



Control activities: authorization and approval

- **Authorization occurs before a transaction, approval validates it.**
- **Authorizations and approvals should be documented.**
- **Undocumented approvals and time lags create fraud opportunities.**

Authorization and approval are control activities that mitigate the risk of inappropriate transactions. They serve as fraud deterrents and enforce segregation of duties. Thus, the authorizer and the approver should generally be two separate people.

Authorization is the power granted to an employee to perform a task. It is a delegation of duties. Management defines the terms of the authorization and ensures that those terms are documented and clearly communicated. For example, an employee may be authorized to make small purchases without supervisory approval.

Approval is the confirmation or sanction of employee decisions, events or transactions, based on an independent review. It signifies that the approver has reviewed the supporting documentation and is satisfied the transaction is accurate and complies with applicable laws and regulations. For example, a manager reviews a purchase request and signs it, indicating that the purchase is valid and necessary. Management determines if an item requires approval based on its level of risk. Approval requirements should be documented to ensure that employees obtain approvals in all situations where management has decided they are necessary.

A documented level of authority creates an expectation of responsibility and accountability. Only those acting within the scope of their responsibility should authorize, approve, and execute

transactions. Consequently, the authorizer and the approver are, to some extent, just as accountable as the person executing the transaction. Because of this, managers and employees must have actual knowledge of the transactions they approve and should question any unusual items before signing.

Timely and documented approvals are also crucial. Employees should always obtain approvals in advance, and in writing. Once a document is approved, it should never be returned to its preparer. Indeed, undocumented approvals or time lags between approval and processing create opportunities for altered documents, double payments, or fraud. In addition, approving transactions that have already occurred (e.g. overtime after the time has been worked) defeats the purpose of the control, which is the ability to review proposed transactions and prevent potential problems.

Suggested Action Steps: Understand the internal control impact of your signature. Think about the transactions that you authorize or approve. Make sure that you are satisfied as to the validity and accuracy of the transaction before signing.

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