



Date
March 13, 2024

Time
2:20 PM – 3:10 PM

Instructors
Andrée Taylor, MBA, CPA
Quality Assurance/
Research Manager

Location
Live-Streamed and
Onsite at Louisiana State
Police Training Academy

Method of Delivery
Classroom instruction and
Live-streamed

Learning Level
Basic

CPE Hours
1.0 Hours

CPA Subject Matter
Auditing and Accounting

Prerequisite
None

Too Small to Segregate Duties?

Description

Every government in Louisiana, no matter how wide-ranging or narrow its responsibilities, has a primary duty to safeguard the resources entrusted to it. But fear not! Come along as we explore why segregating duties is not an "all or nothing concept" and let's examine the practical steps that we can take to fill in any gaps with oversight controls. Just because your government has a small staff does not mean it is impossible to implement this important internal control!

Objectives

By the end of this session, participants will have a greater understanding of:

- Segregation of duties and how it relates to good internal control
- Key principles of segregating duties
- How to mitigate risk with compensating controls

Who Will Benefit

- Elected Officials/Appointed Officials
- Local Government Employees/Local Government Auditors

About the Instructor

Andrée Taylor has been with the Louisiana Legislative Auditor (LLA) since 2014 and is now the Quality Assurance/Research Manager. Until the summer of 2022, Andrée worked in the area of Local Government Services developing and creating the Center for Local Government Excellence's Training Initiative. Although her main duties are LLA's Quality Control and Peer Review Programs, she continues to be a part of the committee that plans future trainings and presents sessions at these trainings. Prior to working with LLA's Center for Local Government Excellence, Andrée was a Small Business Management Consultant and an Instructor in the Department of Management at Southeastern Louisiana University. Andrée taught courses in Strategic Management, Diversity, Small Business Management, Entrepreneurship and Human Resources.

During the first part of her career, Andrée taught Accounting and Production Operations Management at Nicholls State University and then spent 14 years in medical and pharmaceutical sales. Andrée has a Master's degree in Business Administration with a concentration in Accounting and is a Certified Public Accountant.

Too Small to Segregate Duties?



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Presented by:
Andrée Taylor, MBA, CPA
Quality Assurance/Research Manager



Every government in Louisiana, no matter how wide-ranging or narrow its responsibilities, has a primary duty to safeguard the resources entrusted to it.



Six Golden Rules to Help Protect Your Government's Assets

1. Separate conflicting duties whenever it is feasible with your current staffing levels.
2. When you can't segregate duties, establish properly designed compensating controls that are sufficient to mitigate key areas of risk
3. Document the controls you put into place and include them in policy, so expectations are clear to employees and management alike.

3



Six Golden Rules to Help Protect Your Government's Assets

4. Be ready to incorporate consistent and effective supervision to ensure the controls you put into place are the correct ones and continue to operate effectively.
5. Align user access and permissions in your financial software with the job responsibilities of each user: no more, no less, access than they need to do their jobs.
6. Review and reevaluate the internal controls you've put in place regularly, especially during times of change.

4



Segregation of Duties

- What is “**Segregation of Duties**” ?

Separating or segregating duties involves assigning responsibilities to employees in a manner that reduces risk of fraud or error occurring or going undetected by requiring more than one person to be involved in completing a particular fiscal process.

- Separating conflicting duty assignments can help protect your local government’s assets
- When incompatible overlapping duties are unavoidable, you must rely on controls that compensate for the risks including adequate monitoring and managerial oversight
- Well-designed controls not only help prevent fraud or theft, but also make it easier to catch mistakes and to hold staff accountable should loss or errors occur

5



Importance of Segregation of Duties

- Internal controls and risk mitigation
- Fraud prevention and detection
- Regulatory compliance
- Stakeholder trust and transparency



6



Brief Refresher on Internal Controls

- **Internal controls** are processes put into place by an entity's board, council members, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.
- Effective internal controls are an integral part of an entity's governance system and ability to manage risk.

Anything that helps safeguard assets!



Anything that helps make more effective and efficient use of those assets!



7



Key Principles of Segregation of Duties

- **Custody**---having access to or control over any physical asset
 - Custodians collect and handle payments, prepare deposits, have access to safes, lock boxes and file cabinets where funds are kept
- **Record Keeping**---the process of creating and maintaining official records and it may occur manually or through an automated data system
 - Customer receipts, deposit slips, credit card receipts, cash register reports, EFT (electronic funds) payment documents, balancing and reconciliation reports, record retention
- **Authorization**---the process of granting formal approval to perform a specific function
 - Someone must be authorized in order to perform one of the following functions: verify cash collections, review daily balancing reports, approve discounts, voids or refunds

8



Key Principles of Segregation of Duties

- **Reconciliation**---the process of providing reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting systems
 - **WHAT** should you reconcile? All accounts and transactions
 - Credit card transactions, accounts payable, accounts receivable, payroll, fixed assets, Due to/Due From accounts, special revenue, and other areas against the general ledger, or balance sheet
 - **WHO** should reconcile?
 - Reconciliation should be performed by a person with no cash handling responsibilities
 - The reconciliation must be dated and signed or initialed
 - The reconciliation should be reviewed by an independent party

9



Example of Well-Separated Banking Responsibilities

- Ideally, you would have four different individuals who perform the four banking responsibilities to ensure that each one has been held at arm's length thereby reducing the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process:
 - Holding cash (**Custody**),
 - Adjusting accounting records (**Recording**),
 - Ensuring the deposit has been made correctly (**Reconciliation**), and
 - Transferring funds (**Authorization**)
- Significance in the context of small government organizations
- Connection to governance and accountability

10



Key Principles of Segregation of Duties

Segregation of Duties

Separation of duties protects the organization and the individual by ensuring that no one person has the ability to control all of the steps involved in handling and accounting for money received by the local government.



The ideal is that any one person performs no more than 2 functions; three people are needed for the four functions.

11

Example for cash receipts transaction cycle when four (4) individuals are available:

Employee A	Employee B	Employee C	Employee D
<ol style="list-style-type: none"> 1) Approves invoices for mailing 2) Records cash receipts in GL 3) Enters account adjustments into GL 4) Completes monthly bank reconciliation 	<ol style="list-style-type: none"> 1) Receives cash 2) Reconciles cash drawer daily 	<ol style="list-style-type: none"> 1) Completes daily bank deposit slip 2) Authorizes account adjustments to be entered in GL 3) Prepares annual budget 	<ol style="list-style-type: none"> 1) Approves billing rates 2) Approves annual budget 3) Initiates any interbank transfers 4) Reviews monthly bank reconciliation and support 5) Reviews monthly financial statements, including actual to expected variances

12

Example for cash receipts transaction cycle when three (3) individuals are available:

Employee A	Employee B	Employee C
<ol style="list-style-type: none"> 1) Approves invoices for mailing 2) Records cash receipts in GL 3) Enters account adjustments into GL 4) Completes monthly bank reconciliation 	<ol style="list-style-type: none"> 1) Receives cash 2) Reconciles cash drawer daily 3) Prepares annual budget 	<ol style="list-style-type: none"> 1) Completes daily bank deposit slip 2) Authorizes account adjustments to be entered in GL 3) Approves billing rates 4) Approves annual budget 5) Initiates any interbank transfers 6) Reviews monthly bank reconciliation and support 7) Reviews monthly financial statements, including actual to expected variances

13

Example for cash receipts transaction cycle when two (2) individuals are available:

Employee A	Employee B
<ol style="list-style-type: none"> 1) Approves invoices for mailing 2) Receives cash 3) Records cash receipts in GL 4) Enters account adjustments into GL 5) Completes monthly bank reconciliation 	<ol style="list-style-type: none"> 1) Reconciles cash drawer and completes bank deposit slip daily 2) Authorizes account adjustments to be entered in GL 3) Approves billing rates 4) Prepares and approves annual budget 5) Initiates any interbank transfers 6) Reviews monthly bank reconciliation and support 7) Reviews monthly financial statements, including actual to expected variances

14

When Might There Be An Issue?

Anytime an individual is serving in more than one of the key roles:

- authorizing transactions,
- processing and recording them,
- reviewing the transactions,
- handling any related assets

AND

No compensating controls are in place

15



When Segregation Is Not Possible

If one person performs two or more of the functions:

- Risk exists that presents the opportunity for something to go wrong
- A compensating control is needed to reduce the risk
- The compensating control might be an extra layer of review

16



Compensating Controls

Definition:	Examples:	Caution:
A control that can limit the severity of a deficiency and prevent it from being a material weakness. Although they can mitigate the severity, they do not eliminate the deficiency.	<ul style="list-style-type: none"> Review of detailed reports Review/reperform reconciliation procedures Review/approve any adjustments 	If compensating controls are monitoring controls, evaluate whether or not they are adequate

17

Challenges in Small Government/Agency Settings

- Limited resources
- Lack of specialization
- Staffing issues
- Overlapping roles and responsibilities

18



Overarching Strategies for Overcoming the Challenges

1. Begin by reflecting on the tone you want to set from the top of your organization.

- Consider standards to guide behavior and those can then become policies
- Policies should incorporate actions and procedures and detail the consequences of failing to follow them
- The ideal local government leadership team is:
 - Active
 - Responsible
 - Observant
 - Communicative

19



Overarching Strategies for Overcoming the Challenges

2. Once you have established the standards to follow and embrace, formalize them into policies

- Ensure that all employees understand and agree to those policies
- Policies around financial and accountability practices might include:
 - Ethical behavior
 - Establish a whistleblower policy
 - Background checks
 - Vacation leave
 - Performing a risk assessment
 - Managing financial and enterprise software

20



Overarching Strategies for Overcoming the Challenges

3. Policies are most effective when followed through with practices and actions.

- Training

- Plan financial reviews

- Outsource duties

21



Specific Areas that Need Close Attention

1. Cash Receipting
2. Accounts Receivable
3. Payroll
4. Accounts Payable
5. Purchasing and Procurement

22



Specific Areas that Need Close Attention

6. Inventory

7. Capital and Other Valuable Assets

8. Banking Systems

9. General Ledger

23



Implementing Segregation of Duties in Small Governments

- Risk assessment and identification of critical processes
- Design and implementation of effective controls
- Regular monitoring and assessment
- Flexibility and adaptability in the approach

24





Examples of Duty Assignments for Small Governments



One-Person Accounting Department

- Strong oversight and independent authorization of transactions are essential
- Innumerable risks arise when one person is given too many duties and responsibilities
- To adequately mitigate risk, at least one other person is needed to provide oversight. Options:
 - An elected official or member of the governing body
 - An outside contractor, such as a local accounting firm
 - A task-exchange with a nearby government, in which you perform oversight functions for each other

26



One-Person Accounting Department

- Make sure the person involved understands the risks they are looking for.
- Don't rely on an audit to discover fraud **or** to verify it isn't taking place.
- Every local government is responsible for safeguarding its assets before something happens!

27



One Way to Organize a One-Person Accounting Department

Duty	Clerk 1	Oversight Person
Cash Receipts	Collect receipts (cash) from customers, prepare the deposit, and take the deposit to the bank	Ensure deposits were made intact by comparing paper receipt records (source records to support the deposit) to bank statement deposit information. This should include confirming that cash vs. check composition is correct for all deposits.
Accounts Receivable	Send out billings, post payments to accounts, perform collections	Monitor key reports including aging reports, monthly revenue activity, and adjustments to customer accounts
Payroll	Process and prepare checks (or use a third party vendor if possible)	Review the payroll register, approve time sheets, sign and distribute checks or EFTs
Accounts Payable	Process invoices and prepare checks	Review supporting documentation, approve invoices, sign and mail checks or submit EFTs

28

One Way to Organize a One-Person Accounting Department

Duty	Clerk 1	Oversight Person
Purchasing and Procurement	Obtain and review quotes or bids	Review and sign all contracts or purchase orders
Capital Assets	Maintain a listing	Periodically check to ensure all assets are accounted for (inventory) and used for governmental purposes
Banking	Prepare the bank reconciliation	Be the signer on the account. Review the bank reconciliation. Monitor banking activity with direct online access or by having an original statement mailed directly with the copies of endorsed checks.
General Ledger	Perform journal entries	Review and approve

29

Two-Person Accounting Department

- Allows for improved segregation of duties, especially if they can periodically rotate duties to further strengthen controls
- Still plenty of conflicting responsibilities to be aware of
- To adequately mitigate risk, you will need at least one other person to provide oversight. Options:
 - An elected official or member of the governing body
 - An outside contractor, such as a local accounting firm
 - A task-exchange with a nearby government, in which you perform oversight functions for each other

30



Two-Person Accounting Department

- Make sure the person involved understands the risks they are looking for.
- Don't rely on an audit to discover fraud **or** to verify it isn't taking place.
- Every local government is responsible for safeguarding its assets before something happens!



31

One Way to Organize a Two-Person Accounting Department

Duty	Clerk 1	Clerk 2	Oversight Person
Cash Receipts	Perform receipting, prepare the deposit, and deliver the deposit to the bank (if needed)	Backup cash receipt, but limit access as much as possible to all receipts and the deposit	No access. Might do a last look at the deposit periodically to ensure checks deposited are only that of customers.
Accounts Receivable	No duties	Send out billings, manage customer accounts, collections, customer concerns	As Clerk 2 will likely be a backup to cash receipt, additional oversight over accounts receivable key reports such as account adjustments
Payroll	Edit the payroll master file, preliminary review of the payroll register, and prepare checks	Process the payroll	Final review the payroll register and payroll payments, authorize pay increases
Accounts Payable	Process invoices, prepare checks	Edit vendor master file	Final review and authorize payments

32

One Way to Organize a Two-Person Accounting Department

Duty	Clerk 1	Clerk 2	Oversight Person
Purchasing and Procurement	No duties	Obtain and review bids	Review and approve purchases over a certain threshold
Capital Assets	Maintain a listing	Periodically conduct an inventory	Optional review of the inventory and listing
Banking	None	Reconcile the bank activity	Be the signer on the account. Review the bank reconciliation in detail, ensure deposits are made intact if Clerk 2 has any access to the deposit (prevent if possible).
General Ledger	Prepare journal entries	Review	Optional review

33

Three-person accounting department

- Allows for improved segregation of duties and risks start to decrease significantly
- Conflicting duties can more easily be distributed between three, with more opportunities to rotate duties periodically to strengthen controls
- Oversight is still needed and plays a key role, but the transactions being authorized pose fewer risks and the review procedures can be less extensive

34



One Way to Organize a Three-Person Accounting Department

Duty	Clerk 1	Clerk 2	Clerk 3	Oversight Person
Cash Receipts	Receive cash from customers and take the deposit to the bank	Backup cash receipt, but limit access as much as possible to all receipts and the deposit. Prepare the deposit.	Monitor to ensure the deposits are made by comparing validated bank receipt to source records	No duties or access to the deposit
Accounts Receivable	No duties	Post payments to customer accounts, send out billings	Execute any account adjustments, approve under a threshold	Approve write-offs or refunds over a certain threshold
Payroll	Add new employees and wage rates	Process time sheets and prepare/mail/EFT payroll checks	Review the payroll register and file payroll taxes	Approve time sheet, pay increases, authorize payroll payments
Accounts Payable	Process invoices and prepare/mail the checks. Prepare any electronic payments.	Edit vendor master file---add new vendors	Serve as auditing officer	Authorize invoices and checks and any electronic payments. Review the bank reconciliation.

35

One Way to Organize a Three-Person Accounting Department

Duty	Clerk 1	Clerk 2	Clerk 3	Oversight Person
Purchasing and Procurement	No duties	No duties	Obtain and review bids	Review and approve purchases over a certain threshold
Capital Assets	Maintain a listing	Option to review the listing and inventory	Conduct an inventory	Optional review of the inventory and listing
Banking	No duties	No duties	Reconcile the bank activity	Be the signer on the account. Review the bank reconciliation in detail, ensure deposits are made intact if Clerk 2 has any access to the deposit (prevent if possible).
General Ledger	Prepare journal entries	Prepare journal entries	Review	Option to review

36

8 Practical Suggestions

1. Define and Document Roles Clearly

- Clearly outline the specific responsibilities and tasks associated with each role
- Even in a small office, it's essential to distinguish between different functions, such as financial transactions, record-keeping, and administrative tasks

37



2. Separate Financial Tasks

- If possible, separate financial duties among individuals.
- If only one person is responsible for financial tasks, consider having a supervisor or an external party periodically review financial records.

3. Cross-Training

- Cross-train employees on different tasks to create some redundancy in case of absences or turnover.

38



4. Dual Authorization

- For financial transactions, implement dual authorization even in a small office.

5. Regular Reviews

- Conduct regular reviews of financial records and other critical processes.

6. Use Technology Wisely

- Leverage accounting software and tools that provide audit trails and user permissions.

39



7. Document Processes

- Have well-documented processes and procedures for all tasks.
- Documentation helps to maintain consistency and reduces the risk of errors.

8. Rotate Tasks

- Periodically rotate responsibilities between employees.

40



Remember...while complete segregation of duties might not be achievable in a very small office, the **GOAL** is to introduce **SOME** level of **control** and **oversight** to mitigate the risk of errors or malfeasance.

41



Thank You!

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42

