# Statement of Policy – Separation of Duties

A critical responsibility of Chapter Officers in managing Chapter operations is to ensure protection of the Chapter's assets. Each Chapter should have an established set of operating controls, including controls specifically relating to financial management. These controls should include management of day-to-day financial operations, establishment of accounts, preparation and review of financial statements, and monitoring of financial activity. The Chapter's Board of Directors has oversight responsibility for Chapter financial management and must monitor financial control activities and ensure that proper controls are in place.

A critical element in establishing and maintaining an effective control structure is to ensure the appropriate separation of duties exists between Chapter leaders. The basic premise of separation of duties is that no Chapter Officer or group should be in a position to have both custody of Chapter assets and also be responsible for recording and reporting of activities relating to such assets. If a Chapter Officer or group has both access and recording/reporting responsibility, the Chapter is at risk for unintended errors or fraud, which may go unidentified and unreported. Ideally, Chapter duties should be separated so that no one individual has the ability to do all or multiple activities as summarized below:

- Custody or Access to Chapter Assets
- Authorization or Approval of Transactions Affecting Chapter Assets
- Recording and Reporting of Transactions

There is not a "one size fits all" approach to establishing appropriate separation of duties. Each Chapter should assign responsibilities differently based on its size, organizational structure, volume of transactions, and amount of financial assets. As such, there may be Chapters where it is necessary for a Chapter leader to perform two or more incompatible duties. In situations where functions cannot be properly separated as defined above, oversight is required by an independent and competent party as a compensating control. Chapters must ensure that they have the necessary controls designed and operating to provide reasonable assurance their Chapter assets and the organization's reputation are protected. Any compensating controls implemented should be approved by the Chapter's Board of Directors when such controls are implemented.

Each Chapter is required to have a periodic independent review of its financial statements, which helps ensure the accuracy of the Annual Report of Chapter Revenue and Expense. This review also requires a review of the Chapter control structure, including separation of duties, and should include any recommendations for improvement. The independent reviewer must sign the Annual Report and report their results to the Board of Directors. The key steps in conducting this review include identifying significant Chapter assets, examining the duties performed by various Chapter leaders with access to those assets and assessing whether duties are appropriately separated. While the independent review is an important component to provide reasonable assurance that financial records are accurate and that reasonable controls are in place, it does not constitute oversight or relieve a Board of Directors of its responsibility for demonstrating appropriate governance.

Best practices or special considerations when developing and accessing financial controls related to separation of duties include:

- Accounts should be reconciled and reviewed timely by an individual with no treasury or check signing authority and who has no real or perceived conflicts of interest with the Treasurer (see below). The individual conducting this activity should have a mechanism to receive statements or other records of financial assets (e.g., bank statements) directly. This may include setting up on-line access or receiving duplicate statements.

- A Chapter may have assets in addition to traditional bank accounts for which separation of duties is important. For example, a Chapter may have an inventory of other items of value such as investments, savings accounts, money market accounts, petty cash and gift cards. A periodic inventory of such items should be performed by the individual responsible for reporting their value.

- Even when functions may be assigned to different individuals, consideration should be given as to whether there are other conflicts of interest present that could impair independence. For example, individuals assigned to incompatible functions who are related, have a long-standing relationship, or who work together in the same organization may indicate that appropriate separation of duties is not in place.

- An individual responsible for receiving payments during an event, should not do the final reconciliation of receipts for the event.