

	U. S. Environmental Protection Agency Office of the Chief Financial Officer (OCFO) Policy Standard	
	Internal Controls Overview: Separation of Duties	
	Effective Date: Upon issuance 2540-02 dtd 10/21/11 Superseded	Resource Management Directive System Number: 2540-02

I. PURPOSE

Separation of duties, also called segregation of duties, is one of the fundamental elements of internal controls that reduce risks and irregularities. This topic is covered in reference a, the Government Accountability Office's Standards of Internal Control in the Federal Government. The underlying principle for separation of duties is that no employee should be in a position to perpetrate and conceal errors or irregularities during the normal course of duty. Separation of duties requires dividing the responsibilities for authorizing transactions, processing, recording, reviewing and controlling any related assets or other incompatible functions to different people. No individual shall control multiple key aspects of a transaction or event. This control activity reduces the possibility that one person could conceal fraud, waste or abuse of government resources and increases the likelihood that an error will be identified and corrected as a part of the normal course of business.

This document sets forth the U.S. Environmental Protection Agency's framework for instituting complementary checks with respect to financial transactions. These checks provide reasonable assurance that the EPA detects an error or inappropriate activity before a transaction is fully executed and/or before a decision is made based on this data. The oversight of acquisition functions including the separation of functions for the contract and purchase card functions are defined in the [EPA Contracts Management Manual](#). The authorities, roles and responsibilities for the EPA employees as they pertain to the acquisition, utilization, physical accounting and disposition of personal property are defined in the [EPA Personal Property Policy and Procedures Manual](#). Requirements related to proper separation of duties for information security are contained in the [Agency Network Security Policy](#).

II. POLICY

The EPA personnel must not be in a position to both perpetrate and conceal errors or irregularities by controlling multiple key aspects of a financial transaction. The EPA personnel include: EPA employees, contractors and Senior Environmental Employment program enrollees. Personnel shall not be permitted to perform more than one of the following functions in a single financial transaction: initiate a transaction, approve the

transaction, record the transaction, reconcile balances, control assets and review reports or other incompatible functions. Any individual involved in more than one financial transaction shall only be assigned one key function within each transaction¹. For example, individuals with asset controlling duties in the cash handling transaction can be assigned approval authority in another financial transaction. Organizations that cannot separate these key functions must document their compensating controls. Additionally, if an organization cannot separate the key functions identified in Attachment 1 of this policy, a waiver request is required (see Section V of this policy). In order for a financial transaction to be completed, the transaction must require operation by at least two personnel. Adequate separation of duties must be maintained at all times in a financial transaction. A staff member serving in a backup role must be competent, have the same authority as the individual who normally performs the duty and not have the authority to perform any duties that are incompatible with the backup duties assigned. The same restrictions apply to backup roles as primary roles. As specified in Section III of this policy, personnel assigned to new functions (e.g. certifying officer for payments) must not work on the same transactions worked on in previous functions (e.g. approval of the same payments).

The following shall be considered when assigning duties to each of the individuals involved in a financial transaction:

- ✓ **The preferred number of individuals that shall be involved in a financial transaction is three or more.** At this level of staffing, satisfactory separation of duties can be attained relatively easily.
- ✓ **The minimum number of individuals who can successfully operate a financial transaction is two.** At this level of staffing, satisfactory separation of duties can be attained, but not without careful planning. For some transactions, certain duties may have to be performed jointly by both staff members. Sub-functions with a single duty may have to be divided between the two staff members in order to achieve acceptable separation of duties.

A list of incompatible functions that prevent an adequate separation of duties is shown as Attachment 1. Combining these functions is not allowed unless a waiver has been granted by the Chief Financial Officer or designee.

III. AREAS OF RESPONSIBILITY

A. EPA Personnel (including non-EPA employees such as contractors, SEE enrollees, etc.)

All the EPA personnel are responsible for ensuring proper separation of duties and informing their supervisors of any new or existing duties that may impair an adequate separation of duties control environment. Personnel assigned to new functions (e.g. certifying officer for payments) must not work on the same

¹ Key Internal Control

transactions worked on in previous functions (e.g. approval of the same payments).

All individuals involved in a financial transaction, through the performance of their individual control duties, are expected to ensure each transaction complies with all of the following control standards applicable to the particular process:

1. **Appropriate** – The transaction is directly related to achieving the mission of the EPA.
2. **Valid** – The transaction is allowed by policy, law, contractual agreement and/or professional standards.
3. **Reasonable** – The amount paid for a product or service or received in payment for a product or service is reasonable.
4. **Funded** – For payment transactions, sufficient funding exists to pay for the transaction.
5. **Recorded accurately** – The transaction amount is consistent with value received, provided or adjusted for and is free from accounting coding or arithmetic error.
6. **Supportable** – The amount paid or received for a good or service or the amount of an adjustment is consistent with supporting documentation, standards, situation or practice.
7. **Dated accurately** – The date associated with the transaction is accurate.

B. Systems Administrator

The Systems Administrator for financial management systems is responsible for adequate separation of duties by ensuring that users are only granted access approved by their supervisors. Additionally, agency SAs are responsible for ensuring that the supervisor does not approve any access that contradicts this policy or any other policy or procedure applicable to his or her financial management system (financial or mixed financial system). The SA will run a report, at least biweekly, that has a current list of separated EPA personnel with their actual separation dates (including non-EPA employees such as contractors, SEE enrollees, etc). This listing will be used by the SA to remove the separated and To-Be separated personnel's access from the EPA's Financial Management Systems based on the dates provided².

The agency SA will periodically review a sample set of Compass users to confirm the access given is consistent with this policy and procedure. If a Compass user is found to have access that is incompatible with this policy and procedure, the

² Key Internal Control

SA will confirm a waiver is effective for that Compass user. If a waiver is not confirmed for the Compass access that is incompatible for that Compass user, the SA will notify that user and proceed to remove the incompatible access functionality³.

C. Supervisors

All the EPA supervisors have the primary responsibility of ensuring that adequate separation of duties, as well as internal controls, are in place within their organizations. Supervisors must not assign nor permit an employee to work in functions that would infringe on the proper separation of duties. Supervisors will monitor the personnel (including non-EPA employees such as contractors, SEE enrollees, etc.) under their area of responsibility for departures or changes in responsibilities related to system access and will notify the SA to have their Compass access removed accordingly. Supervisors are also responsible for resolving any possible problems regarding separation of duties referred by personnel. The rules identified within this policy (i.e., In order to be completed, any transaction must require operation by at least two personnel, etc.) must be followed unless a waiver has been formally granted by the CFO or designee. In addition, a list of incompatible functions that prevent an adequate separation of duties is included as Attachment 1 to the policy. Combining these functions is not allowed unless a waiver has been formally granted by the CFO or designee.

D. Chief Financial Officer or designee

The CFO will determine whether or not to grant a waiver request and document the decision in writing⁴. The CFO may redelegate the authority to approve waivers for exceptions from this policy, to the Deputy Chief Financial Officer or the Director, Office of Financial Management. No further redelegation is allowed. The procedures in this policy standard must be followed by the EPA's personnel (including non-EPA employees such as contractors, SEE enrollees, etc.) until a formal request for a waiver has been formally granted by the CFO. The process for granting a waiver is included within Section V.

E. System Manager

The EPA system managers shall ensure that new financial management systems or upgrades to financial management systems include system requirements for the system to enforce separation of duties. These requirements need to specifically identify each applicable system function and the associated incompatible system functions for which the system would need to enforce separation of duties based on this policy (including Attachment 1) and all associated procedures. Financial management systems shall be configured to enforce this policy (including Attachment 1) and all associated procedures.

E. Contracting Officer

³ Key Internal Control

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Contracts established after the effective date of this policy, whose scope reference the agency's financial management system (financial or mixed financial system) must have a clause included stating that the contractor must comply with this policy (including but not limited to Attachment 1) and the associated procedures.

F. APPLICATION CONTROLS

Application controls are designed to help ensure that transactions are complete, accurate, valid, confidential and available. Each of the system security plans for each financial management system (financial or mixed financial system) must describe the specific functions associated with the system, specify which functions are incompatible and describe how the access controls are implemented to enforce this separation of duties. As indicated in [Appendix III to OMB Circular No. A-130, Revised](#), the security plan for each system documents the personnel security controls (including separation of duties) and how they are implemented.

IV. REQUEST FOR WAIVERS

In some instances, it may be impossible to separate the incompatible functions referenced in Attachment 1 (e.g. a temporary reduction in staff). If this occurs, the impacted office shall send a formal written request to the CFO explaining the conditions that require the functions not to be separated and the controls necessary to mitigate possible errors or fraud. The CFO will determine whether or not to grant this request and document the decision in writing. The procedures in this policy standard must be followed by the EPA's personnel (including non-EPA employees such as contractors, SEE enrollees, etc.) until a formal request for a waiver has been formally granted by the CFO. This waiver process only applies to the requirements for an automated financial management system and does not constitute a waiver from the other requirements within the policy. If a waiver from other requirements within the policy is required, it must be requested separately.

The waiver request shall include the following information⁵:

- A.** Specify what Compass access is being requested.
- B.** Identify the employees who will need the requested access.
- C.** List of the mitigating controls in place to prevent fraud, waste, abuse and data entry error.

The requesting office, by requesting a waiver to the Separation of Duties policy, accepts the risk of error and will monitor these transactions as necessary to make sure errors are corrected in a timely manner. All approved waivers expire 1 year after their effective date⁶.

V. APPLICABILITY

⁵ Key Internal Control

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This policy applies to the operation of all the EPA financial management systems (financial or mixed financial system), all financial activities, financial events and transactions operated or performed by the EPA personnel (including non-EPA employees such as contractors, SEE enrollees, etc.) or by contractors on behalf of the EPA.

VI. RELATED POLICIES AND REFERENCES

- A.** GAO Standards for Internal Control in the Federal Government is available at: <http://www.gao.gov/greenbook/overview>
- B.** OMB Circular A-123, Appendix A: Internal Control over Financial Reporting is available at http://www.whitehouse.gov/omb/circulars_default/.
- C.** OMB Circular A-123, Appendix D: Compliance with the Federal Financial Management Improvement Act is available at: http://www.whitehouse.gov/omb/circulars_default/.
- D.** OMB Circular A-130, Revised, Appendix III: Security of Federal Automated Information Resources is available at http://www.whitehouse.gov/omb/circulars_default/.
- E.** The EPA Contracts Management Manual is available at <http://oamintra.epa.gov/node/245>
- F.** The EPA Personal Property Policy and Procedures Manual is available at <http://intranet.epa.gov/oa/fmsd/property/pdfs/pp-policy-procedures-manual.pdf>
- G.** The EPA Network Security Policy is available at: <http://intranet.epa.gov/oei/imitpolicy/qic/ciopolicy/2150-0.pdf>

VII. MANDATORY REVIEW

The next review for this policy will be in three years; however, this policy will be reviewed and revised as warranted by new federal legislation, applicable FASAB releases, regulations or the EPA policy or identification of any existing functions and their associated incompatible functions. Any proposed changes to this policy should be sent to the Staff Director, Financial Policy and Planning Staff, Office of Financial Management. In addition, the policy will be updated to identify any plans for new processes or the reengineering or automating of old processes, analyzing the processes for incompatible functions and incorporating the incompatible functions not already identified within Attachment 1 into the policy.

Attachment 1**Incompatible Functions That Prevent Adequate Separation of Duties**

If you....	Then you may not...
Create/correct commitments or obligations into the finance system	<ul style="list-style-type: none"> • Approve requests for goods or services • Certify payments • Verify receipt and acceptance of goods or services • Maintain physical custody of the assets involved in this transaction • Reconcile balances • Initiate requests for goods or services • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds • Certify funds (As done in Treasury's finance system)
Create/correct payment transactions into the finance system	<ul style="list-style-type: none"> • Certify payments • Approve requests for goods or services • Verify receipt and acceptance of goods or services • Create/correct purchasing information • Create/correct receiving information • Maintain physical custody of the assets involved in this transaction • Reconcile balances • Initiate requests for goods or services • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds • Certify funds (As done in Treasury's finance system)
Create/correct information on the collection into the finance system	<ul style="list-style-type: none"> • Deposit checks • Perform cash reconciliation • Approve billings • Approve write-offs • Open mail and prepare a listing of received checks • Collect receipts or have custody of cash • Initiate the billings • Initiate write-offs • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Create/correct billings into the finance system	<ul style="list-style-type: none"> • Deposit checks • Perform cash reconciliation • Approve billings

If you....	Then you may not...
	<ul style="list-style-type: none"> • Approve write-offs • Open mail and prepare a listing of received checks • Collect receipts or have custody of cash • Initiate the billings • Initiate write-offs • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Create/correct transactions into the finance system	<ul style="list-style-type: none"> • Verify the same data • Reconcile the data to output • Certify payments • Verify receipt and acceptance of goods or services • Maintain physical custody of the assets involved in this transaction • Initiate the transactions • Approve the transactions • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds • Certify funds (As done in Treasury's finance system)
Create/correct journal or standard vouchers for the finance system	<ul style="list-style-type: none"> • Approve the journal or standard vouchers • Maintain physical custody of the assets involved in this transaction • Reconcile balances
Collect receipts or have custody of cash	<ul style="list-style-type: none"> • Create/correct information on the collection into the finance system • Create/correct billings into the finance system • Perform cash reconciliation • Approve billings • Approve write-offs • Open mail and prepare a listing of received checks • Initiate the billings • Initiate write-offs • Deposit checks • Certify payments • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds • Approve refunds • Create/correct refunds

If you....	Then you may not...
Open mail and prepare a listing of received checks	<ul style="list-style-type: none"> • Deposit checks • Perform cash reconciliation • Create/correct information on the collection into the finance system • Create/correct billings into the finance system • Approve billings • Approve write-offs • Collect receipts or have custody of cash • Initiate the billings • Initiate write-offs • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Deposit checks	<ul style="list-style-type: none"> • Perform cash reconciliation • Approve billings • Approve write-offs • Open mail and prepare a listing of received checks • Collect receipts or have custody of cash • Create/correct accounts receivable into the finance system • Create/correct Information on the collection into the finance system • Initiate the billings • Initiate write-offs • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Create travel authorization	<ul style="list-style-type: none"> • Approve the travel authorization • Fund the travel authorization
Create travel voucher	<ul style="list-style-type: none"> • Approve the travel voucher • Pay the travel voucher
Approve transactions for entry into the finance system	<ul style="list-style-type: none"> • Create/correct those transactions into the finance system • Certify payments • Verify receipt and acceptance of goods or services • Maintain physical custody of the assets authorized in this transaction • Reconcile balances • Initiate the transactions • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds

If you....	Then you may not...
	<ul style="list-style-type: none"> • Certify funds (As done in Treasury's finance system)
Approve write-offs	<ul style="list-style-type: none"> • Approve billings • Create/correct information on the collection into the finance system • Create/correct billings into the finance system • Perform cash reconciliation • Open mail and prepare a listing of received checks • Collect receipts or have custody of cash • Deposit checks • Initiate the billings • Initiate write-offs • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Approve disbursements	<ul style="list-style-type: none"> • Create/correct disbursements into the finance system • Certify payments • Verify receipt and acceptance of goods or services • Maintain physical custody of the assets authorized in this transaction • Reconcile balances • Initiate the transactions • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds. • Certify funds (As done in Treasury's finance system)
Approve vouchers	<ul style="list-style-type: none"> • Create/correct the vouchers in the finance system • Prepare journal or standard vouchers for the finance system • Maintain physical custody of the assets authorized in this transaction • Reconcile balances • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Certify payments	<ul style="list-style-type: none"> • Approve requests for goods and services • Create/correct commitments/obligations into the finance system • Verify receipt and acceptance of goods or services • Create/correct payment transactions into the finance system

If you....	Then you may not...
	<ul style="list-style-type: none"> • Maintain physical custody of the assets authorized in this transaction • Reconcile balances • Initiate requests for goods or services • Create/correct or delete property in the system • Perform physical inventory, property disposal or collection of disposal funds
Are responsible for system operation and maintenance in the finance system	<ul style="list-style-type: none"> • Update, change or delete production data in the finance system
Are an application user in the finance system	<ul style="list-style-type: none"> • Have access to the operating system • Have access to the application software
Are a programmer in the finance system	<ul style="list-style-type: none"> • Have access to modifying production data • Be responsible for moving programs into production
Have access to operating system documentation in the finance system	<ul style="list-style-type: none"> • Be someone other than an authorized systems programming personnel in the finance system
Have access to application systems documentation in the finance system	<ul style="list-style-type: none"> • Be someone other than an authorized applications programming personnel in the finance system
Have access to production software libraries in the finance system	<ul style="list-style-type: none"> • Be someone other than library management personnel in the finance system
Set up or operate the production computer in the finance system	<ul style="list-style-type: none"> • Be someone other than a production computer operator in the finance system
Are a computer operator in the finance system	<ul style="list-style-type: none"> • Have access to program libraries or data files in the finance system
Are Information Technology staff	<ul style="list-style-type: none"> • Create/correct transactions • Initiate changes to application files
Perform an information system support function in the finance system (such as system management, systems programming, quality assurance/testing,	<ul style="list-style-type: none"> • Perform more than one of the support functions in the finance system

If you....	Then you may not...
configuration management and network security)	
Administer access control functions in the finance system	<ul style="list-style-type: none">• Administer audit functions in the finance system