

Segregation (Separation) of Duties

What is segregation of duties?¹

- ✓ Segregation or separation of duties is largely the practice of having different individuals responsible for the authorization, recording, and reconciling/reviewing transactions recorded within the general ledger.
- ✓ Typically viewed as a preventive, separation of duties is done to reduce the risk that errors or omissions will occur.

As one thinks about separation of duties, it is good to examine the transaction cycle and the component parts. It is best to have separation of duties (and at least a separate review) for each component of a cycle. Some duties are separated by requirements of the ORC, while other duties need to be examined at the department level to determine the best way to separate the duties and assignments.

Transaction Cycle

- *Authorization of transaction*
 - Approves billing invoices or voucher/invoice for payment
- *Receives or disburses cash*
 - Receives cash or distributes vendor/payroll checks
- *Records transaction*
 - Enters cash receipts or disbursements into general ledger
- *Reconciliation of transaction accounts*
 - Periodically reconciles cash receipts and disbursement accounts to the cash deposits maintained

Separation of Duties

The ABCs of the separation of duties is where no one individual has a job function in more than one of the following areas:

1. **A**sset handling or disposition, which is having physical access to asset (cash, equipment or checks) or ability to direct use of asset (wire transfer, account adjustment, ordering services, or supplies)
2. **B**ookkeeping or recording of transaction function which is recording cash receipts, disbursements, and/or journal entries into the accounting system
3. **C**omparison or reconciliation transactions within the general ledger for validity and reasonableness

¹ For the full presentation provided during the 2021 Annual Ohio GFOA (Government Finance Officers Association) training by Clark Schaefer Hackett please click on this link. [PowerPoint Presentation \(ohgfoa.com\)](https://www.ohgfoa.com)

Another way to view appropriate segregation of duties is to have no ONE individual perform any task in more than one of the following four duties:

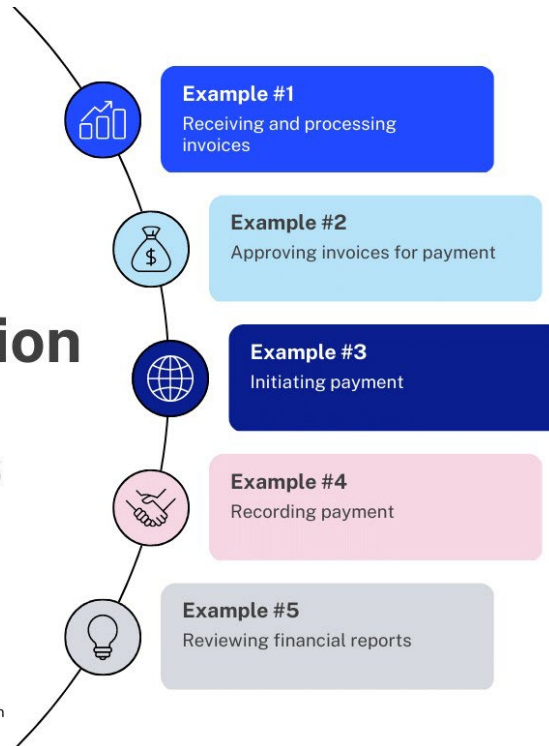
1. Custody of assets
2. Record keeping
3. Authorization of transactions
4. Reconciliation

Segregation or Separation of Duties

Example for cash receipts transaction cycle when two (2) individuals are available (a second individual is sometimes a supervisor and is sometimes not):

Employee A	Employee B
<ol style="list-style-type: none">1) Approves invoices for mailing2) Receives cash3) Records cash receipts in GL4) Enters account adjustments into GL5) Completes monthly bank reconciliation	<ol style="list-style-type: none">1) Reconciles cash drawer and completes bank deposit slip daily2) Authorizes account adjustments to be entered into GL3) Approves billing rates4) Prepares and approves annual budget5) Initiates any interbank transfer6) Reviews monthly bank reconciliation and support7) Reviews monthly financial statements, including actual to expected variances

Segregation of duties examples



Note: You want atleast two sets of eyes on every transaction!

Watch this short webinar prepared by the Ohio Auditor of State [Segregation of Duties \(youtube.com\)](#) and the webinar presentation slides [Microsoft PowerPoint - recorded - Segregation of Duties Client Webinar.pptx \(ohioauditor.gov\)](#).

Examples of Auditor of State – Here are some Special Investigations Unit cases that did not have significant Internal Controls and appropriate Segregation of Duties:

- [Fighting Fraud - Special Investigations Unit Convictions in Ohio](#)
- [Special Investigations Unit Convictions since January 2019](#)

Do you have any questions about how to segregate duties or want some help at the departmental level? If so, contact Bev Hoskinson, Deputy Auditor/Finance Director.