

***Common Audit Finding* | Lack of Segregation of Duties**

Al Major, MTAS Finance and Accounting Consultant

Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. The purpose of segregating responsibilities is to prevent fraud in the form of asset misappropriation and intentional financial misstatement. If internal control is to be effective, there needs to be an adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. In general, the flow of transaction processing and related activities should be designed so that the work of one individual is either independent of, or serves to check on, the work of another.

For small cities, compensating detective controls can mitigate the risk of lack of segregation of duties. This involves an elected official to review daily and monthly reports, making bank deposits, reviewing monthly bank reconciliations, and conducting unannounced spot-checks of financial transactions.

This series will review the 10 most common audit findings as reported by the Tennessee State Comptroller's Office. The first part of this series was also published in the MTAS E-News June 2019 issue which can be read here: <http://www.mtas.tennessee.edu/newsletters-reports>

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