

Separation of Duties

How to Separate Duties

In our eBook, **The CEO's Guide to Reducing Fraud**, we discussed fraud scenarios that were possible because one employee performed two or more functions that need to be separated (approval, recording and reconciling) in the three primary accounting functions of AP, AR and payroll.

Cornerstone of a Solid System

The principle of separation (or segregation) of duties is the cornerstone of a solid internal control system. In fraud prevention, separation of duties involves dividing the critical duties into the three primary accounting and bookkeeping functions between two or more employees or departments.

Why is this so important? Well, let's take the example we discussed in the eBook of the billing clerk and her cash skimming scheme. If the office manager had been in charge of billing and recording accounts receivable, they would have noticed how many patient accounts had credit memos or were in arrears much sooner—and the financial damage to the doctor's practice would have been dramatically lower.

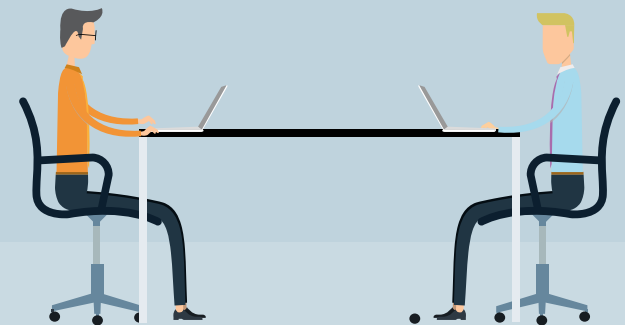
2 Person Office

Business Manager

- » Mail checks
- » Write checks
- » Approve payroll
- » Record accounts receivable
- » Receive cash
- » Authorize purchases
- » Authorize check requests
- » Authorize invoices for payment
- » Record general ledger entries

Owner/Manager

- » Sign checks
- » Reconcile bank statements
- » Sign employee contracts
- » Distribute payroll
- » Process vendor invoices
- » Complete deposit slips & make deposit
- » Reconcile petty cash
- » Perform bank transfers
- » Receive, open and review bank statements



Creating Separation of Duties

3 Person Office

Bookkeeper

- » Record accounts receivable
- » Reconcile petty cash
- » Write checks
- » Record general ledger entries
- » Process vendor Invoices
- » Make deposits

Office Manager

- » Mail checks
- » Reconcile bank statements
- » Disburse petty cash
- » Approve invoices
- » Authorize purchases
- » Approve payroll
- » Receive cash
- » Distribute payroll
- » Approve time sheets

Owner/Manager

- » Sign checks
- » Complete deposit slips
- » Perform bank transfers
- » Sign employee contracts
- » Receive, open and review bank statements



4 Person Office

Bookkeeper

- » Record accounts receivable
- » Reconcile petty cash
- » Write checks
- » Record general ledger entries
- » Process vendor Invoices
- » Make deposits

Clerk

- » Distribute payroll
- » Receive cash
- » Disburse petty cash
- » Authorize purchases
- » Authorize check requests
- » Mail checks

Office/Manager

- » Complete deposit slips
- » Approve invoices
- » Approve payroll

Owner/Manager

- » Sign checks
- » Sign employee contracts
- » Approve time sheets
- » Perform bank transfers
- » Receive, open and review bank statements

