

OHIO AUDITOR OF STATE
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Segregation of Duties

Key Element to
Implementing
Internal Controls

Efficient • Effective • Transparent

What is Segregation of Duties?

Management divides or segregates key duties and responsibilities

Important characteristic of the Internal Control process

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How Does Implementing Segregation of Duties Help Us?

- Assists in preventing errors, misuse, and fraud
- More difficult for any one person to steal and then cover it up
- Would require the collusion of two or more persons to commit fraud

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What does Segregation of Duties look like for us?

Segregation of duties

Not allowing one person to handle every aspect of a transaction

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Responsibilities

Split among several individuals


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Separating duties so that 1 person does not have responsibility over all 3 duties:

Authorization	Recording	Safekeeping
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Segregation of Duties for Receipts and Disbursements




Cash Receipts
No single person should:

- Prepare bills
- Receive money
- Record receipts
- Deposit money
- Reconcile the bank accounts

Cash Disbursements
No single person should:

- Authorize payments
- Disburse funds
- Reconcile the bank accounts



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Segregation of Duties for Small Entities

Smaller Entity	Overcoming Limitations
<ul style="list-style-type: none"> • May not have employees (only elected officials) • May only have small number of employees • Faces greater challenges in implementing segregating duties • Example: Township 	<ul style="list-style-type: none"> • Additional levels of review • Reviewing randomly selected transactions • Periodic asset counts • Reviewing reconciliations

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Lessons Learned

City	County	County	School
<ul style="list-style-type: none"> • Payroll Clerk • Stole almost \$68,000 • Writing additional payroll checks to herself 	<ul style="list-style-type: none"> • Utility Clerk • Stole nearly \$15,000 • Adjusting and voiding customer accounts and pocketing cash payments 	<ul style="list-style-type: none"> • Clerk of Courts • Stole over \$17,000 • Used various schemes, including reversing deposits, altering deposit slips, and pocketing cash payments paid to the Court 	<ul style="list-style-type: none"> • Account Clerk • Stole over \$500,000 • Used various schemes, including issuing checks to himself, using the District's credit card to make personal purchases, and pocketing cash from athletic events and student fees

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How do we get started?

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graph TD
    A[Identify Steps in the Internal Control Processes] --> B[Analyze Risks]
    B --> C[Assign Responsibility]
    C --> D[Communicate and Document]
    D --> A
    E[Periodically Repeat] -.-> A
  
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Proactive vs. Reactive

Proactive

- Attitude
- Commit
- Understand Importance
- Fraud can happen to every entity

Reactive

- Aftermath
- Most entities are surprised
- Don't be the next news headline!

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