

# Improving the Effectiveness of Claims Processing

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Division of Local Government and School Accountability



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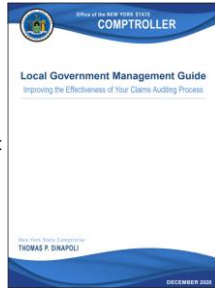
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## Learning Objectives

- Definition
- Responsibility
- Claims Auditor
- Claims Auditing
- Payments Not Requiring Pre-Audit
- Payments Allowed in Advance
- Problem Claims
- Red Flags
- Resources



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## 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.
- Per ACFE 2022 Fraud Report, 28% of fraud was detected by Management Review or internal audit, while only 4% was detected by external audit.



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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.
    - Town Law Section 119
    - Village Law §5-524 (3), §301(2)(c) - Village Auditor
    - County Law Section 369
    - Education Law Section 1709
    - Town Law Section 176 (Fire Districts)
    - City Charter should designate responsibility of auditing claims .



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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
  - Answer only to the Board



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## Separate Position Responsible for the Audit of Claims

- 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.



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## Auditing the Claims

- To ensure that:
  - Claim is for valid and legal purpose
  - Claim is incurred by authorized official
  - Goods received – services rendered
  - An appropriation is available
  - Proper documentation



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## 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



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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

### 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?



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## Criteria for Auditing Claims

### 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?



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## Criteria for Auditing Claims

### Sales Tax and Discounts

- Are there any sales tax charges for exempt expenses?
- Does the claim include all discounts that you are entitled to?



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## Criteria for Auditing Claims

### 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

### Value was Obtained

- Were the goods or services actually received?



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## Payments Not Requiring Pre-Audit

### Payments Authorized Under Other Processes

- 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

### Claims Audit to Follow Soon After Payment

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



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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

**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

**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

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

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.
    - Do not pay on basis of monthly statements



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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.
  - Internally or externally
- Excessive voids or credits.



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## 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.



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## 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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## 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



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# Resources

- Website
  - [www.osc.state.ny.us](http://www.osc.state.ny.us)
- Publications
  - <https://www.osc.state.ny.us/local-government/publications>
- Training
  - <https://www.osc.state.ny.us/local-government/academy>

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# Questions?

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[localtraining@osc.ny.gov](mailto:localtraining@osc.ny.gov)



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