Segregation of Duties

APM 2.25.55
Overview

• The policy discusses the following functions:
  – Authorization
  – Recording
  – Verification
  – Custody of assets
  – Managerial review

• Effective Date: October 1, 2008
Overview

- **APM 2.25.55** Segregation of Duties
- **APM 2.25.55.01** Segregation of Duties – Sponsored Programs
  - focuses on *Compliance* requirements for Sponsored Programs
  - Supplements the requirements from APM 2.25.55—Segregation of Duties
Segregation of Duties

• Senior administration is responsible to ensure segregation of duties.

• Provides two benefits:
  – Mitigates risk of fraud
  – Detection of errors or irregularities
Segregation of Duties

• Optimally, no single individual should have responsibility to complete two or more phases of a transaction or process.
  – 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:
  – Detailed monthly 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
  – Is aware of budget availability
Authorization

• Individuals cannot authorize transactions which benefit themselves, such as:
  – Travel arrangements/reimbursements
  – Expense reimbursements

• Reproducible documentation is required
Recording

• Process of creating and maintaining financial records

• Examples:
  – Preparing CRR/ARR
  – Journal entries
  – Entering requisitions
  – Inputting time/absences into WebTime
  – Correcting payroll charges (PCE)
  – Entering Vouchers
Verification

• Confirms accuracy and timeliness of recorded accounting transactions:
  – Appropriate ChartFields
  – Appropriate accounting period
  – Amounts are correct

• Individuals should not verify transactions they authorized.
Verification

• Confirms segregation of duties between recording and authorization
• Documented with signature and date
  – Can be electronic or paper
Verification

• Documentation examples—review and sign:
  – P-card statement
  – Expense Distribution Reports (EDRs)
  – Printout of Transaction Checklist
  – PeopleSoft WorkFlow approval of Requisitions or Receivers
Custody of Assets

• Access to or control over physical assets
• Examples:
  – Maintaining inventory for resale
  – Access to safe where money is stored
  – Event tickets
  – Parking permits
  – Handling checks received for deposit
  – 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 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
Managerial Review

• Suggested documentation to print and review:
  – Income Statement
  – Budget Variance Report
  – Transaction Checklist
  – For other options, discuss with your Accounting Office

• Documented with signature and date
Optimal Segregation

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<td>Mgr</td>
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- Four people are involved
- Each performs unique function
- PS Security/Access precludes crossover of functions
- Optimal segregation—managerial review can be quarterly
Good Segregation

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- Three people are involved
- Detailed verification is performed by Manager
- Authorization, recording and verification are separated
- PS Security/Access enforces segregation
- Good segregation—Manager is performing the detailed verification
### Good Segregation

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- Three people are involved
- Recording and verification are separated
- Good segregation—managerial review can be quarterly
• Three people are involved
• Recording and verification are not separated
• Managerial review is performed monthly.
Manager Authorizes

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- Two people are involved
- Recording and verification are not separated
- **DETAILLED** managerial review will be performed monthly
To be Avoided Segregation

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- Least preferred and should be avoided
- Only two people are involved
- One person controls the entire transaction
- **DETAILED** managerial review will be performed monthly
### Unacceptable Segregation

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- This scenario represents an unacceptable risk and is not allowed.
- Unacceptable whether a Manager or any level personnel
• The following Frequently Asked Questions (FAQs) address practical application of this policy.
• *How does this policy change the interaction between Departments and Accounting?*
  
  – No change required.
  
  – Accounting will still check PS Authorization for authorized signatures for non-PO vouchers.
• *Does a manager’s email to order items 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.
• *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

• *Does a manager’s request in a department meeting satisfy the requirements for authorization?*
  
  – Yes, if meeting notes are documented and distributed.
  
  – The notes serve as authorization for the purchase.
• *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

• How are frequently purchased items authorized? (e.g. office supplies)
  – Documented via:
    • Signed non-PO vouchers
    • Electronic signature on requisition or receiver
    • Email authorizing specific transactions
    • Initiation by the P-card holder
• Can any individual authorize transactions for themselves (travel or reimbursement)?
  – No. Travel or other reimbursement which directly benefits the employee must be authorized by the individual’s supervisor and an authorized signer on the DeptID being charged.
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.
• **What should verification include?**
  
  – Key aspects of verification:
  
  • Appropriate 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 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

• How should verification be documented?
  – Verification must be documented with a signature, electronic or manual, and date.
  – Examples include the transaction checklist or signature and date on a printed copy of the checklist
  – Discuss alternative methods with the Accounting Office.
• *Can the same person who authorizes perform the verification?*
  – Not recommended. These two activities should be done by different people to segregate duties.
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 segregation of duties are in place.
• **What is the evidence that a managerial review has been completed?**
  
  – The manager may choose to print, sign, date and retain any of the following:
    
    • Income Statement or a budget variance report;
    • Transaction Checklist; or
    • Discuss alternative methods with the Accounting Office.
• *How often should 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.
• **Without segregation of duties, what additional duties should be performed?**
  
  – A more detailed review of the individual transactions needs to be performed monthly.
  
  • Appropriate use of ChartFields including account, accounting periods, and amount
  
  • Proper authorization of the transaction
  
  – Address high-risk areas for custody of assets
Concluding Points

• Optimally, no one person should have more than one of these responsibilities:
  – Authorization
  – Recording
  – Verification
  – Custody of assets
  – Managerial review

• If less than optimal segregation, mitigating controls must be implemented.
• APM 2.25.55 – Segregation of Duties
• APM 2.25.55.01 – Segregation of Duties—Sponsored Programs
• BPM 213 – Adjustment of Income & Expense Items
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