

[Date]

[Owner Name]

[Company Name]

[Company Address]

Subject: Management Letter - Audit Findings Regarding Segregation of Duties

Dear [Owner Name],

Following the completion of our audit for the period ending [Date], we are writing to provide recommendations regarding your internal control environment. As a small business, we recognize that personnel limitations can make full segregation of duties challenging; however, it is our responsibility to highlight areas where risk exists.

### **Observation: Segregation of Duties**

During our review, we noted that several key financial responsibilities are performed by the same individual. Specifically:

- The individual responsible for processing invoices also has the authority to sign checks/initiate electronic transfers.
- The individual responsible for recording accounts receivable also performs the monthly bank reconciliations.
- [Insert additional specific observation here]

### **Risk Assessment**

A lack of segregation of duties increases the risk that errors or irregularities, including fraud or misappropriation of assets, could occur and remain undetected. Without independent oversight or a division of tasks, one person has the ability to both execute a transaction and conceal it in the financial records.

### **Recommendations for Mitigation**

To strengthen your internal controls within the constraints of a small staff, we recommend the following compensatory measures:

- **Owner Oversight:** The business owner should receive unopened bank statements and review cancelled checks and electronic withdrawals monthly.
- **Independent Reconciliation:** If possible, an individual not involved in the cash receipts or disbursement process should perform the bank reconciliation.
- **Approval Thresholds:** Implement a requirement for secondary approval on all expenditures exceeding \$[Amount].
- **Periodic Review:** The owner should perform a random "spot check" of payroll records and vendor files on a quarterly basis.

This letter is intended solely for the information and use of management and is not intended to be used by any other party. We appreciate the cooperation provided by your staff during the audit process.

Sincerely,

[Your Name/Firm Name]

[Your Title]