

Compliance and Ethics Week

Segregation of Duties

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What is Segregation of Duties?

- A fundamental element of effective internal control is the segregation of certain key duties.
- No one individual should be in a position to perpetrate and to conceal errors or fraud in the normal course of his/her duties.

No one person should be able to do
any two of these items:

- Initiate a transaction
- Approve a transaction
- Record the transaction
- Reconcile balances
- Handle assets
- Review reports

Why Segregate?

- Control-driven regulations, like the Uniform Guidance, have imposed an unprecedented rigor around internal controls.
- Assigning excessive business system access enables an individual to execute transactions across an entire business process.

What are the Risks?

- Failure to detect clerical errors
- Difficulty detecting unauthorized transactions
- Potential for fraud

Audit Clerk stole \$208G Poor controls blamed in Rensselaer County

By BRENDAN J. LYONS

Albany

A state audit that began last year after a Rensselaer County billing clerk was accused of embezzling from the Public Health Department indicates the employee may have stolen more than \$208,000 over a nearly six-year period.

The audit, a copy of which was obtained by the Times Union, concludes that inadequate financial controls gave the former employee sole responsibility for collecting and depositing several million of dollars in fees remitted to the county health department's accounting unit between 2007 and 2012.

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“...[I]nadequate financial controls gave the former employee sole responsibility for collecting and depositing several million of dollars in fees remitted to the county health department's accounting unit between 2007 and 2012”

Good Segregation of Duties

- The person who approves the purchase of goods or services is not able to obtain custody of the vendor checks.
- The person who opens the mail and prepares a listing of the checks received is not the person who makes the deposit.
- The person who opens the mail and prepares a listing of checks is not the person who maintains the accounts receivable records.

Challenges to Implementing Segregation of Duties:

- Not enough staff!
- Not enough staff!
- Not enough staff!

Compensating Controls

- Important for management to implement controls to mitigate the risk when adequate segregation of duties is not achievable
- Are not as strong as SOD controls because they generally occur after the fact
- Must be documented that compensating control is in place and functioning

Video Recap

- Gathering ingredients – asset custody
- Preparing the pizza-authorization
- Cook/Put in the oven- record keeping
- Presentation/tasting- Reconciliation

Segregation of Duties



How do I know if I have Segregation of Duties issues?

- Obtain "RF User Security Report" from your campus security administrator
- Review user responsibilities for conflicts which may give a single user too much system access

Examples of Conflicting Responsibilities	How does this conflict create risk?	How might you mitigate this risk?
AP Administrator & Campus Supplier Update	Allows one user the potential to set up a fraudulent vendor and approve an invoice for payment to that vendor	Review of the "RF New Supplier/ New Supplier Site Listing" by an individual who does not have the ability to add a new supplier.
AP Administrator & Purchasing Administrator and/or Purchasing Buyer	Allows one user to generate a fraudulent purchase order and process an invoice for payment without detection	Review of the "RF Summary and Detail Payment Register" by an individual other than the person who input the transaction.
Purchasing Administrator & Campus Supplier Update	Allows one user to generate a purchase order and create a supplier	Review of the "RF New Supplier/ New Supplier Site Listing" by an individual who does not have the ability to add a new supplier.
AR Billing & CR Specialist	Allows one user to modify invoices and cash receipts posted, increasing the risk that controls may be circumvented	Checks should be received and endorsed by a separate individual prior to being given to the CR Specialist for posting.
HRMS Admin or Benefits Administrator & HR/PR Specialist	Allows one user to add a ghost employee, establish a salary, add benefits and divert the paycheck without detection	Review of the "RF Detail Control Register Full Report" by an individual other than the person who input the transaction.

Documentation:

Be sure to maintain evidence that your compensating control is in place so that it is available for review. Documentation may include keeping paper or electronic copies of the information which was reviewed, with a signature or mark and date indicating that it has been reviewed. Documentation may also be in the form of an Excel log indicating the date the information was reviewed and by whom.

For additional resources on Segregation of Duties refer to the following RF policies, procedures and guidelines:

- "Finance Duty Segregation Guidelines"- http://www.rfsuny.org/media/RFSUNY/Procedures/ba_finance-duty-segregation_guid.htm
- "Grants Management (OGM) Billing Duty Segregation Guidelines"- http://www.rfsuny.org/media/RFSUNY/Procedures/ba_grants-management-ogm-billing-duty-segregation_guid.htm
- "Human Resources/Payroll/Labor Distribution Duty Segregation"- http://www.rfsuny.org/media/RFSUNY/Procedures/lab_human-resources-hrms-payroll-labor-distribution-duty-segregation_guid.htm

Questions??

Compliance & Ethics Week
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"Got Ethics"

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