

[Date]

[Management Name/Owner Name]

[Company Name]

[Company Address]

Subject: Internal Control Communication - Segregation of Duties

Dear [Management Name],

In connection with our review of the internal control structure of [Company Name], we are submitting this formal communication regarding the segregation of duties within your accounting and operational processes.

Observation:

Due to the limited number of personnel within the business office, we noted that certain employees have access to multiple phases of financial transactions. Specifically, individuals responsible for initiating transactions also have the authority to record those transactions in the general ledger and perform the reconciliation of the related bank accounts.

Risk:

A lack of segregation of duties increases the risk that errors or irregularities, including fraud or misappropriation of assets, may occur and not be detected in a timely manner during the normal course of business operations.

Recommendation:

While we recognize that it is often not cost-effective for a small business to hire additional staff solely for the purpose of segregating duties, we recommend the following compensating controls:

- **Management Oversight:** The owner or a designated manager should receive and review unopened bank statements and cancelled checks monthly.
- **Approval Requirements:** Implement a policy requiring dual signatures on checks over a specific dollar threshold.
- **Journal Entry Review:** A person independent of the recording process should review and initial all manual journal entries.
- **System Access:** Restrict software permissions so that users can only access modules necessary for their primary job functions.

Management Response:

[Insert Management Response/Action Plan Here]

This communication is intended solely for the information and use of the management of [Company Name] and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

[Your Name/Firm Name]

[Title]