Segregation of duties, an essential control activity

Control activities are policies and procedures put into place to address agency risks. Control procedures (either computerized or manual) are implemented to eliminate, mitigate, or compensate for significant risks identified by management.

One commonly cited control activity is segregation of duties. Segregation of duties provides for an independent check on work performed, and reduces the risk of error or inappropriate employee actions. This separation prevents one person from having responsibility for all aspects of a process or transaction cycle. Incompatible duties are combinations of responsibilities that place a person alone in a position to create and conceal errors, frauds, or misstatements in the course of his or her normal job responsibilities.

Strong segregation of duties involves separating four functional responsibilities:

1. Authorizing or approving transactions
2. Recording transactions in the accounting records
3. Maintaining custody of assets
4. Reconciling or comparing recorded transactions to the related assets

Using purchasing as an example, an employee who approves purchase orders (authorizer) should not enter payments into the accounting system (recorder), receive incoming goods (custodian), or periodically review historic payment reports (reconciler). Ideally, these four responsibilities should be performed by different units, or at least by different people within a unit. If possible, at least four people should be involved in every process to achieve optimal segregation of duties.

There is a convenient method of assessing the adequacy of the segregation of duties in any process. First, list the principal tasks that take place within the process. Next, assign each task to one of the four functional responsibility areas listed above (i.e. authorizer, recorder, custodian, or reconciler). Then, list the employees next to the tasks they are currently assigned. Do you have employees who perform tasks in more than one of the functional responsibility areas? If so, you have incompatible duties in the process. Once incompatible duties have been identified, it is important to reassess the tasks and reassign duties wherever possible to achieve appropriate segregation of duties.

Due to insufficient staff or budget pressures, it may not be possible to assign duties in such a way to achieve maximum segregation of duties. If you have incompatible duties that cannot be remedied, the most important responsibility that must be separated is the reconciliation function. A thorough, periodic reconciliation is often considered to be a compensating or mitigating control when adequate segregation of duties cannot be achieved. Reconciliations should be performed by an independent person at reasonable intervals. Appropriate investigation and action must be taken in respect to any discrepancies or differences uncovered during the reconciliation process.

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