Learning Objectives

• Attain an understanding of:
  • Concept of Segregation of Duties
  • How the concept is applied at the University

• Practical application
Definitions

- **Internal Controls** – Activities to give reasonable assurance things are happening as intended.
- **Compensating Control** – Additional procedures required when internal controls are not as strong as desired.
- **Segregation of Duties** – A means to separate financial activities among different people so no one person has more than one duty in a process.
Definitions

- **Authorization** – Giving someone permission to initiate or record a financial transaction.
- **Recording** – Entering financial transactions into the accounting records.
- **Custody** – Access to or control over physical assets such as cash, checks and equipment.
- **Verify/Reconcile** – Process that confirms accuracy and validity of accounting transactions.
Definitions

• **Managerial Review** – Review of the accounting records to assure transactions have been properly authorized and recorded in the financial systems.

• **Feeder System** – A database and/or system that controls information to be transmitted to the University’s financial system.
Internal Controls

• Everyone is responsible for Internal Controls
• Segregation of Duties a Critical component
• Provides two benefits:
  • Mitigates risk of fraud
  • Detection of errors or irregularities
Segregation of Duties

• Optimally, one person should only have one of these responsibilities:
  • Authorization
  • Recording
  • Verification
  • Custody of assets
  • Managerial review
Segregation of Duties

• When less than optimal segregation exists, compensating controls must be in place
• Compensating controls include:
  • More detailed reviews
  • More frequent managerial review
  • Share resources with other departments
Authorization

• Appointed individual who:
  • Can initiate or execute transactions for the University
• Indicates the transaction meets accounting and compliance requirements
• Within functional purpose of area
• Is aware of budget availability
Authorization

• Authorization must be documented and must be reproducible.
• Unacceptable forms of documentation:
  • Verbal
  • Signature Stamps
• Input to feeder systems maintained by the system owner
Authorization

• Individuals cannot authorize transactions for their own direct benefit, such as:
  • Travel reimbursements
  • Expense reimbursements
FAQ’s – Authorization

• Does a manager’s email requesting items be ordered meet the requirements for authorization?

  • Yes. The email is an authorization to initiate the transaction.
  • Retain the email as documentation.
FAQ’s – Authorization

• Does a manager’s verbal request to order items meet the requirements for authorization?
  • No. Written documentation or an email is needed to authorize the transaction and must be retained.
FAQ’s – Authorization

• *Does a manager’s request in a department meeting satisfy the requirements for authorization?*
  
  • Yes, if meeting notes are documented and distributed.
  
  • The distributed minutes serve as authorization for the purchase.
FAQ’s – Authorization

• Does a manager’s signature stamp on a document meet the requirements for authorization?
  • No. Request a written signature or email to initiate the transaction.
  • Retain documentation as authorization.
FAQ’s – Authorization

• *Does a manager’s unsigned fax meet the requirements for authorization?*
  
  • No. Request a signature on the fax as it could have been sent by anyone.
  
  • Retain the signed fax as authorization for the purchase.
FAQ’s – Authorization

• **How are frequently purchased items authorized? (e.g. office supplies)**
  • Documented via:
    • signed non-PO vouchers,
    • E-pro/Show-Me-Shop approval
    • email authorizing specific transactions, or
    • initiation by the P-card holder.
Recording

Process of creating and maintaining financial records

Examples:

• Preparing CRR/ARR
• Journal entries
• Inputting time/absences into Payroll
• Correcting payroll entries (PCE)
• Entering Vouchers
FAQ’s – Recording

• Can the same individual authorize, record, and verify transactions?
  • Not recommended, but yes. There must be a significant reliance on the managerial review.
    • More frequently, at least monthly.
    • Must be thorough enough to identify errors and irregularities.
Verification

Confirms accuracy and timeliness of recorded accounting transactions:

- Authorization is documented
- Accurate ChartFields
- Accurate accounting period
- Amounts are correct

Verifier must resolve identified differences

Individuals should not verify transactions they authorized
Verification

• Examples of techniques
  • Use the transaction checklist
  • Compare cash receipts log to accounts receivable postings
  • Compare payroll reports to General Ledger
  • Perform physical inventory counts

• Confirms segregation of duties between recording and authorization

• Documented with signature and date
  • Can be electronic or paper
FAQ’s – Verification

• *What should verification include?*

  • Key aspects of verification include:
    • Accurate use of ChartFields including account, accounting periods, and amount
    • Proper authorization of the transaction
    • Documentation of verification - sign and date
    • Electronic or paper
FAQ’s – Verification

• How should verification be documented?
  • Verification must be documented with a signature—
    • Electronic or manual, and date.
    • Examples include Expense Distribution Reports or electronic signature on the transaction checklist.
  • Discuss alternative methods with the Accounting Office.
FAQ’s – Verification

• How often should verification be performed?
  • Verification should be performed *monthly*.
  • Per **BPM 213**, corrections should be made within two accounting periods after the end of the month in which the original transaction posted.
FAQ’s – Verification

• Can the same person who authorizes perform the verification?
  • Not recommended. These two activities should be done by different people to segregate duties.
Custody of Assets

• Access to or control over physical assets

• Examples:
  • Inventory for resale
  • Cash, checks, a safe where money is stored
  • Event tickets
  • Parking permits
  • Intellectual property - data or research
Managerial Review

Provides assurance that controls are in place and operating as designed

• Appropriate individuals authorized and verified transactions

High level review testing for unusual or unreasonable activity
Managerial Review

• Performed more frequently if authorization and verification are not segregated
• Should not be performed by the person verifying transactions
• Must not be performed by the person recording transactions
• Managers cannot have access to record transactions
Managerial Review

• Detail of review dependent upon environment
  • High level
    • Fluctuation or trend analysis
    • Review of Budget Variance reports
    • Review of output from Verification process
  • Detail level
    • High level reviews plus
    • Examination of selected detail transactions
Managerial Review

Documentation to print and review:

• Income Statement or Budget Variance,
  AND

• Transaction Checklist
  
  For other options, discuss with your Accounting Office

Documented with signature and date
FAQ’s – Managerial Review

What should the managerial review include?

• A high level review for unusual or unreasonable activity.
• Review for proper authorization and verification of expenses.
• Review documentation to verify duties are segregated.
FAQ’s – Managerial Review

What evidence shows that a managerial review has been completed?

• The manager should print, sign, date and retain the following:
  • Income Statement or Budget Variance AND
  • Transaction Checklist
• Discuss alternative methods with the Accounting Office.
FAQ’s – Managerial Review

What is a “more detailed” review?

• Look at more/all transaction lines for:
  • Appropriate use of ChartFields
  • Authorization
  • Timely corrections
  • Within all policies and procedures
FAQ’s – Managerial Review

How often should a managerial review be performed?

• Quarterly, with optimal or good segregation.
• A more detailed *monthly* review must be performed when segregation of duties is less than optimal or good.
## Degrees of Segregation

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[Download the Chart]

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Conclusion

• Optimally, one person should only have one of these responsibilities:
  • Authorization
  • Recording
  • Verification
  • Custody of assets
  • Managerial review

• Less than optimal segregation requires compensating controls
Knowledge Check

• The following three questions are to reinforce the concepts of this session.
Question 1

• A manager’s verbal request to order items meets the requirements for authorization?
  • No. Written documentation or an email is needed to authorize the transaction and must be retained
Question 2

• The same person who authorizes can perform the verification?

• The correct answer is true. It is allowed, but these two activities are best performed by different people
Question 3

• Select all of the follow that apply:

• How often should a managerial review be performed?
  1. When an internal audit is scheduled.
  2. Quarterly, with optimal or good segregation.
  3. A more detailed *monthly* review must be performed when segregation of duties is less than optimal or good.
  4. Annual but before the close of the fiscal year.
Additional Information

- APM 2.25.55 – Segregation of Duties
- BPM 213 – Adjustment of Income & Expense Items
- Fiscal Misconduct Reporting Line
  https://www.compliance-helpline.com/UM.jsp
- Accounting Policy and Procedure Manual
- Other related training available:
  Financial Compliance Training Website

Please Click Here to Complete the Training Survey