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Importance of Segregation of Duties

Segregation of duties is properly assigning the handling of financial process control procedures among two or more competent and qualified individuals. The principle of segregation of duties is based on shared responsibilities of a key process or processes that disperses the critical functions of that process or processes to more than one person or department. The purpose of segregation of duties is to reduce the opportunities to allow any one person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. It is intended to prevent occupational fraud in the form of asset misappropriation and intentional financial misstatement by preventing a single person from taking advantage of his/her situation for personal gain or other impropriety. Segregation of duties serves as the primary defense against internal fraud.

A fundamental element of the internal control process or evaluation is the segregation of certain key duties. Internal controls are a reference to the procedures within a company that are designed and implemented to reasonably ensure compliance with the policies of the company or financial institution. The three key processes or duties that should have appropriate segregation of duties include: authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of these duties is important because it requires two or more people to collude in order to hide a transaction. This can be applied to different aspects of a financial institution in order to lower the risk of internal fraud or theft.

Segregation of duties serves as the primary defense against internal fraud.

One example is within the accounts payable process. The individual approving invoices for payments should not be the same individual recording the transactions as they occur or have custody of checks with the ability to sign checks. This is to minimize false transactions by

including more than one person in the accounts payable process.

The business processes relevant to financial reporting in smaller financial institutions are likely to be less formal than what might be found in a larger financial institution. A smaller financial institution may not have the funds to hire or maintain the ideal amount of personnel in order to properly segregate all key duties. Therefore, other solutions may be used to lower the risk of internal fraud or theft and financial misstatements. Rotation of duties among the personnel, increased management involvement, and the use of third parties are among other solutions that may be used by a financial institution.

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ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to credit unions has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, & commitment. If your Supervisory/ Audit Committee or Management is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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2015 Credit Union Conferences

Nearman, Maynard, Vallez, CPAs will be “out and about” visiting with the credit union community this year. If you plan on attending any of the following conferences, please stop by our booth. I would love to meet you and discuss your credit union’s auditing needs.

- Georgia Credit Union Affiliates - May 13-16, 2015 - Savannah, GA
- Carolinas Credit Union League - June 14-15, 2015 - Pinehurst, NC
- League of Southeastern Credit Unions - June 17-18, 2015 - Orlando, FL

- ACUIA - June 23-25, 2015 - Boston, MA
- AICPA National Conference on Credit Unions - November 2-4, 2015 - Austin, TX
- CUNA Supervisory Committee & Internal Audit Conference - December 6-9, 2014 - Las Vegas, NV

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Accounting Standards Update

JANUARY 2015

The FASB issued ASU 2015-01 “Income Statement—Extraordinary and Unusual Items.” This Update eliminates from GAAP the concept of extraordinary items. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. Paragraph 225-20-45-2 contains the following criteria that must both be met for extraordinary classification:

- 1) Unusual nature. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
- 2) Infrequency of occurrence. The underlying event or transaction should be of a

type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities.

Updated Website

We are please to announce that we have recently updated our website! The site still contains all of the great information it always has, but is now formatted for smart phones. Now you can access www.nearman.com on the go! Not only does our website contain background information about our firm and our services, it also contains our periodic newsletter, critical technical updates about regulation changes, useful links, training resources, financial calculators, and information about our strategic alliances.

