



Separation of Duties

Definition

Separation of duties is a specific internal control, required by law, which ensures the roles of clerk and treasurer are separate. Each officer must be independent, and one officer should not supervise another officer, ensuring neither position can override the control. See the *Separation of Duties: Checklist*, to view the specific duties of the clerk and treasurer.

Purpose

Separating payment authorization, record keeping, and money custody lowers fraud risk and helps protect public funds and employees.

Implementation

The governing body is responsible for appointing a clerk and treasurer. These individuals can be either board members, staff, or contractors (or a combination of board members, staff, and/or contractors).

In order for separation of duties to properly function, employees need to follow the policy and management and/or the governing body needs to enforce the policy.

Example: No Separation of Duties

Let's imagine a cashier in your entity receives cash to pay a customer's utility bill, but doesn't record the payment into the accounting record (or voids the receipt), and then subtracts out the amount owed on the customer's account. Since the cashier has both custody of the cash and access to the accounting record, the cashier can steal the cash without detection. Even the utility customer will not notice, since the customer's monthly owed amount was adjusted by the amount the customer paid.

Example: Implemented Separation of Duties

The customer provides payment for his utility bill. The treasurer issues a receipt for payment and deposits the cash in the bank. Three records are created: a receipt, an immediate accounting record (which the treasurer cannot change), and an eventual bank statement. The clerk, who controls the accounting record, compares the receipts to the bank statement, ensuring they match. The accounting term for this is "bank reconciliation." The clerk also verifies any cash withdrawals or electronic payments have been entered into the accounting records and authorized.