

# Improving the Effectiveness of Your Claims Auditing Process

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## How is cash usually stolen?

Most cash is stolen through fraudulent disbursements and only about one quarter is stolen from incoming receipts.

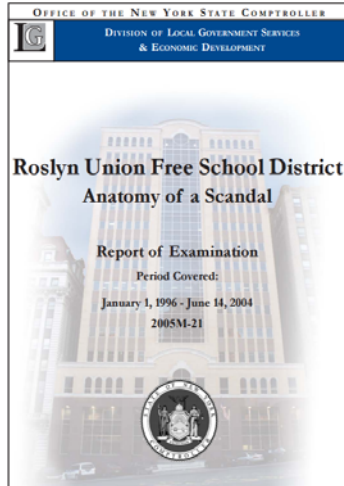
- **Disbursement Schemes**
  - Personal Purchases, Bogus Vendor, Travel Expenses, Duplicate Payment
- **Payroll Schemes**
  - Ghost Employees, Inflated Wages, Inflated Leave Accruals
- **Check Schemes**
  - Endorsement, Altered Payee, Unauthorized



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# Why is the Claims Review Important?



- \$11 million stolen for personal expenditures
  - \$6 million on credit cards (cash advances and purchases)
  - \$1 million on private mortgages
- 13 individuals had district credit cards and only 3 were employees
- 29 individuals benefitted from this misuse
- Multiple individuals were incarcerated
  - CPA, Supt., Asst. Supt of Business, Acct. Clerk
- 63 page audit report

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# The Breakdown

| VENDOR # | ACTUAL VENDOR         | CHANGED NAME         | TOTAL AMOUNT       |
|----------|-----------------------|----------------------|--------------------|
| 7154     | AMERICAN EXPRESS      | SARGENT-WELCH        | \$1,490,359        |
| 8498     | NATIONS               | NATIONAL COMP SYS    | \$720,737          |
| 9172     | AMEX                  | HUGHTON MIFFLIN      | \$299,104          |
| 9537     | CHASE                 | EDC PUBLISH          | \$736,055          |
| 9583     | CHASE                 | NASSAU CNTY BOCES    | \$230,228          |
| 9726     | CITIBANK              | NASSAU COUNTY BOCES  | \$896,710          |
| 9779     | MBNA                  | MACMILLAN PUBLISH    | \$752,394          |
| 10075    | KEY                   | LANDSDOWN SCHOOL     | \$22,799           |
| 10440    | FIRST USA             | FISCHER SCIENCE EDUC | \$158,912          |
| 10878    | BANK OF AMERICA       | MACMILLAN PUBLISH    | \$262,637          |
| 11115    | AMERICAN EXPRESS (AX) | CHAMPION PRODUCTS    | \$377,392          |
| 11133    | FIRST U.S.A.          | FISCHER EDUC         | \$119,045          |
| 11134    | KEY                   | KINDERPRINT CO       | \$35,535           |
| 11384    | PROVIDIAN             | PROTECH COMP SYSTEMS | \$63,956           |
| 11485    | TRAVELERS             | TRANSITION DYNAMIC   | \$41,570           |
|          |                       |                      | <b>\$6,707,434</b> |

- District checks were processed and mailed prior to the claims auditor reviewing and approving the claims
- The claims auditor did not review check warrants when approving claims

|                   | Tassone   | Gluckin   | Rigano   |
|-------------------|-----------|-----------|----------|
| Cash advances     | \$541,596 | \$559,176 | \$27,128 |
| Balance transfers | \$177,899 | \$461,981 | \$13,620 |
| Airline tickets   | \$162,250 | \$63,075  | \$18,068 |
| Hotels            | \$137,285 | \$30,158  | \$5,022  |
| Cruises           | \$139,387 | \$680     | \$0      |

- Credit Card monthly cash advances averaged \$21K-27K
- Travel to St. Thomas, Morocco, Cancun, Thailand, Indonesia, Brazil and more
- Tiffany & Co., Galerie Lassen Maui, LIU for college tuition, Sears in Virginia Beach, Rolex watch and more

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## 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.



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## General Requirements

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



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## 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 20 authorizes the establishment of the position of Town Comptroller in certain towns, and Education Law Section 1709 authorizes the establishment of the position of Claims Auditor



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## 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



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## 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.



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## Criteria for Auditing Claims

### Preliminary Review

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



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## 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?



## 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?



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## 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?



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## Criteria for Auditing Claims (Cont'd)

### Value was Obtained

- Were the goods or services actually received?



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## 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.



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## 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.



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## 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.



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## 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



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## 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.



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## 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
- 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



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## Payments Not Requiring Pre-Audit

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



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## Payments Allowed in Advance of Audit

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



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## 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



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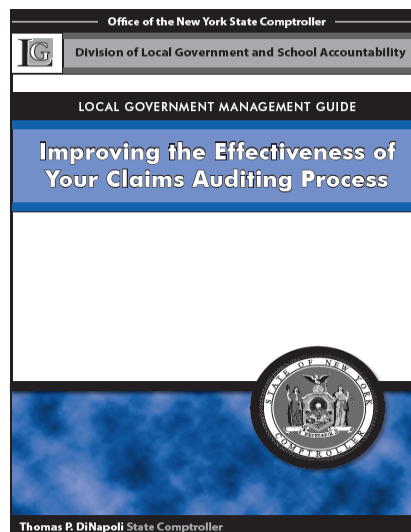
## Analytical Review (Cont'd)

### 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



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



## Resources

OSC Website ([www.osc.state.ny.us](http://www.osc.state.ny.us))

- Audits of Local Governments
- Publications/Research Reports
- Fiscal Monitoring
- Training –The Academy for Local Officials



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## Thank You



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