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Checks and Balances

PROTECT YOUR SERVICE AND STAFF

This Resource Paper is written for Directors of child care centres and OSHC services.

Although the operator holds the overall responsibility for financial management, the day to day financial management of the service is delegated to staff of the organisation. Financial tasks are assigned to the Director, administrative staff and/ or external financial service providers.

The Management Committee or Board of a community based service is responsible for governance, which includes financial planning and policy, ensuring the financial viability of the service and management of risks, and overseeing the financial administration of the organisation, but it is staff who manage the finances on a day to day basis.

Sensible financial management includes putting "checks and balances" into place.

Does your job include financial duties or tasks? Do you have control over more than one of these duties on your own? Do you have "checks and balances" in place to prevent fraud and protect your service, members and staff?

Checks and balances means setting up your systems and procedures so that they are transparent, efficient and minimise opportunities for fraud. They become a safety net for those responsible for handling money and managing the finances of the services.

One of the procedures is "segregation of duties".

This involves separating financial duties such as authorisation, custody, reconciliations and record keeping. This is to ensure the financial responsibility is not left up to one individual and that supervision is adequate to ensure the organisation is safeguarded and its long term viability is sound.

Segregation of duties not only prevents fraud but it also *protects you*.

Network SA has an excellent Resource Sheet on Fraud but I want to focus on the purpose and protection side of segregation of duties. It is not just about fraud.

Mistakes can be reduced by segregation of duties (which may also include having dual responsibilities and/or rotation of financial duties). The adoption of these methods is not an indication of your trustworthiness or otherwise – it is just good business sense and risk management.

(Continued on page 2)

(Continued from page 1)

It also demonstrates on a personal level that you:
- are open to scrutiny (supporting your integrity)
- are not wanting to put yourself in a position where allegations can be made (protecting your integrity)
- want to do the right thing for the service (supporting your ethical and moral obligations).

SEGREGATION OF DUTIES

Segregation of duties means separating the tasks so that different people are responsible for different financial duties. The four key areas of financial duties to which segregation can apply are authorisation, custody, record keeping and reconciliation.:

AUTHORISATION

Authorisation may include one or more of the following:
- verifying cash collections and daily balancing reports
- approving purchase orders
- approving time sheets, leave requests and leave records
- approving changes to orders, computer system design and/or programming changes

CUSTODY

Custody may include one or more of the following:
- access to money through collection or processing of payments
- access to safes, locked boxes, filing cabinets where money and/or cheques may be stored
- access to or custody of petty cash or change
- receipt of goods on delivery or cash on payment
- handling pay cheques or pay slips

RECORD KEEPING

Record keeping may include one or more of the following:
- preparation of cash receipts
- purchase order books
- payroll records
- bookkeeping (entering transactions in cash book either via computer software or manually)

RECONCILIATION

Reconciliation of any of the following:
- comparing records of
  - ◊ purchases to purchase orders
  - ◊ receipts to receipt books
  - ◊ payroll records to year end certificates
- inventory counts
- bank reconciliations
- petty cash reconciliations

(Continued on page 3)

(Continued from page 2)
Individually you should not perform duties within two or more of these categories.

As much as practical these duties should be segregated (*The University of Utah, 2007)*.

SEGREGATING DAY-TO-DAY DUTIES

Your service may not have enough staff available to segregate all duties. It may be impractical and not financially viable to do so – the benefit has to out weigh the cost.

In these cases you need to segregate the financial duties as much as possible but reduce the risk by increasing other controls over these tasks.

Some of the day-to-day duties which could be segregated include:

Those receipting cash not be in charge of

- ◊ banking cash
- ◊ recording of cash
- ◊ reconciliation of bank account

Those ordering goods not be the same as those

- ◊ authorising the purchase
- ◊ drawing the payment cheques
- ◊ signing cheques
- ◊ processing invoices
- ◊ preparation of bank reconciliations
- ◊ preparation of financial reports to committee

Those in charge of reporting not be the same as those

- ◊ reconciling
- ◊ authorising

DUAL RESPONSIBILITIES

When segregation is not practical you may wish to consider increasing the controls by having two or more people verifying the financial task (dual responsibility).

Examples of this are

- dual signing of cheques – up to 5 with authority, any two to sign.
- authorisation of purchases and the actual purchasing of goods carried out by two different people
- if using internet banking, ensuring that two electronic authorisations are required and passwords are known only to the individuals they are allocated to.

Dual responsibility will aid in picking up honest mistakes quickly and avoid unwarranted suspicions.

(Continued on page 4)

(Continued from page 3)
Community based services should check their constitution for rules relating to signing of cheques. Cheque signatories may include both Management Committee members and staff. Staff signatories do not have to be limited to the Director or Assistant Director unless this is a requirement of your constitution. An operator may appoint other staff as a cheque signatory.

Cheques should be written up by a non signatory and documentation supporting each cheque should be sighted at time of signing.

ROTATION OF DUTIES

You may also wish to consider rotation of some duties, say, every 6 months. This method mainly deters fraud but it also multi-skills staff.

The benefits of multi-skilling are:

- it provides the opportunity for child care or OSHC staff to gain some skills in administration before they take on management roles
- it gives staff an opportunity to become familiar with the overall financial system
- it assists in times of absenteeism

Rotation of duties can be a useful succession planning strategy.

As with segregation of tasks, you may decide that rotation of duties would be impractical and not financially viable in your organisation – the benefit has to out weigh the cost.

In summary, put checks and balances in place to protect your service and in doing so you also protect yourself, your members and staff.

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