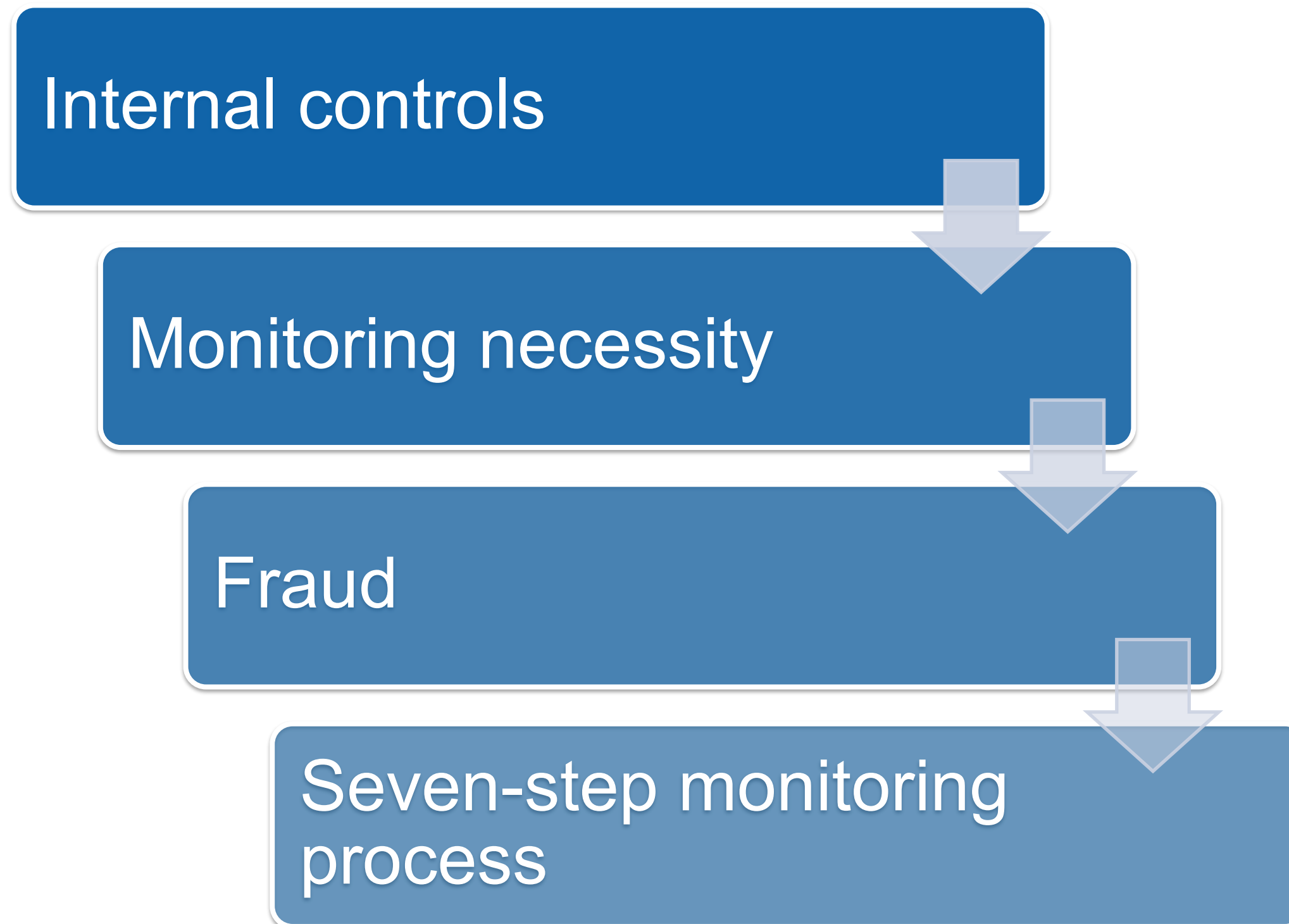


Contract Payment Review

Janel Carey, Sam Blumenthal,
Danielle Friend and Theresa Cassiack

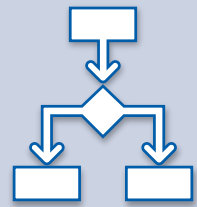


Roadmap



Internal Controls

What Are Internal Controls?

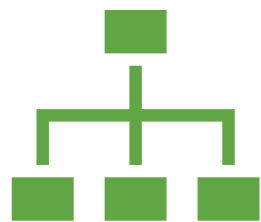


Processes effected by an entity's board of directors, management, and other personnel



Designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

Internal Controls Objectives



Operations

Effectiveness and efficiency of the entity's operations



Reporting

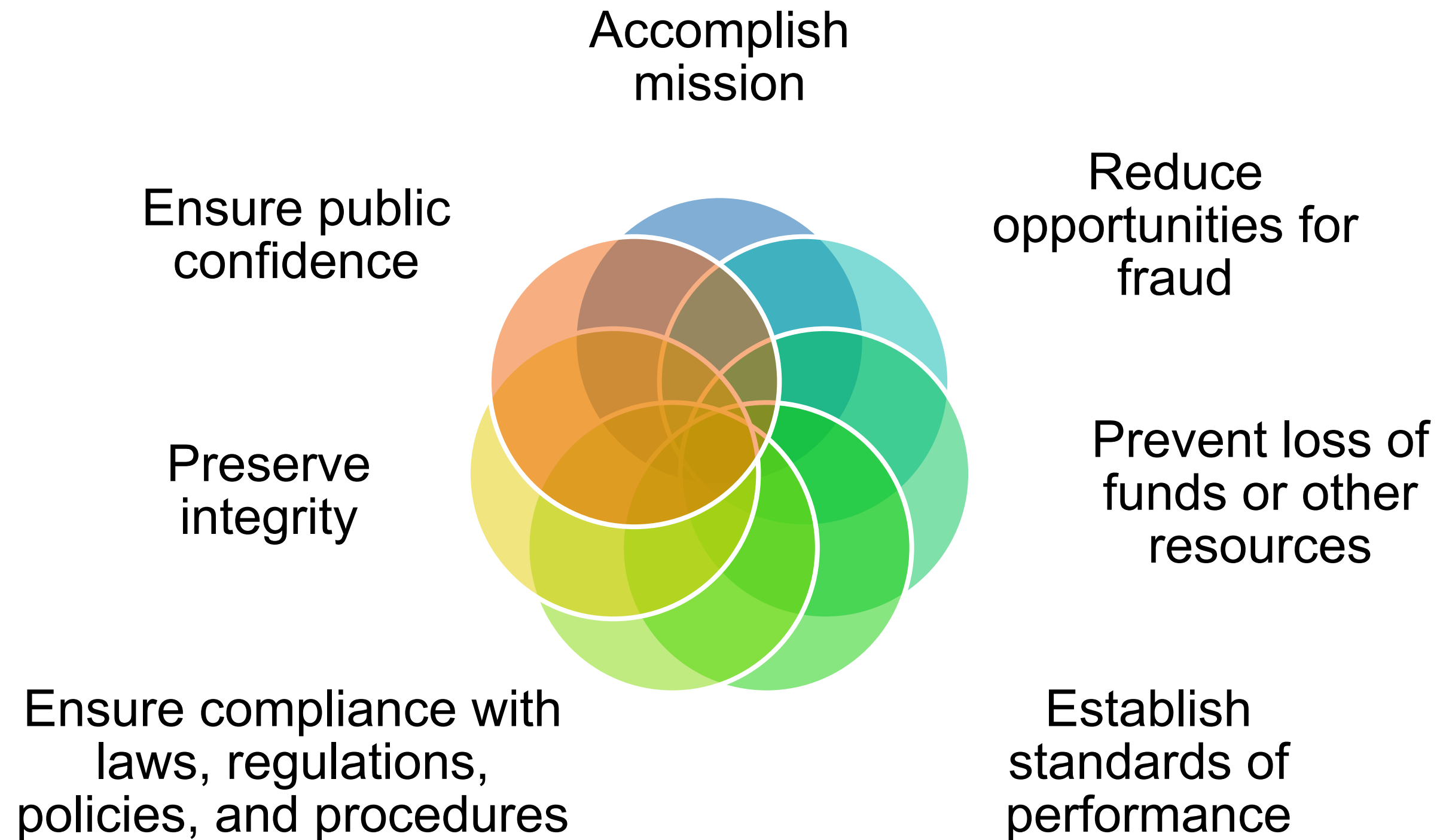
Internal and external financial and nonfinancial reporting



Compliance

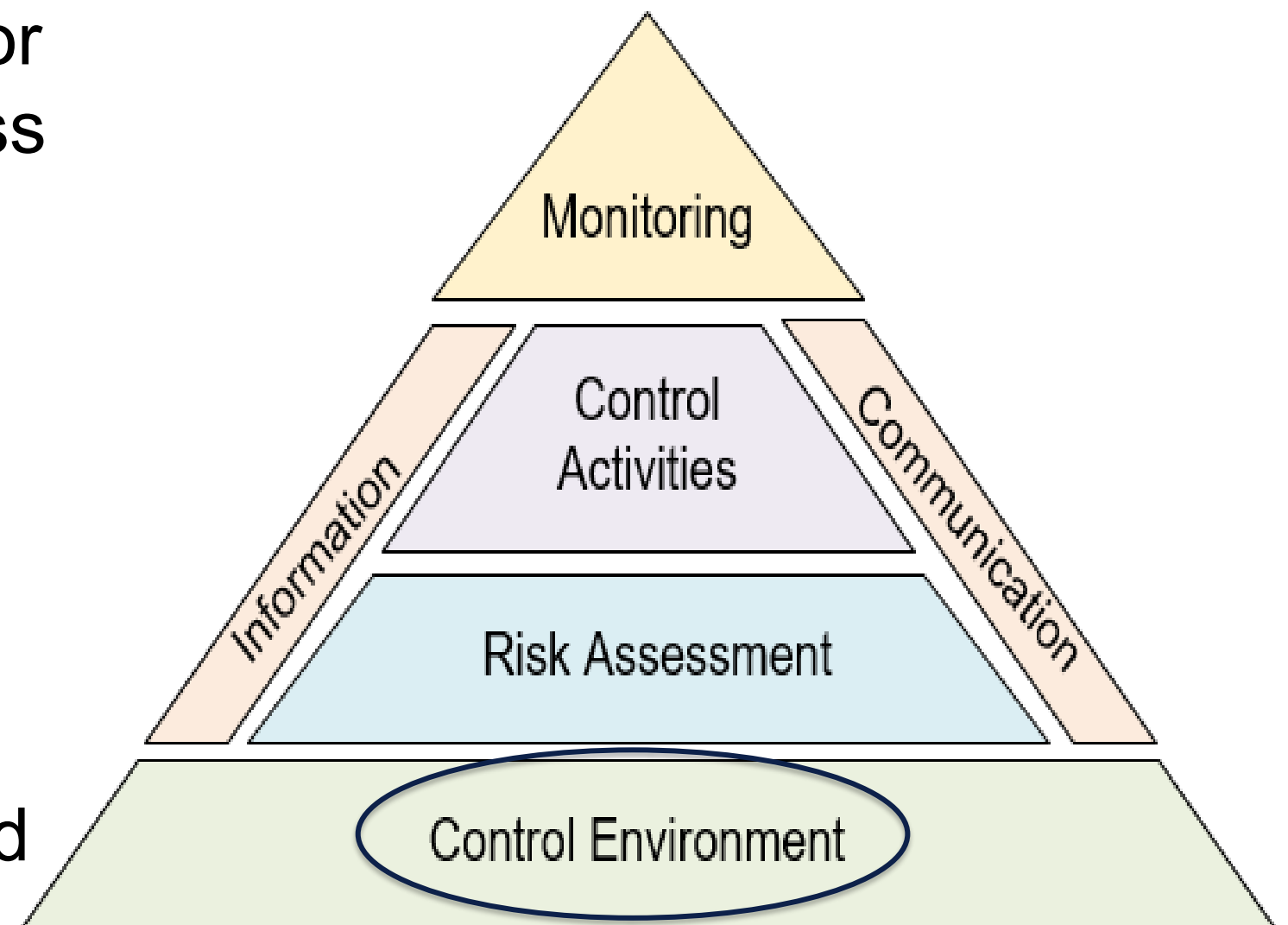
Adherence to laws, regulations, contracts and management directives

Importance of Internal Controls



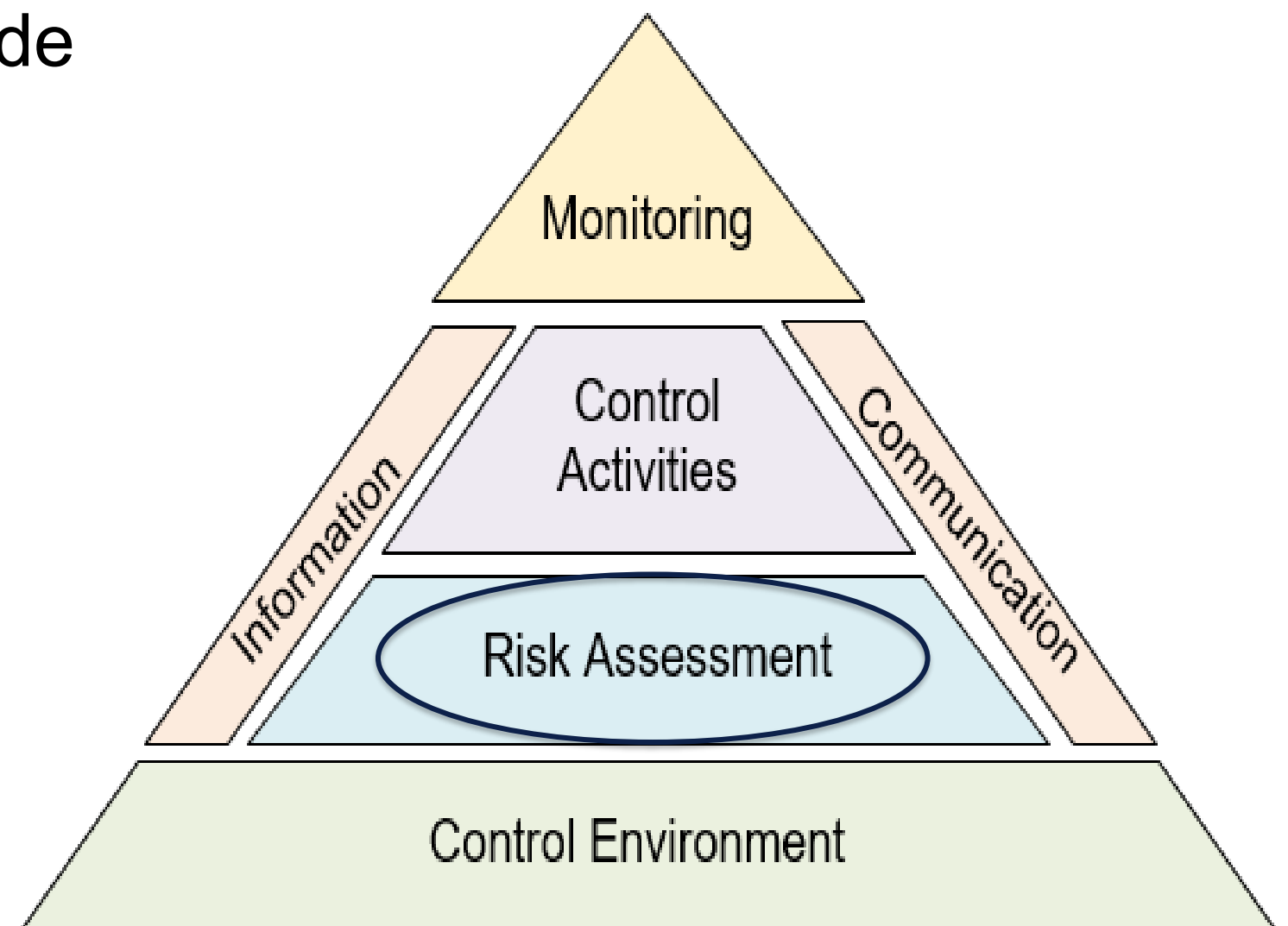
Control Environment

- Set of standards, processes, and structures that are the backbone for establishing internal controls across the organization
- Demonstrates commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes structure, authority and responsibility
- Enforces accountability



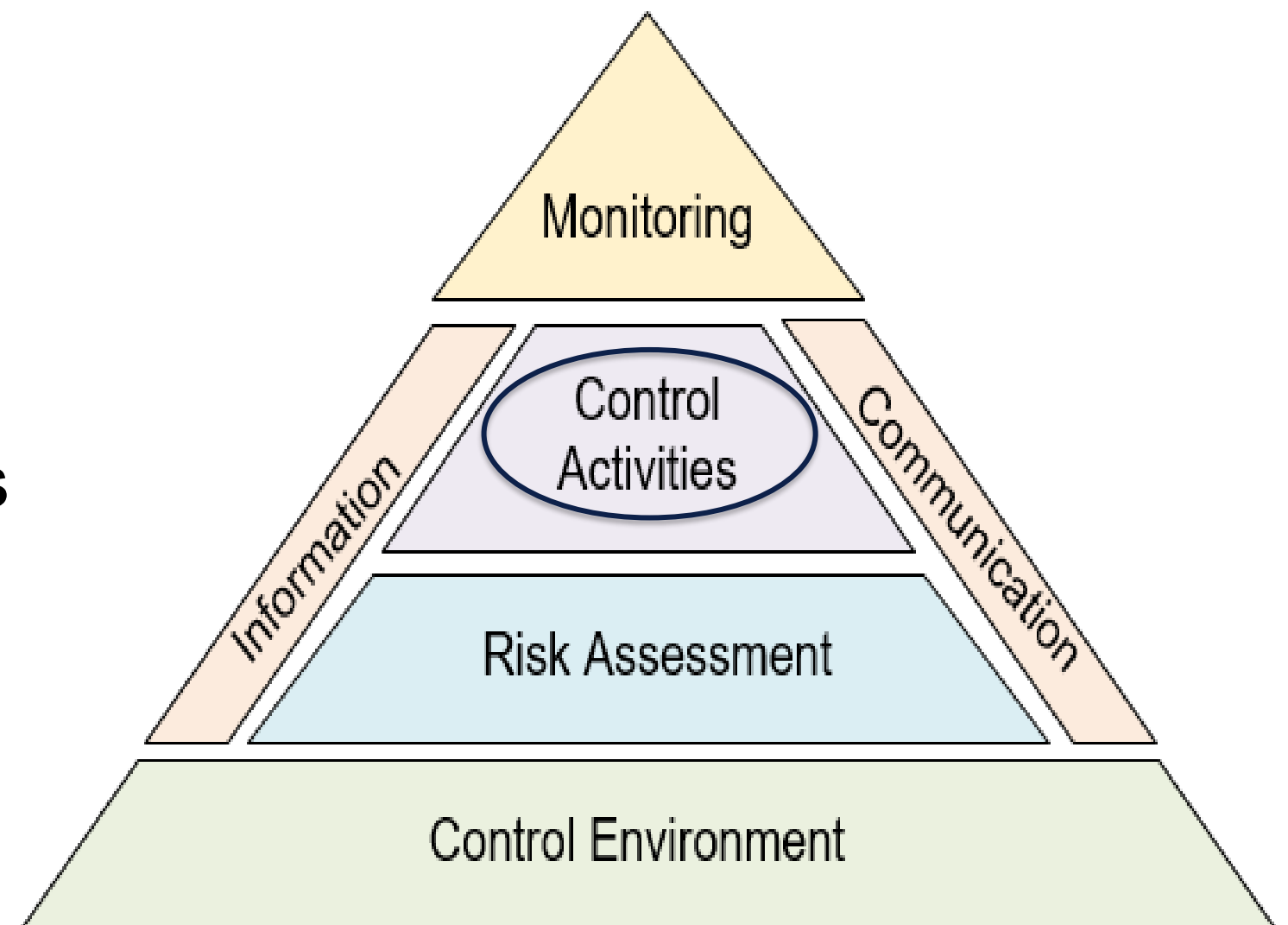
Risk Assessment

- Process for identifying and analyzing threats through an organization-wide effort
- Specifies suitable objectives
- Identifies and analyzes risk
- Assesses fraud risk
- Manages risk during change



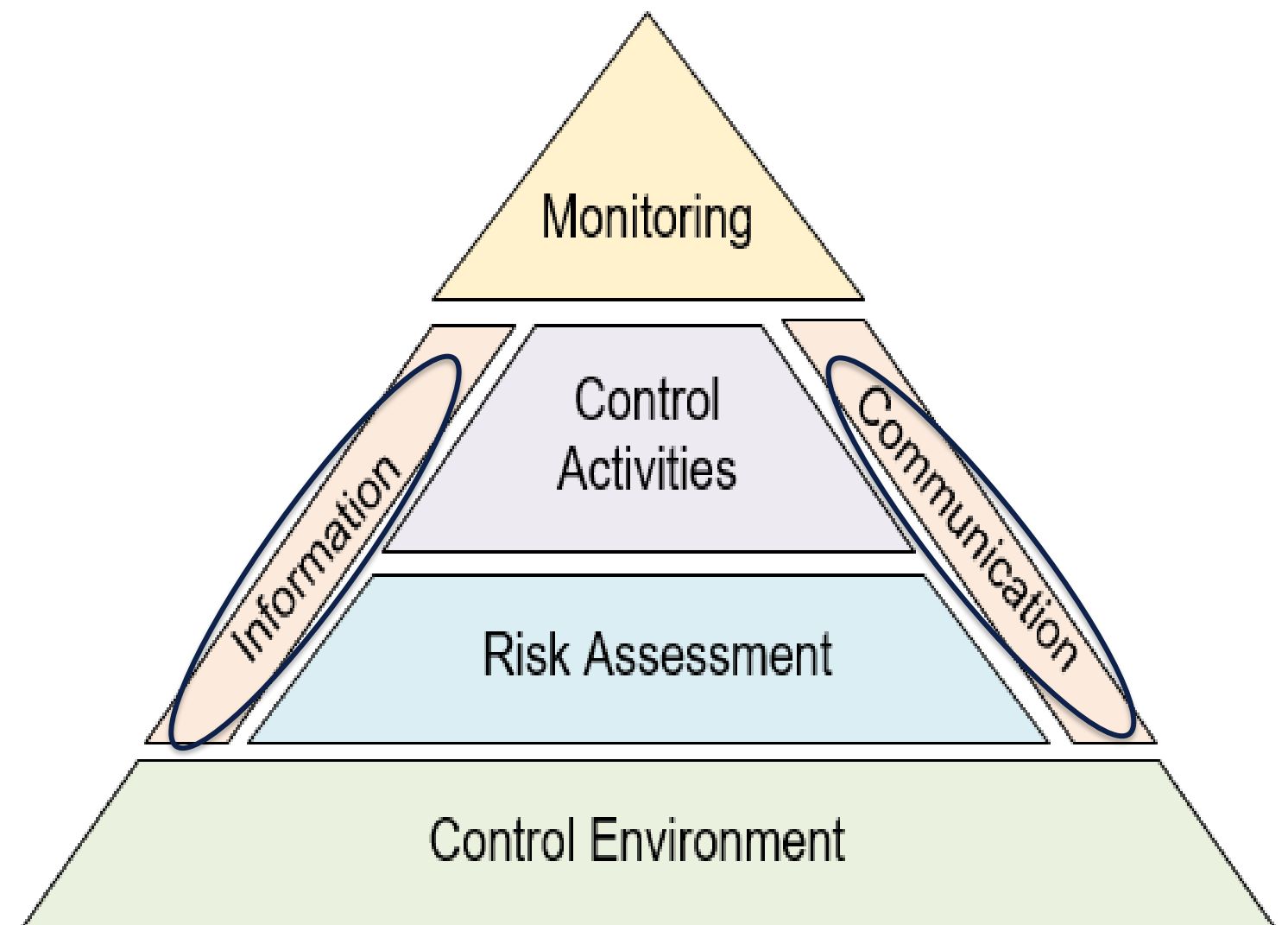
Control Activities

- Actions established through policies and procedures
- Helps ensure management's directives to mitigate risks
- Controls deployed through policies and procedures



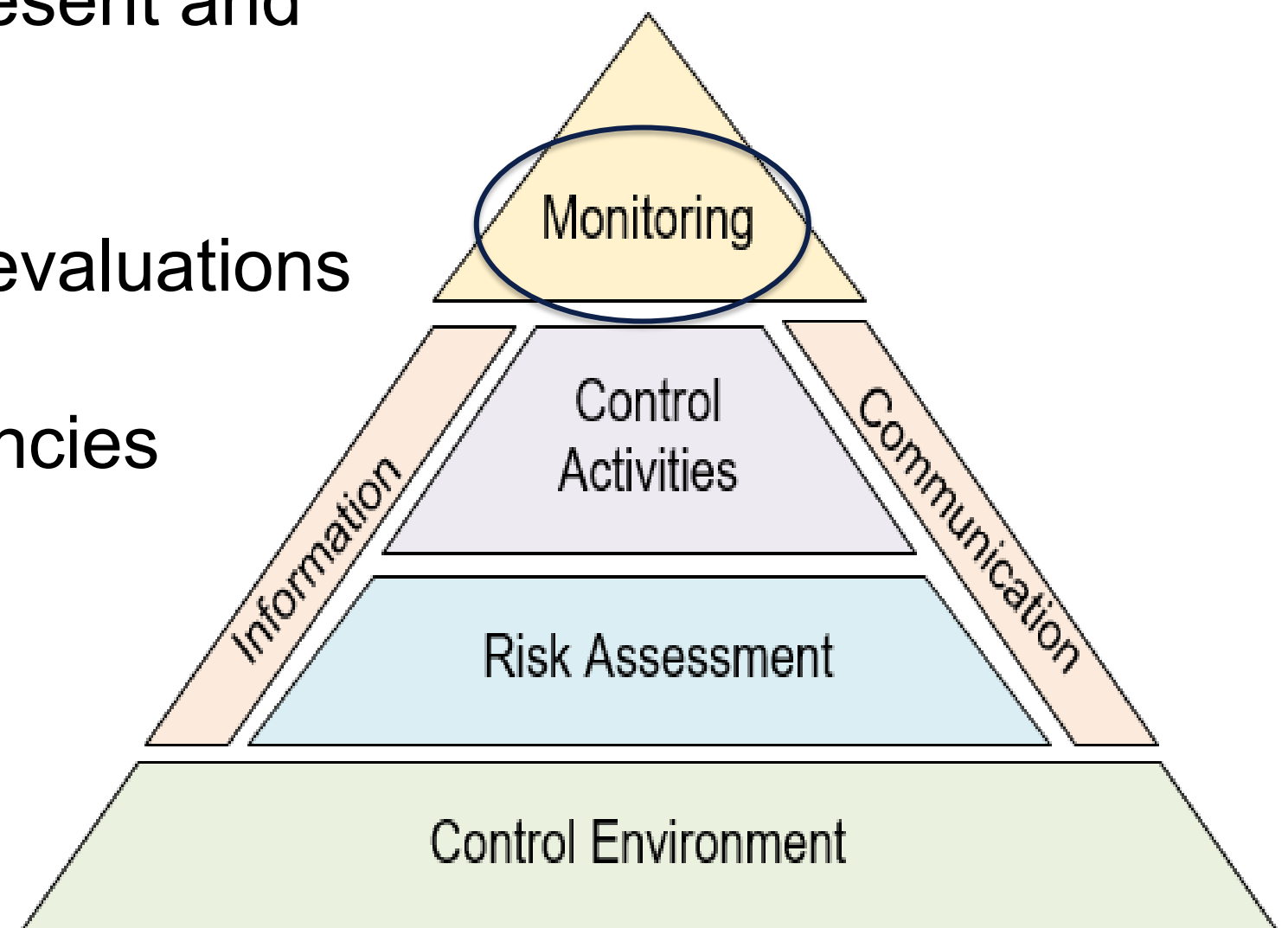
Information and Communication

- Necessary to support the achievement of objectives
- Use relevant information
- Communicate internally
- Communicate externally



Monitoring

- Ongoing evaluation of internal control components, either individually or as a whole system, to determine if they are present and operating as required
- Conduct ongoing and/or separate evaluations
- Evaluate and communicate deficiencies



Monitoring Necessity

Why Monitoring is Necessary



Billions of dollars in
State spending



Agency approvers are
responsible for certifying
payments are just, due,
and owing



Protect people, achieve
goals, prevent loss of
resources, protect
agency reputation



Prevent and mitigate
fraud and errors

Fraud

What is Fraud?



How Much is Lost?

- **5% of an organizations' annual revenues**
- **Median loss of \$104,000 annually**
 - \$140,000 for public companies
 - \$69,000 for not-for-profits
 - \$110,000 for government
- **20% of cases in the study had losses of at least \$1 million**



How Is It Committed? (page 1 of 2)

Corruption	Asset Misappropriation	Financial Statement Fraud
Bribery • Bid Rigging • Invoice Kickbacks	Fraudulent Disbursements • Check and Payment Tampering • Billing	Asset/Revenue Over- and Understatements • Improper Disclosures
Conflict of Interest • Purchasing Schemes • Gratuities and Extortion	Noncash • Larceny • Misuse of Assets	

How Is It Committed? (page 2 of 2)

Contract Payments

- Lack of valid, verified supporting documentation reviewed and validated by the Agency as part of the certification process

Where Does it Happen? (1 of 2)

Nearly 56% of frauds in the study were committed by individuals in 1 of 5 departments:

Operations
corruption, noncash
theft, billing

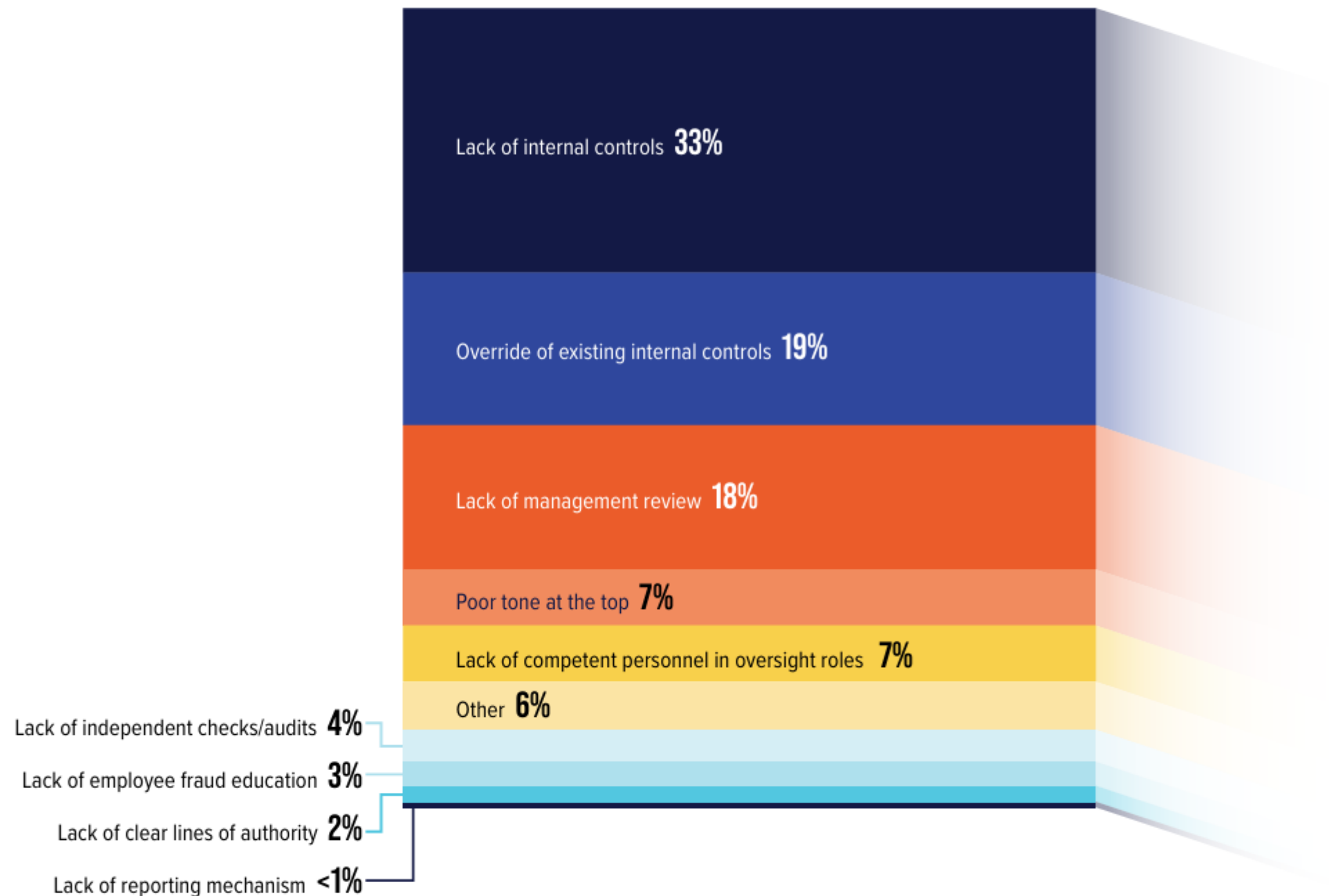
Accounting
billing, check tampering,
corruption

Sales
corruption, noncash theft

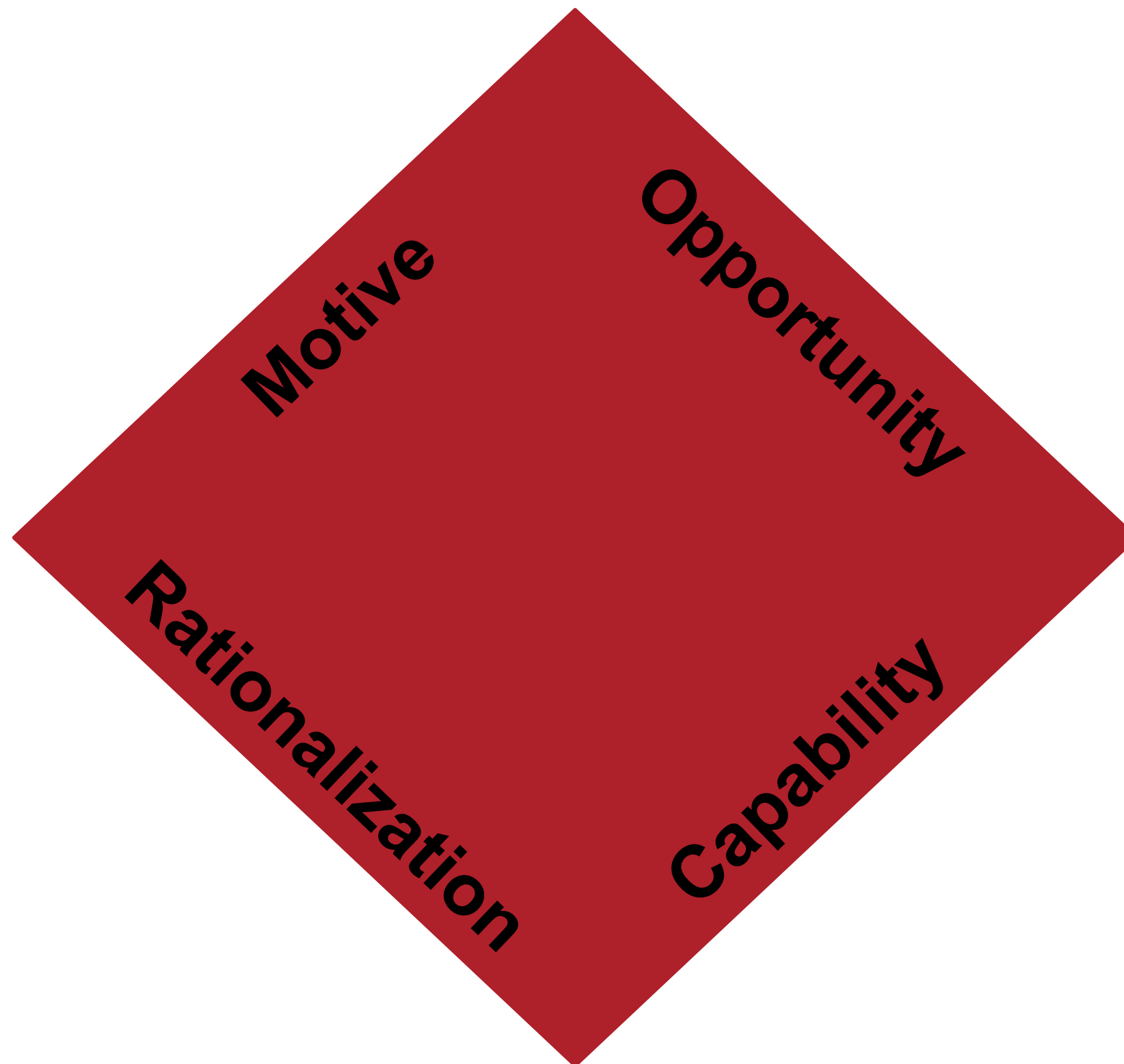
Executive/Upper
Management
corruption, financial
statement fraud, billing,
expense reimbursement

Customer Service
corruption, skimming

Where Does it Happen? (2 of 2)



How Does Fraud Happen?



Motive Flags

- ✎ High debt
- ✎ Significant financial losses
- ✎ Excessive alcohol, drugs or gambling
- ✎ Perceived organizational inequities
- ✎ Job frustration or resentment



Opportunity Flags

- ✎ Familiarity with operations
- ✎ Ability to override controls
- ✎ No periodic rotation of key employees
- ✎ No uniform personnel policies
- ✎ Lack of strong internal controls
- ✎ Lack of action by management to pursue fraud perpetrators



Rationalization Flags

- ✎ They owe me
- ✎ I'm overworked
- ✎ I do the work of two people
- ✎ They'll never miss it
- ✎ I'll just borrow it and pay it back
- ✎ I'm not really hurting anyone
- ✎ Everyone is a little dishonest

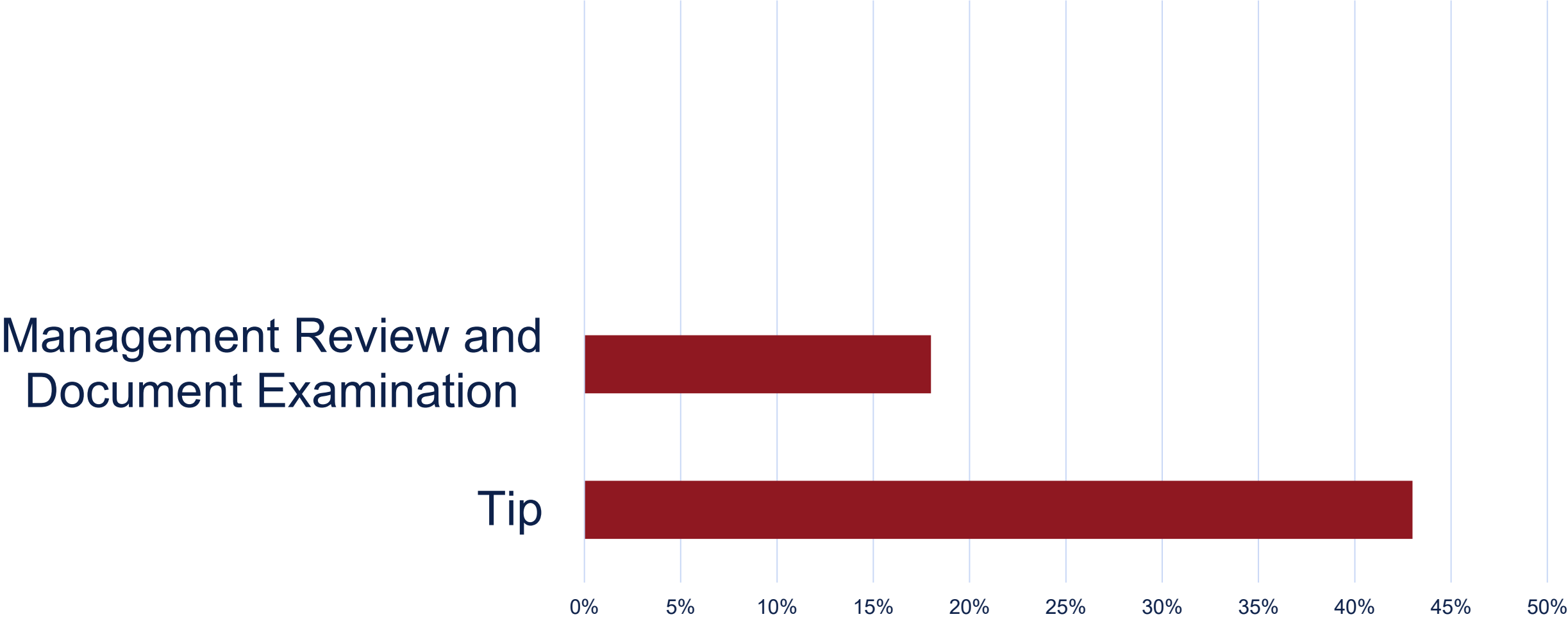


Capability Flags

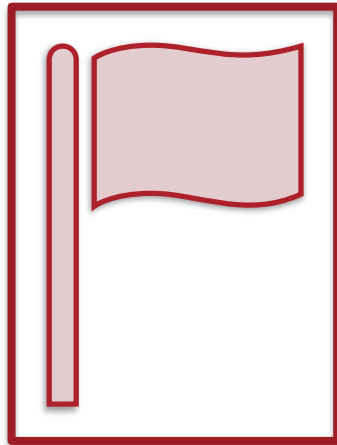
- ✎ Position/function
- ✎ Confidence/ego
- ✎ Coercion skills
- ✎ Effective lying
- ✎ Immunity to stress



How Fraud is Detected



Red Flags



A warning that something isn't right



Should lead you to take a closer look at the transaction



Document Flags

- ✍ Inadequate or apparently altered documents
- ✍ Round amounts or amounts under approval levels
- ✍ Unusual Invoice/PO numbers
- ✍ Vendor address is a PO Box
- ✍ Invoice figures do not add up
- ✍ No letterhead
- ✍ Misspellings on document
- ✍ No hourly rates
- ✍ Vague information (e.g., no description of services)

Invoice Exercise – Can You Spot the Document Flags?

Example Invoice - Goods (1 of 2)

ABC Office Supplies, Inc.
PO Box 1001
Rochester, NY 14607
United States

Invoice

Date: 02/01/2024
Invoice Number: NYS001
Pay Terms: Net30 Days

Bill To	Ship To
New York State Attn: John Smith 110 State Street Albany, NY 12236	New York State 110 State Street Albany, NY 12236

ORDER LINE	ITEM NUMBER	DESCRIPTION	ORDER QTY	UNIT MEASURE	SHIP QTY	UNIT PRICE	TOTAL PRICE
1	24433144	Copy Paper 8.5" x 11", White 5000 Sheets/ Carton	6	CT	6	\$85.00	\$510.00
2	364132	HP 26x Black High Yield Toner	12	PK	12	\$250.00	\$3,000.00
3	1179570	BIC Round Stic BLK Pens	3	PK	3	\$9.79	\$29.37
Freight: .00 Tax: (.0000 %) .00						Sub-Total: \$3,539.37	
						Total: \$3,539.37	

Thank You For Your Order! ABC Office Supplies, Inc.

Make checks payable to ABC Office Supplies, PO Box 1001 Rochester, NY 14607

Page: 1

Example Invoice - Goods (2 of 2)

ABC Office Supplies, Inc. PO Box 1001 Rochester, NY 14607 United States	Invoice Date: 02/01/2024 Invoice Number: NYS001 Pay Terms: Net30 Days																																				
Bill To New York State Attn: John Smith 110 State Street Albany, NY 12236	Ship To New York State 110 State Street Albany, NY 12236																																				
<table><thead><tr><th>ORDER LINE</th><th>ITEM NUMBER</th><th>DESCRIPTION</th><th>ORDER QTY</th><th>UNIT MEASURE</th><th>SHIP QTY</th><th>UNIT PRICE</th><th>TOTAL PRICE</th></tr></thead><tbody><tr><td>1</td><td>24433144</td><td>Copy Paper 8.5" x 11", White 5000 Sheets/ Carton</td><td>6</td><td>CT</td><td>6</td><td>\$85.00</td><td>\$510.00</td></tr><tr><td>2</td><td>364132</td><td>HP 26x Black High Yield Toner</td><td>12</td><td>PK</td><td>12</td><td>\$250.00</td><td>\$3,000.00</td></tr><tr><td>3</td><td>1179570</td><td>BIC Round Stic BLK Pens</td><td>3</td><td>PK</td><td>3</td><td>\$9.79</td><td>\$29.37</td></tr></tbody></table>	ORDER LINE	ITEM NUMBER	DESCRIPTION	ORDER QTY	UNIT MEASURE	SHIP QTY	UNIT PRICE	TOTAL PRICE	1	24433144	Copy Paper 8.5" x 11", White 5000 Sheets/ Carton	6	CT	6	\$85.00	\$510.00	2	364132	HP 26x Black High Yield Toner	12	PK	12	\$250.00	\$3,000.00	3	1179570	BIC Round Stic BLK Pens	3	PK	3	\$9.79	\$29.37	<table><tr><td>Freight: .00 Tax: (.0000 %) .00</td><td>Sub-Total: \$3,539.37</td></tr><tr><td></td><td>Total: \$3,539.37</td></tr></table>	Freight: .00 Tax: (.0000 %) .00	Sub-Total: \$3,539.37		Total: \$3,539.37
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Make checks payable to ABC Office Supplies, PO Box 1001 Rochester, NY 14607																																					
Page: 1																																					

Example Invoice – Services (1 of 2)

Invoice

XYZ Staffing, Co.

1 Main Street
Poughkeepsie, NY 12601-12604
Phone: (845) 555-5555

Date	Payment Term	PO Number
01/16/2023	30 Days	XX0000111

Billing Address:

New York State
Attn: John Smith
99 Washington Ave
Albany, New York 12210

Amount Due	\$35,050.75
-------------------	--------------------

Descirption	Quantity Received	Amount
Staffing Services 11/06/23 - 11/10/23	10.7 Hrs	\$2,080.25
Staffing Services 11/13/23 - 11/17/23	75 Hrs	\$15,767.00
Staffing Services 11/20/23 - 11/24/23	56.6 Hrs	\$13,112.25
Staffing Services 11/27/23 - 12/01/23	25.4 Hrs	\$4,091.25

Please Pay This Amount	\$35,050.75
-------------------------------	--------------------

Example Invoice – Services (2 of 2)

Invoice

XYZ Staffing, Co.

1 Main Street
Poughkeepsie, NY 12601-12604
Phone: (845) 555-5555

Billing Address:

New York State
Attn: John Smith
99 Washington Ave
Albany, New York 12210

Date	Payment Term	PO Number
01/16/2023	30 Days	XX0000111

Amount Due

\$35,050.75

Descirption	Quantity Received	Amount
Staffing Services 11/06/23 - 11/10/23	10.7 Hrs	\$2,080.25
Staffing Services 11/13/23 - 11/17/23	75 Hrs	\$15,767.00
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Staffing Services 11/27/23 - 12/01/23	25.4 Hrs	\$4,091.25

Please Pay This Amount

\$35,050.75

Page 1

Bid Rigging Flags

Vendors

Fake Vendors

- Employee created bids

Real Vendors

- No knowledge of bid submission
- Shared owner with favorable vendor
 - Rescind bid



Contracting Flags

- ✎ Restrictive or vague specifications
- ✎ Similar letterheads of bidders
- ✎ Unreasonable bid amounts
- ✎ Lack of vendor contact information on bids
- ✎ Signature on bid is the company name instead of an individual



Conflict of Interest Flags

- ✍ Relationships between awardee and agency staff
 - Address or identification number match
- ✍ Unexplained or unusual patterns of use of a particular vendor



Bribes and Kickback Flags

- Ⓜ Unexplained or unusual patterns of use of a certain vendor
- Ⓜ Relationships between awardee and agency staff
- Ⓜ Unexplained, but significant increase in wealth of employee



Available Resources for Finding Relationships Within an Organization

Check the
Financials

Google/Google
Maps

White Pages

LexisNexis/
Accurint

NFP's 990

www.guidestar.org

www.charitiesnys.com

<https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>

For Profit - published

Break Time!

Please return on time to remain on schedule.

7-Step Monitoring Process

7-Step Monitoring Process



IDENTIFY
PAYMENTS TO
REVIEW



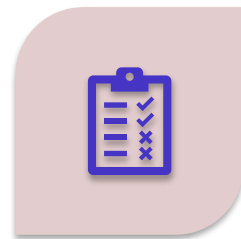
UNDERSTAND
REQUIREMENTS



IDENTIFY RISKS



PRIORITIZE RISKS



DETERMINE RISK
RESPONSE



DESIGN/EXECUTE
MONITORING
ACTIVITIES



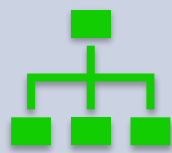
FOLLOW UP

Step 1: Identify Payments to Review

Identify Payments to Review



What data do you have available?



What are your department's internal controls?



How can this help you identify payments to review?



“Transparency is essential so New Yorkers can hold their government and elected officials accountable.”

— State Comptroller Thomas P. DiNapoli



Open Book New York

Search Millions of State and Local Government Financial Records

As the State's Chief Financial Officer, Comptroller DiNapoli believes New Yorkers deserve to know how their tax dollars are spent. Without transparency in government, there cannot be accountability. His open data initiatives are a commitment to this belief.

If you've ever wondered how much it costs to run your fire department or how much your city spends on education, you can easily track where money is going and how it's being reflected in the State's spending priorities using the Comptroller's Open Book New York.

Also see [Additional Financial Information](#).



State Contracts

Search 280,000 contracts that State agencies have with businesses, not-for-profit organizations and other governmental entities in effect April 1, 2012, or later. Includes both contracts approved by the Office of the State Comptroller and those that don't require approval by the Office.

[Search Contracts](#)



State Payments

Search payments made by the state since April 1, 2012, which now includes about 17,000 new payments each day, and contains the agency submitting the payment request, the payment recipient, the payment amount and the date the payment was made.

[Search Payments](#)

Also see [Legislative Travel and Per Diem Expenses](#)

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[Home](#) > NYS Contract Search

NYS Contract Search

Search Criteria

Agency Name

Authority Name

Vendor Name

☒ Begins With ☐ Contains ☐ Exact Match

Contract Number

Contract Type

Original Contract Approved/Filed Date

Contract Period

Current Contract Amount

Search

Reset

OPEN BOOK NEW YORK

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[Home](#) > [NYS Contract Search](#) > Contract Search Results

Contract Search Results

18,974 Contracts Found - Displaying page 3 of 380

Agency = Health, Department of

[First](#) - [1](#) [2](#) [3](#) [4](#) [5](#) [6](#) [7](#) [8](#) [9](#) [10](#) [11](#) [12](#) [13](#) [14](#) [15](#) [16](#) [17](#) [18](#) [19](#) [20](#) [21](#) [22](#) [23](#) [24](#) [25](#) - [Next \(25\)](#) - [Last](#)

[Download Summary Contract Information to a Printer Friendly \(PDF\)](#) 

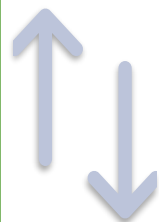
[Download Summary Contract Information to an Excel Spreadsheet](#) 

[Download Additional Contract and Related Amendment Data for OSC approved transactions](#) 

 Vendor Name	 Department/Facility	 Contract Number	 Current Contract Amount	 Spending to Date	 Contract Start Date	 Contract End Date ▾	 Contract Description	 Contract Type	 Original Contract Approved/Filed Date
SANOFI AVENTIS US LLC	Department of Health	X033574	\$0.00	\$0.00	01/16/2018	01/15/2038	Elderly Pharmaceutical Insurance Coverage (EPIC) Rebate Agreement	Revenue Generating - Medical/Pharmacy - DOH/EPIC	02/28/2018
E5 PHARMA LLC	Department of Health	X033314	\$0.00	\$0.00	10/12/2017	10/11/2037	Elderly Pharmaceutical Insurance Coverage (EPIC) Rebate Agreement	Revenue Generating - Medical/Pharmacy - DOH/EPIC	11/09/2017
LIFESTAR PHARMA LLC	Department of Health	X033310	\$0.00	\$0.00	10/05/2017	10/04/2037	Elderly Pharmaceutical Insurance Coverage (EPIC) Rebate Agreement	Revenue Generating - Medical/Pharmacy - DOH/EPIC	11/09/2017
NAPO PHARMACEUTICALS INC	Department of Health	X033191	\$0.00	\$0.00	09/08/2017	09/07/2037	Elderly Pharmaceutical Insurance Coverage (EPIC) Rebate Agreement	Revenue Generating - Medical/Pharmacy - DOH/EPIC	10/27/2017
OREXIGEN THERAPEUTICS INC	Department of Health	X033242	\$0.00	\$0.00	09/07/2017	09/06/2037	Elderly Pharmaceutical Insurance Coverage (EPIC) Rebate Agreement	Revenue Generating - Medical/Pharmacy - DOH/EPIC	10/10/2017
TRUPHARMA HOLDINGS LP	Department of Health	X033122	\$0.00	\$0.00	07/24/2017	07/23/2037	Elderly Pharmaceutical Insurance Coverage (EPIC) Rebate Agreement	Revenue Generating - Medical/Pharmacy - DOH/EPIC	09/12/2017
VIRTUS PHARMACEUTICALS LLC DELAWARE	Department of Health	X032979	\$0.00	\$0.00	05/24/2017	05/24/2037	EPIC REBATE AGREEMENT	Revenue Generating - Medical/Pharmacy - DOH/EPIC	06/23/2017
BIOCON PHARMA INC	Department of Health	X032968	\$0.00	\$0.00	05/08/2017	05/08/2037	EPIC REBATE AGREEMENT	Revenue Generating - Medical/Pharmacy - DOH/EPIC	06/07/2017
LEADING PHARMA LLC	Department of Health	X032720	\$0.00	\$0.00	02/17/2017	02/17/2037	EPIC REBATE AGREEMENT	Revenue Generating - Medical/Pharmacy - DOH/EPIC	04/27/2017
HERCON PHARMACEUTICALS LLC	Department of Health	X032714	\$0.00	\$0.00	02/13/2017	02/13/2037	EPIC REBATE AGREEMENT	Revenue Generating - Medical/Pharmacy - DOH/EPIC	03/20/2017
CAMERON PHARMACEUTICALS LLC	Department of Health	X032713	\$0.00	\$0.00	01/18/2017	01/18/2037	EPIC REBATE AGREEMENT	Revenue Generating - Medical/Pharmacy - DOH/EPIC	03/20/2017
GENETIX BIOTHERAPEUTICS INC	Department of Health	X042664	\$0.00	\$0.00	01/01/2026	12/31/2036	Cell and Gene Therapy (CGT) Access Model Guaranteed and Outcomes Based Rebates	Revenue Generating - Medical/Pharmacy - DOH/EPIC	05/15/2026
ADALEX PHARMACEUTICALS US INC	Department of Health	X033408	\$0.00	\$0.00	12/20/2016	12/20/2036	EPIC REBATE AGREEMENT	Revenue Generating - Medical/Pharmacy - DOH/EPIC	04/26/2017

Identify Contracts to Review

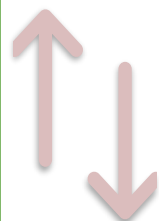
Sort Contracts



Contract amount



Vendor name and contract count



Vendor name and spending to date



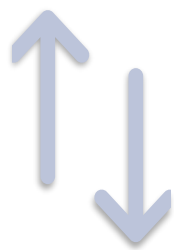
Contract start date



Contract description and contract count

Identify Contracts to Review Continued

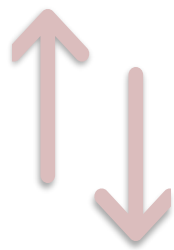
Sort Contracts



Contract description and
contract amount



Percent of contract
expended

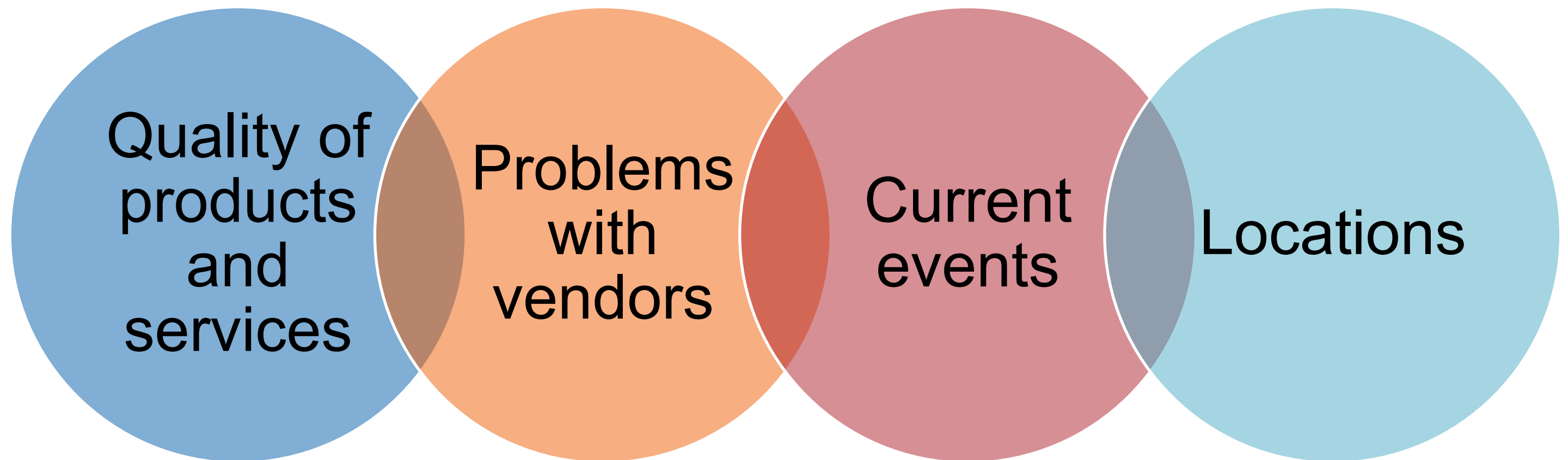


Number of years
remaining on the contract



Contract type (e.g.,
consultant, service, grant)

Common Concerns



Step 2: Understand Contract Terms

Understand Contract Terms



Reasoning



Conversation



Purchase order
details



Contract
specifications



Laws, rules and
regulations



Guidelines

Contract Terms

GFO section XI.11.F

Understand

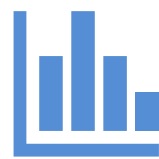
Assess quality

Design steps to determine
whether the terms are being met

Specifications



Specific



Measurable



Achievable



Relevant



Time-Bound

Contract Terms - Example

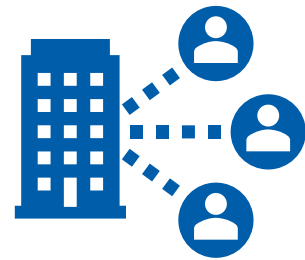
- **Contractor will provide:**
 - One on-site, dedicated (resident) class A elevator mechanic during the hours of 9:00 AM and 5:00 PM on Monday through Friday
 - One on-site, dedicated class A helper during the hours of 9:00 AM and 5:00 PM on Monday through Friday
- **There will be no charges for overtime**



Step 3: Identify Risks

Identify Risks

What Can Go Wrong?



Programmatic

What can prevent contract terms from being accomplished?



Fiscal

How can the vendor get money they are not entitled to?

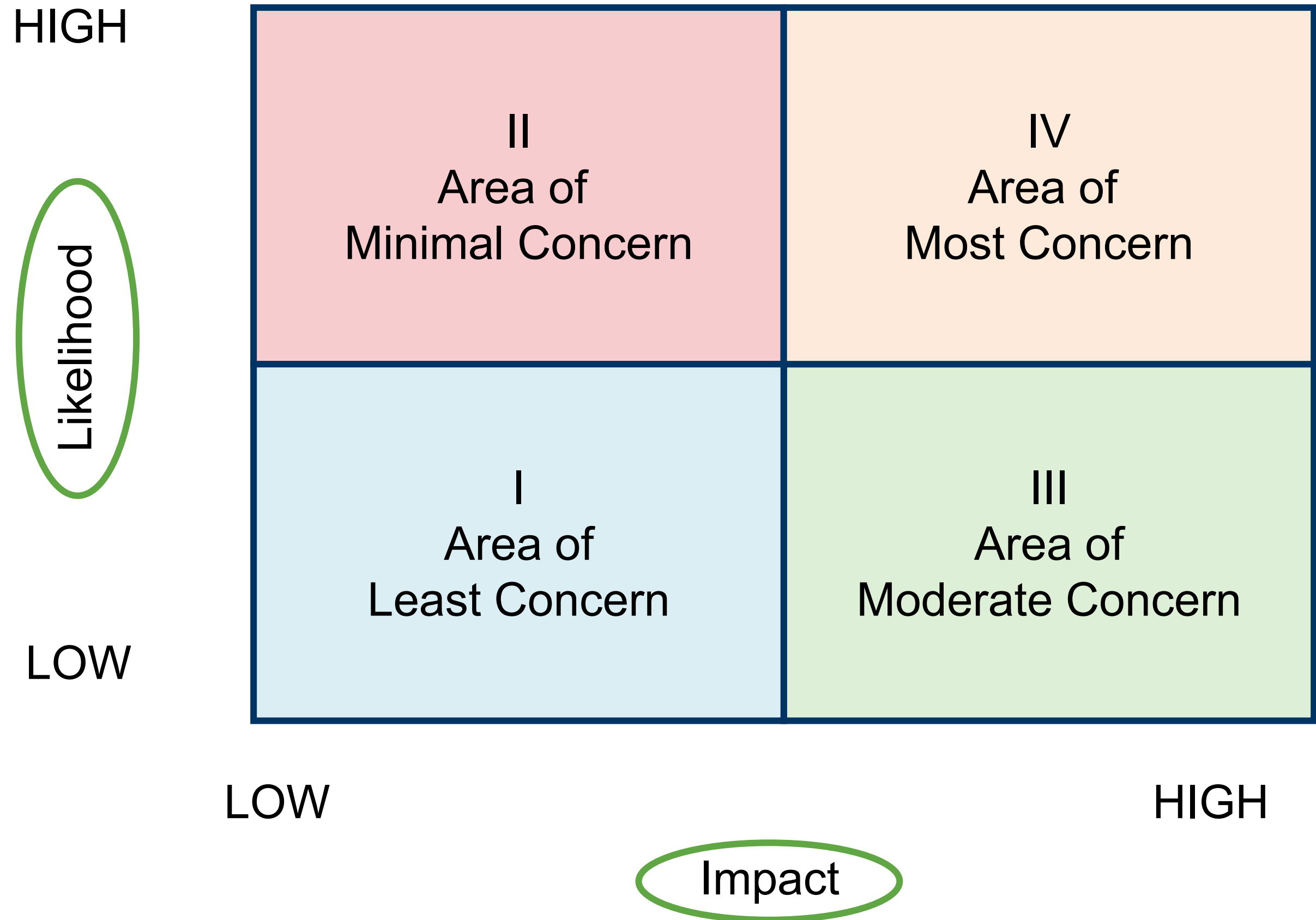
Identify Risks Continued

Example

Risk	Area
Contractor charges for overtime	Programmatic and Fiscal
Contractor does not provide one on-site resident mechanic and one on-site resident helper	Programmatic

Step 4: Prioritize Risks

Prioritize Risks



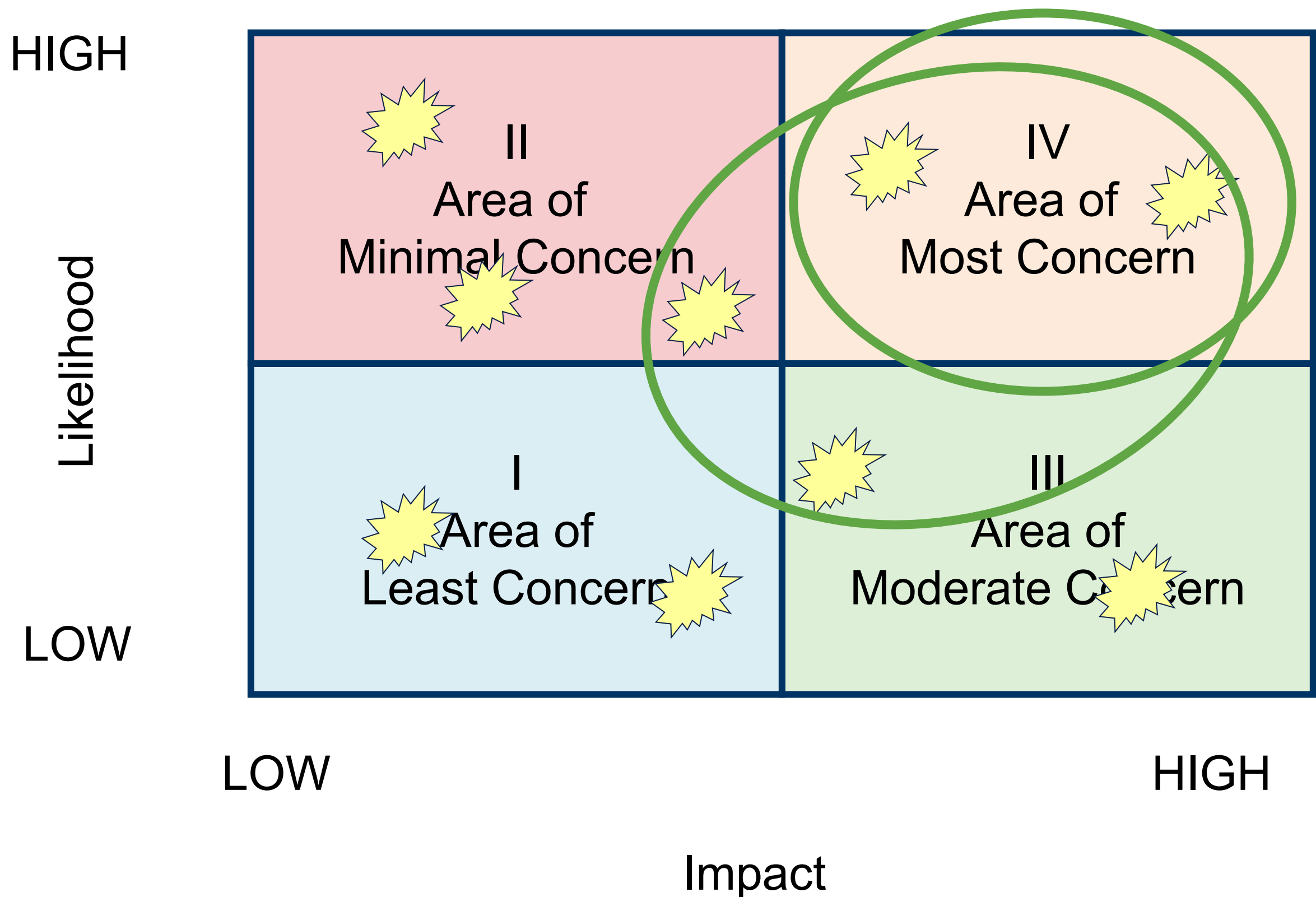
Prioritize Risks Continued

Example

Risk	Area	Likelihood	Impact
Contractor charges for overtime	Programmatic and Fiscal	Medium	High
Contractor does not provide one on-site resident mechanic and/or one on-site resident helper	Programmatic	Medium	High

Step 5: Determine Risk Response

Determine Risk Response (1 of 3)



Determine Agency's Risk Response (2 of 3)

Mitigate

- Revise administrative procedures
- Improve control systems
- Increase auditing

Accept

Determine Risk Response (3 of 3)

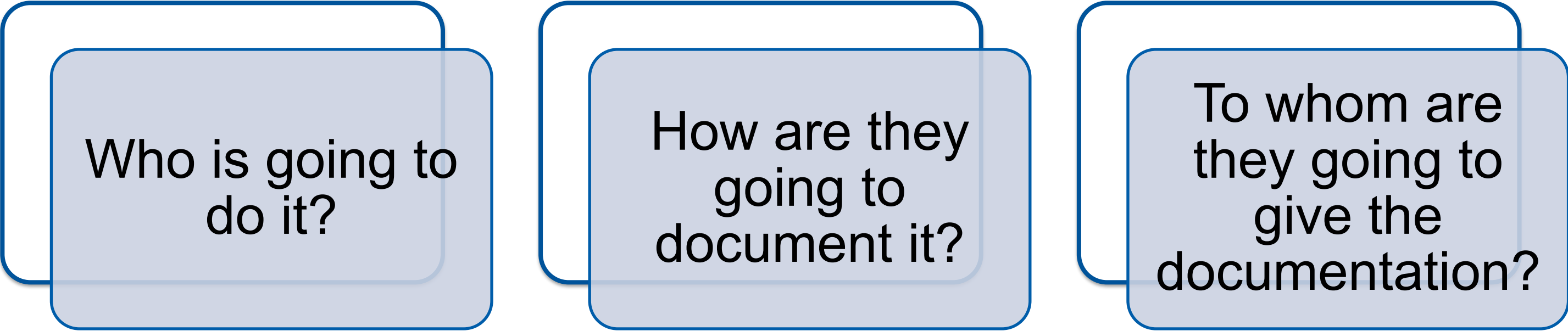
Example

Risk	Area	Likelihood	Impact	Priority
Contractor charges for overtime	Programmatic and Fiscal	Medium	High	Mitigate Risk
Contractor does not provide one on-site resident mechanic and/or one on-site resident helper	Programmatic	Medium	High	Mitigate Risk

Step 6: Design/Execute Monitoring Activities

Design and Execute Monitoring Activities

Mitigate Risks

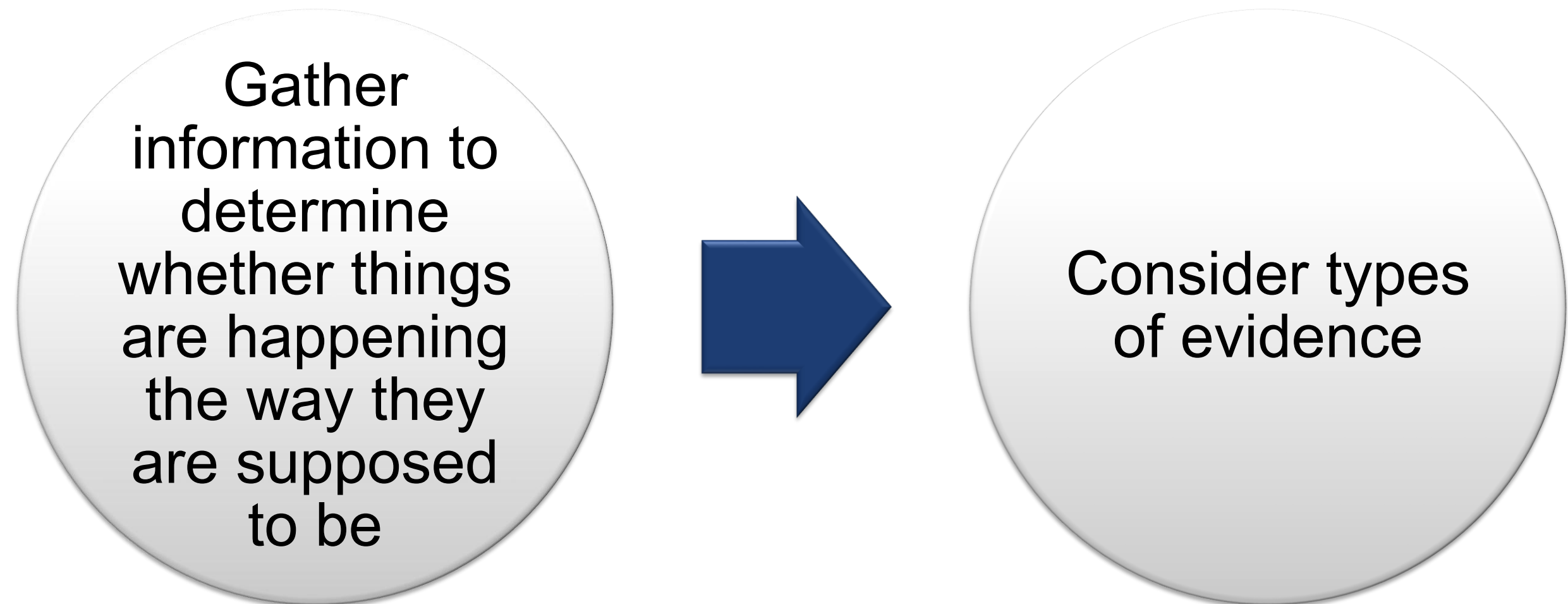


Who is going to do it?

How are they going to document it?

To whom are they going to give the documentation?

Monitoring Process



Evidence

Physical

Obtained by auditors' direct inspection or observation of people, property, or events

Documentary

Already existing information (e.g., letters, contracts, accounting records, invoices)

Testimonial

Obtained through inquiries, interviews, focus groups, public forums, or questionnaires

Who Should Monitor?



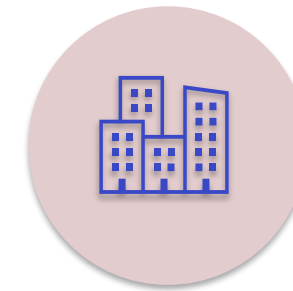
Program staff



Finance staff



Consultants



Agency auditors



OSC auditors

Agency Certification

SFS Terms of Service

- **Vouchers approved by agency reviewers and sent to OSC are just, true, correct, and appropriate to pay**
- **Expense reports processed to OSC are just, true, correct, and appropriate to pay**
- **Goods or services rendered or furnished are for use in the performance of the official functions and duties of the agency**



Professional Skepticism

An attitude that includes a **questioning mind** and **critical assessment** of information



Design and Implement Monitoring Activities

Example

Monitoring Activities	Who	How Often	How to Document	Who Receives Documentation	Where to Store Documentation
1) Contractor employees sign in and out on agency elevator oversight log 2) Facilities Maintenance Engineer periodically inspects contractor arrival and departure times	Facilities Maintenance Engineer or appropriate designee	Weekly at first More or less often as necessary	Agency elevator oversight log	Prepare email to Clerk 2 in Accounts Payable by COB the first business day of the month	Facilities Maintenance Engineer Office

Step 7: Follow Up

Follow Up

Degree of Compliance	Agency Response
High	Re-evaluate and possibly reduce monitoring frequency
Moderate	Direct the contractor to correct identified deficiencies
	Facilitate development of a corrective action plan
	Advise accounts payable employees
	Identify and recover any overpayments
	Increase scrutiny of contractor reports and invoices
Low	Increase frequency of follow-up monitoring activities
	Facilitate development of a corrective action plan (where practical) and increase the frequency of follow-up monitoring activities
	Increase scrutiny of contractor reports and invoices
	Terminate contract where corrective action is not practical
	Advise accounts payable employees
	Identify and recover any overpayments
	Escalate to appropriate units within agency (e.g., counsel)

Follow Up Continued

Example

Risk	Degree of Compliance	Agency Response
Contractor does not provide one on-site resident mechanic and one on-site resident helper	High	Change frequency of Facilities Maintenance Engineer oversight with contractor to monthly

Want to Learn More?

Check out BSE's Voucher Review and Certification class that provides information on:

- Voucher certification
- Certification of controls over the payment process
- Agency review of invoices
- State Expenditures' Pre-Audit
- Supporting documentation



References

Guide to Financial Operations

- XI.11.F Contract Monitoring
- XII.4.B.1 Supporting Information
- XII.4.D Certification of Internal Controls Over the Payment Process
- XII.4.F Proper Invoice
- Title 2, Chapter I, Part 6.5 of the New York Codes, Rules and Regulations



Q&A