:

- ✓ A supervisory-level employee who is not involved in the payroll process reviews and approves the pre-payment payroll report as well as the final payroll reports after the payroll has been processed.
- ✓ Distribution of payroll checks is conducted by a supervisory-level employee without payroll responsibilities, and checks not distributed are investigated.
- ✓ Gross wages, per the payroll journals and the general ledger, are reconciled to the W-2s.



Process	Control Considerations	Recommendation
Time Entry	Are employees able to review and approve their own hours worked or time entered in the timekeeping system?	Hours worked should be reviewed and approved by the employee's supervisor prior to being recorded or transmitted to the payroll department.
Payroll	<p>Do the same employees responsible for preparing payroll for processing also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Modify the Employee Master File</li> <li>• Approve the payroll</li> <li>• Generate payroll checks</li> <li>• Distribute payroll checks</li> <li>• Receive final payroll reports for review and approval</li> </ul> <p>Does the same employee responsible for reviewing and authorizing the file prepared for processing payroll also perform any of the following functions:</p> <ul style="list-style-type: none"> <li>• Generate payroll checks</li> <li>• Distribute payroll checks</li> <li>• Receive final payroll reports for review and approval</li> </ul> <p>Are undistributed payroll checks and rejected payroll direct deposits investigated and reconciled by a supervisory employee outside of the payroll function in a timely manner?</p> <p>Does the employee responsible for reconciling the general ledger to the payroll system also have the ability to record entries in or make adjustments to the payroll system?</p>	<p>The file prepared for processing payroll should be reviewed and approved by an employee who is not involved in the preparation of this payroll file or part of the human resources function.</p> <p>A supervisory-level employee who is separate from the payroll processing and human resources functions should receive and review the payroll reports and payroll checks for distribution.</p> <p>Employees not involved in the payroll or human resources function should maintain custody as well as investigate and reconcile the returned payroll checks.</p> <p>Reconciliations should be performed by an employee who does not have modification rights to the payroll system.</p>



Process	Control Considerations	Recommendation
Payroll	Does the employee responsible for recording the payroll expense entry in the general ledger perform any of the following functions: <ul style="list-style-type: none"><li>• Modify the Employee Master File</li><li>• Prepare or authorize payroll</li><li>• Generate payroll checks</li><li>• Distribute payroll checks</li></ul>	An employee outside of the payroll and human resources functions should post the payroll journal entry to the general ledger.

# Fixed Assets



Process	Control Considerations	Recommendation
<p>Fixed Assets</p>	<p>Are the employees responsible for approving the purchase or disposal of the fixed assets responsible for any of the following functions:</p> <ul style="list-style-type: none"> <li>• Record the transaction (e.g., add, delete, write-off or dispose assets) in the fixed asset ledger</li> <li>• Determine the useful life of the fixed assets</li> <li>• Determine the company's depreciation policy</li> <li>• Record or adjust the calculated depreciation on the fixed asset</li> <li>• Disposal of the fixed asset</li> </ul> <p>Are employees with physical custody of fixed assets able to dispose of the assets without review and authorization from a supervisory-level employee?</p> <p>Are the employees with access to fixed assets responsible for periodic physical counts of the fixed assets?</p>	<p>Employees responsible for purchases or disposals of fixed assets should not have access to record transactions in the fixed asset ledger.</p> <p>The useful life of the fixed asset should be determined based on the generally accepted accounting principles and entered in the system by a finance employee responsible for maintaining the fixed asset ledger.</p> <p><b>NOTE:</b> In the event that the computerized fixed asset system calculates the depreciation based on useful life by asset category, access to the master files of asset categories and depreciation tables should be restricted to an employee who is not responsible for authorizing, recording or reconciling fixed assets.</p> <p>Fixed asset disposals should be made after review and authorization from a supervisory-level employee.</p> <p>Periodic physical counts of fixed assets should be conducted by employees without record-keeping or authorization responsibilities.</p>



Process	Control Considerations	Recommendation
Fixed Assets	<p>Is the employee who records adjustments related to discrepancies between the physical count and the fixed asset system also responsible for any of the following functions:</p> <ul style="list-style-type: none"> <li>• Reconcile the fixed asset system to the physical count</li> <li>• Authorize purchases or disposals of inventory</li> <li>• Maintain physical custody of fixed assets</li> </ul> <p>Does the employee who is responsible for the maintenance of the fixed asset system also reconcile the general ledger to the fixed asset system?</p> <p>Is the reconciliation of the fixed asset system to the general ledger reviewed and approved by someone other than the preparer of the reconciliation?</p>	<p>Adjustments to the fixed asset system should be reviewed and approved by a supervisory-level employee who is not involved in the physical count of the fixed assets and maintenance of the fixed asset system.</p> <p>The reconciliation of the general ledger fixed asset balance to the fixed asset system should be completed by someone who does not maintain the fixed asset system.</p> <p>Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.</p>

To enhance controls over the fixed asset process, the following compensating controls can be utilized:

- ✓ A system report of all fixed asset additions and disposals is generated for review and approval by a supervisory-level employee who is not involved in decisions about the purchase and disposals of fixed assets. This employee should not have access to record transactions in the fixed asset or general ledgers.
- ✓ An employee who does not have record-keeping or purchase/disposal authorization performs a periodic reconciliation of physical fixed assets to the general ledger.
- ✓ A system report of all fixed asset additions and disposals is generated for review and approval by a supervisory-level employee who is not involved in decisions about the purchase and disposal of fixed assets. This employee should not have access to record transactions in the fixed asset or general ledgers.
- ✓ A system report of all adjustments recorded to the fixed asset system is generated for review and approval by a supervisory-level employee who is not involved with the physical count or maintenance of the fixed asset system.
- ✓ The reconciliation of the general ledger to the fixed asset system should be reviewed and approved by a supervisory-level employee who is not involved in recording, authorizing or reconciling fixed assets.

# Treasury and Investments



Process	Control Considerations	Recommendation
<p>Treasury</p>	<p>Is the employee who initiated requests to open bank accounts able to authorize such requests with the bank?</p> <p>Is the employee who coordinates and opens bank accounts able to authorize changes in bank signatories and the authorization levels of those signatories?</p> <p>Can someone outside of the Treasury department open and establish bank accounts in the company name?</p> <p>Is the employee responsible for opening and establishing bank accounts also responsible for ensuring that new bank accounts are entered in the general ledger?</p> <p>Can the employee responsible for establishing bank accounts also perform any of the following functions:</p> <ul style="list-style-type: none"> <li>• Record transactions in the general ledger</li> <li>• Receive cash</li> <li>• Generate cash disbursements</li> <li>• Initiate and authorize wire transfers</li> <li>• Prepare bank reconciliations</li> </ul>	<p>Bank resolutions should indicate that two members of the senior management team must authorize the opening of bank accounts.</p> <p>All changes to bank accounts must be authorized by the employees identified in the bank resolutions.</p> <p>Establishment of all bank accounts should be coordinated by authorized personnel in the Treasury department.</p> <p>The bank should be asked to forward the confirmation of new accounts to the Treasury department as well as to a Senior member of the finance team.</p> <p>The employee responsible for establishing bank accounts should be restricted from recording transactions in the general ledger and preparing the bank reconciliations.</p>



Process	Control Considerations	Recommendation
<p>Investments</p>	<p>Are banks and investment vehicles that are identified for use reviewed and authorized by someone other than the employee responsible for corporate investments?</p> <p>Can the employee responsible for corporate investments initiate and authorize these transactions?</p> <p>Is the employee responsible for recording investment transactions also responsible for initiating and authorizing these transactions?</p> <p>Are investments maintained by someone who is not involved in any of the following duties:</p> <ul style="list-style-type: none"> <li>• Initiate investment transactions</li> <li>• Authorize investment transactions</li> <li>• Record investment transactions</li> <li>• Reconcile investment transactions to the general ledger</li> </ul> <p>Does the employee responsible for reconciling investment accounts also perform any of the following functions:</p> <ul style="list-style-type: none"> <li>• Initiate investment transactions</li> <li>• Authorize investment transactions</li> <li>• Record investment transactions</li> <li>• Maintain investments</li> </ul>	<p>Bank and investment venues selected by the Treasury department should be reviewed and approved by a member of the senior management team prior to being utilized.</p> <p>Corporate investments should be reviewed and approved by a member of the senior management team prior to investing funds.</p> <p>Investment activity should be recorded in the general ledger by someone other than the employee responsible for initiating and authorizing these transactions.</p> <p>An employee who is involved in investment reconciliation should be independent of the investment process. This employee should not have custody of investment assets, initiate or authorize investment transactions or be responsible for recording these transactions in the general ledger.</p>

Business Cycle

# Financial Statement Close Process



Process	Control Considerations	Recommendation
<p>Modifications to General Ledger</p>	<p>Does the employee who inputs modifications such as adding, deleting or mapping general ledger accounts to financial statements also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Maintain ownership of the accounts (i.e., responsible for general ledger account reconciliation)</li> <li>• Record or authorize transactions in the general ledger</li> <li>• Approve changes to the chart of accounts or the account mapping</li> </ul>	<p>Accounting department personnel as well as the Controller should but have access to modify general ledger accounts or the mapping of these accounts to the financial statements. The access to modify the chart of accounts should be restricted to the IT department. However, all such requests should be approved by the Controller.</p>
<p>Recording and Authorization of Journal Entries</p>	<p>Does the employee responsible for initiating and preparing journal entries also perform any of the following duties:</p> <ul style="list-style-type: none"> <li>• Record journal entries</li> <li>• Authorize journal entries</li> <li>• Prepare account reconciliations</li> </ul> <p><b>NOTE:</b> In some general ledger systems, the ability to initiate and record a journal entry cannot be segregated. In these instances, the approval of journal entries recorded in the system is often manual and occurs after the journal entry has already been recorded in the general ledger. In these instances, it is important that a compensating control is implemented.</p>	<p>The employee responsible for preparing and/or initiating a journal entry in the accounting system should not have responsibility for recording or approving journal entries.</p>





Process	Control Considerations	Recommendation
<p>Consolidations</p>	<p>In a decentralized organization, does the individual responsible for preparing the consolidated financials have the ability to modify, prepare or approve the subsidiary level general ledger and financial statements?</p> <p>Does the individual responsible for preparing the financial statements also responsible for giving the final approval on the financial statements?</p>	<p>Subsidiary financial packages should be reviewed and approved by management at the subsidiary level and provided to the consolidating entity for consolidation. The individual responsible for consolidation should not have ability to:</p> <ul style="list-style-type: none"> <li>• Prepare subsidiary financial statements</li> <li>• Modify subsidiary ledgers</li> <li>• Approve subsidiary financial statements</li> </ul> <p>Consolidated financial statements should be prepared by someone at the consolidating entity level and provided to a superior for review and approval.</p>

## **SOURCES**

*Simplifying Segregation of Duties*, [www.theiia.org](http://www.theiia.org)

*Segregation of Duties (Preventive & Detective)*, <http://map.ais.ucla.edu>

*Internal Control: The Importance of Segregation of Duties*, <http://basiccollegeaccounting.com>

*Segregation of Duties Checklist*, <http://www.bdo.com/resources/thought-leaders/SegDutiesChecklist-19.pdf>