INTERNAL CONTROLS AND SEGREGATION OF DUTIES

What are internal controls?

An internal control system provides for safeguarding of assets, proper recording of transactions, efficient and effective accomplishment of goals and objectives, and compliance with university rules and other governance. Everyone has a system of internal controls. At home, you lock your doors to protect your assets, you record check payments and balance your bank statement to know how much money you have to spend. The effectiveness of the control system is dependent on both the controls and the people using them. If you don’t accurately record payments made from your checkbook, the likelihood of bouncing a check increases.

For more information on internal controls, visit the web site for the Office of Audit and Compliance Review, http://oacr.ufl.edu (click on Internal Controls on left-hand menu).

What is segregation of duties?

Segregation of duties is an internal control activity to help prevent or decrease the occurrence of undetected innocent errors or intentional fraud. This is done by ensuring that no single individual has control over all phases of a transaction: authorization, custody, and record keeping. When there is a good segregation of duties, there has to be collusion between two or more employees for irregularities to occur without detection.

When assigning duties, you should think about the entire transaction and whether or not a single person can make errors (either innocent or intentional) without timely detection in the course of their day to day activities or in their backup roles. If they can, then try to determine a way to eliminate the assignment of incompatible duties to an employee or to establish compensating controls.

Examples of incompatible duties include:

- Authorizing a transaction, receiving, and maintaining custody of the asset that resulted from the transaction. The request for the purchase of an item should be approved by a PI or appropriate budget authority or delegate, received and acknowledged by the user and payment entry processed by the departmental fiscal employee. For “attractive items and capitalized items,” periodic independent inventories should be taken to account for those items.
- Receiving payment for a conference and recording registration as paid. A compensating control would be for an independent employee to compare registration and attendance records to amounts collected and reconcile differences.
- Depositing checks and reconciling deposits.
• Recording terminations and having custody of paychecks. A compensating control would be to maintain a log of paychecks and have employees sign for their checks and have an independent person review the log.

• Approving time cards and having custody of paychecks or access to change direct deposit information. A compensating control is to require employees and supervisors sign time records and have an independent person review the time cards on a test basis.

In a small operation, management may need to take a more active role in the day to day operations by approving and/or reviewing transactions or related reports. Sometimes, it is more efficient to separate the duties.

How does PeopleSoft affect our current segregation of duties?

With the implementation of PeopleSoft, proper segregation of duties is dependent on the “PeopleSoft roles,” as well as related duties and procedures outside of PeopleSoft that are assigned to a single employee. The PeopleSoft role itself may permit incompatible actions. For example, the “payroll processor” can approve certain employees’ time but can also enter or adjust time for those employees. Therefore, payroll processors should be told that when it is necessary to enter/adjust an employees’ time, another payroll processor with appropriate access should approve it. In addition it would be appropriate to have a report of exceptions sent to the payroll processors’ supervisor for follow up. To provide an adequate segregation of duties, all actions permitted by a role and all the roles assigned to an individual must be considered.

Given the need for internal controls and segregation of duties, what documents are available that will help me assign user roles?

The following spreadsheets identify actions for certain business processes as well as the employee role for performing those actions in the departments. Included are some comments related to internal controls. While these are drafts and subject to change during testing, we anticipate few changes. Additional business processes will be added as they are completed. When reviewing these spreadsheets, note that Central Office generally means offices that service the university community such as the Division of Human Resources or University Payroll Services.

**Roles – HR and Time and Labor**
**Roles – PCard**
**Roles – Travel and Expense**
**Roles – Encumbered Purchases**
**Roles – Unencumbered Purchases**
**Roles – Accounts Receivable and Billing**

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