

Claims Audit

The Poughkeepsie Public Library District establishes this claims audit policy in order to comply with generally accepted auditing standards and cost containment.

General

1. The audit of claims or vouchers is a classic internal control activity. In order to ensure that tax dollars are spent efficiently, it is essential that a thorough, deliberate, and independent audit of claims be conducted before payments are made. An effective audit of claims is often the last line of defense for preventing unauthorized, improper, or fraudulent claims from being paid.

Responsibility

With few exceptions (noted elsewhere), the Board of Trustees is generally responsible for the audit of claims. Claims are prepared by staff and presented to the Board of Trustees for approval prior to payment. Trustees are assigned, on a rotating basis, to review claims and to recommend payment to the full Board of Trustees.

Criteria for Auditing Claims

Auditing claims demands more than a “rubber stamp” of the claim packages. It should entail a thorough and deliberate examination to determine that the claim is a legal obligation and proper charge against the Library District. As a general rule, a claim should contain enough detail and documentation so that the trustees are supplied with sufficient information to make that determination. Generally, the following criteria should be applied to the audit of claims, where reasonably applied:

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

All claims for payment should be compared to the abstract provided by the Business Office. Claims should match the abstract.

Problem Claims

If the answer to any question posed in the preceding section is no, then some type of action should be taken in most cases. Obviously, this will depend on the specific deficiency and the dollar amount involved. The following actions and remedies may be available to the trustees responsible for auditing claims:

- If original documentation (such as invoices, purchase orders, or receiving slips) is missing, the claim should be held until the supporting documentation is submitted.
- If the claim is mathematically incorrect, confirm the proper amount, correct any mistakes, and only approve the claim for the corrected amount.
- If the original invoice does not sufficiently itemize the goods purchased or services rendered, contact the staff member who approved the claim.
- If the claim is for travel or conference expenses and the traveler cannot substantiate that charges are for actual and necessary expenses, or if charges are not properly authorized or are not in compliance with policies, reduce the claim by the amount of ineligible expenses.
- If the claim is a duplicate or has been partially paid before, reject the entire claim or reduce it to the unpaid amount. Be aware that the submission of photocopies of original invoices may indicate the possibility of a duplicate claim.

Claims generally may be rejected or reduced if they do not meet legal requirements, exceed available appropriations, or, in the case of reimbursement to officers and employees in travel status, are not actual or necessary expenses. The course of action to be taken is sometimes a matter of judgment and will vary based on the situation.

Claims with certain characteristics may have a higher risk of error or fraud. Trustees should use common sense and reasonable skepticism when any claim appears to be out of the ordinary. Even when all required documentation is submitted, remain skeptical, especially of claims that are not routine. In today's electronic environment, anyone with a computer and printer may be capable of replicating and manipulating information to produce false documentation.

Payments Not Requiring a Pre-Audit

Certain payments may be made without going through the routine claims auditing process. Generally these payments are approved by the Library Director or are the result of statutory requirements, existing contractual commitments or some other required obligation. They include:

- Fixed salaries of officers or employees regularly engaged at agreed-upon wages by the hour, day, week, month, year, or other authorized period, including any payroll withholdings
- Principal or interest payments on debt
- Payments made pursuant to a court order
- Amounts due upon lawful contracts for periods exceeding one year
- Retirement contributions by a participating employer in the New York State and Local Retirement System as billed by the State Comptroller.

These types of payments should not be included on the abstract of audited claims.

Payments Allowed in Advance of Audit

The Board of Trustees, by annual resolution, authorizes payment in advance for public utility services, postage, freight, and express charges along with medical, dental and vision insurance premiums. However, these claims are to be audited as soon as possible after payment and included on the next abstract as prepaid amounts. Public utility services generally include electric, gas, water, sewer, and telephone services.

In addition, the Board of Trustees has established petty cash funds and authorizes petty cash payments in advance of audit. Most petty cash payments will involve small amounts required for infrequent purchases, such as office supplies. The aggregate petty cash fund is determined by the Library Director but will not exceed \$750. The custodian(s) of the petty cash fund(s) should periodically request reimbursement for the fund by submitting all bills or receipts for purchases made from the fund(s). The person auditing petty cash fund claims should audit the reimbursement request in the same manner as other claims.

Analytical Reviews

It is important for the claims audit function to be viewed as more than just a claim-by-claim review and to consider the function in the broader scope of Library District operations. The Finance Committee should be aware of trends in expenditures that may provide opportunities for improvement in procuring goods and services. An analytical review may also indicate that certain types of expenditures may have been inappropriately incurred. Periodic reviews of vendor payment summary records or reports can alert the trustees to changes in expenditure trends and areas for possible improvement and investigation. The following are examples of areas to consider:

- Increases in utility usage (consumption) and telephone and cell phone expenditures
- Increases in expenditures for consumable inventory items such as office and cafeteria supplies
- Increases in expenditures for moveable items such as technology equipment (i.e., computers and printers) and maintenance equipment (i.e., chain saws and lawn mowers)
- Large repair costs for equipment may be an indication that it is more cost-effective to purchase new equipment instead of repairing aging equipment
- Items that, in the aggregate, have exceeded competitive bidding or competitive offering monetary thresholds and should be acquired through competitive bidding or competitive offering procedures