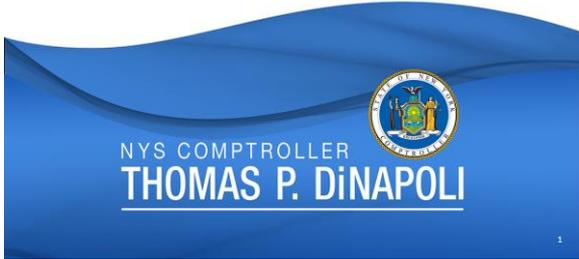


Improving the Effectiveness of Your Claims Auditing Process

Division of Local Government and School Accountability



Why is the Claims Review Important?

- Government is bound by a very finite source of cash
- Ensures disbursements are following adopted policies, laws, and are for actual and necessary purposes
- Establishes a proper tone at the top
- In 2018, 27% of fraud in the US was detected by Management Review or internal audit, while only 3% was detected by external audit



How is cash usually stolen?

Most cash is stolen through fraudulent disbursements while only about 20% is stolen from incoming receipts. These kinds of schemes can include:

- Disbursement Schemes
 - Personal purchases, bogus vendors, travel expenses, duplicate payments
- Check Schemes
 - Endorsement, altered payee, unauthorized, stolen checks



What is a Claim?

- A bill, account, or demand against a local government for the payment of moneys due for services rendered or materials furnished.



General Requirements

- Written
- Itemized
- Prescribed Form
- Approval Shown
- Audited by Board or Employee charged w/auditing function
- Certified by Claimant (Optional)



Who is Responsible?

The governing board is generally responsible for the audit of claims

- Segregates two key functions: management’s purchase of goods and services and the authorization of payments for those goods and services
- Board can sometimes delegate responsibility
 - Ex: Town Law Section 119, Village Law Section 5-524, County Law Section 369, Education Law Section 1709, Town Law Section 176 (Fire Districts), and certain Charters (City, School, County, etc.)



Separate Position Responsible for the Audit of Claims

The following guidance should be considered:

- Provide claims auditor with a job description to communicate responsibilities
 - Ensure consistent with legal requirements
- Discussions regarding specific claims should be directed to the governing board
 - Ensures independence of position
- Claims auditor should attend training
- Answer only to the Board



Separate Position Responsible for the Audit of Claims (Cont'd)

The following guidance should be considered:

- Claims auditor should be independent of both the purchasing and treasury (check signing) functions.
- Claims auditing official should indicate the approval of claims by signing or initialing each individual voucher packet or an abstract of audited claims.
- It is essential that the audited documentation be canceled (marked to prevent reuse) and be retained for a specified period of time.



Claim Packet

What should be included in a claim packet?

- Original Purchase Order showing Pre-Approval
- Bids or Quotes as required by law/ policy
- Packing Slip for delivered goods
- Original invoice or receipts (itemized)
- Proof of delivery and inspection of goods
- Evidence of addition to inventory if Capital
- Other information deemed appropriate



Criteria for Auditing Claims

Preliminary Review

- Is the claim for a valid and legal purpose?
- Was the purchase pre-authorized and approved?
- Are there sufficient appropriations to pay the claim?
- Is the claim mathematically correct?
- Is the claim sufficiently itemized?

Criteria for Auditing Claims (Cont'd)

Statutory Requirements and Policies

- Does the claim meet the legal and policy requirements in relation to competitive bidding or, when permitted, competitive offering, and the requirements of the locality's procurement policy?
- Have other adopted policies been followed?

Criteria for Auditing Claims (Cont'd)

Statutory Exceptions

- Was the purchase made by using a State, county, or other permissible government contract (as an exception to soliciting competition) and is this information included on the claim form?
- Has management reviewed the actual contract?

Criteria for Auditing Claims (Cont'd)

Sales Tax and Discounts

- Are there any sales tax charges for exempt expenses?
- Does the claim include all discounts that your local government or school district is entitled to?



Criteria for Auditing Claims (Cont'd)

Duplicate Payments and Documentation

- Has this claim been paid before, in whole or in part?
- Does the attached documentation support the claim being audited?



Criteria for Auditing Claims (Cont'd)

Value was Obtained

- Were the goods or services actually received?



Problem Claims

Is original documentation missing?
(i.e. Invoice, purchase order, or receiving slip)

- If YES,
 - The claim should be held until the supporting documentation is submitted.
 - When original documentation is not provided, there may be an increased risk that the claim is not legitimate.



Problem Claims (Cont'd)

Is the claim mathematically incorrect?
(2+2=5)

- If YES,
 - Confirm the proper amount.
 - Correct the mistake.
 - Only approve the claim for the corrected amount.



Problem Claims (Cont'd)

Does the invoice sufficiently itemize the goods purchased or services rendered?

- If NO,
 - Contact the official who approved the claim.
 - Official should contact the vendor to request a more detailed claim and to educate the vendor on itemization requirements.



Problem Claims (Cont'd)

Are travel or conference expenses substantiated by traveler as actual and necessary expenses?

If NO,

- Determine amounts authorized (pre-approval)
- Determine compliance with local policies
- Obtain additional documentation and recalculate
- Reduce the claim by the amount of ineligible expenses

Problem Claims (Cont'd)

Has the claim been paid before (in whole or part)?

- If YES,
 - Reject the entire claim or reduce it to the unpaid amount.
 - Look for photocopies of original invoices as they may indicate the possibility of a duplicate claim.

Red Flags

- Missing documents
- Unavailability of original documents
- Recurring identical amounts from the same vendor
- Multiple remittance addresses for the same vendor
- Inconsistent, vague, or implausible responses arising from inquiries or analytical procedures
 - Internally or externally
- Excessive voids or credits

Red Flags

- New vendors, especially if payment goes to a post office (PO) box
- Items purchased that are not clearly identified
- Goods delivered outside of a central location or to an unusual delivery point
- Credit card charges with no original receipts attached
- Travel and conference claims
- Alterations or questionable handwriting on documents

Red Flags

- Duplications
- Payments to a vendor that have increased dramatically for no apparent reason
- Payments to vendors for construction work not certified as completed by your architect or engineer
- Unusual delays in providing requested information
- Tips or complaints about possible fraud

Consequences

What consequences exist for disapproved claims?

The Board needs to discuss with attorney what actions you can take for any claim deemed unauthorized or inappropriate. May include:

- Personal Liability to the person making the claim
- Termination
- Others

Payments Not Requiring Claims Audit

Payments Authorized Under Other Processes

- Payroll
- Indebtedness (Principal and interest)
- Court ordered payments
- Contracts exceeding one year
- Retirement system payments



Payments Allowed in Advance of Audit

Claims Audit to Follow Soon After Payment

- Public Utility Services
- Postage
- Freight and Express Charges
- Petty Cash Payments



Analytical Review

Consider in the Broader Scope

- Trends in expenditures for improvement in procuring goods and services
- Indicate that certain types of expenditures may have been inappropriately incurred
- Changes in expenditure trends and areas for possible improvement and investigation



Analytical Review (Cont'd)

Examples

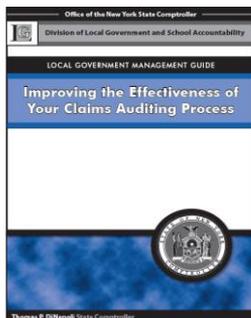
- Increases in utility and telephone and cell phone expenditures
- Increases in expenditures for consumable inventory
- Large repair costs for equipment
- Items that, in the aggregate, have exceeded competitive bidding or competitive offering monetary thresholds

Resources

OSC Website (www.osc.state.ny.us)

- Audits of Local Governments
- Publications/Research Reports
- Fiscal Monitoring
- Training –The Academy for Local Officials
 - <http://www.osc.state.ny.us/localgov/academy/index.htm>

<http://www.osc.state.ny.us/localgov/pubs/lmgm/claimsauditing.pdf>



Questions



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