



University of Missouri

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Segregation of Duties

APM 2.25.55

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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

Authorization	Recording	Verification	Managerial Review	Frequency	Detail or High Level
1	2	3	MGR	Quarterly	High Level
1	2	1	MGR	Quarterly	High Level
1	1	2	MGR	Quarterly	High Level
1	2	2	MGR	Monthly	Detailed
1	2	MGR	MGR	Monthly	Detailed
MGR	1	1	MGR	Monthly	Detailed
1	1	1	MGR	Monthly	Detailed
MGR	MGR	MGR	MGR	Unacceptable	
1	MGR	MGR	MGR	Unacceptable	

Download the Chart

Continue

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](#)

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