



STATE OF ALABAMA
BOARD OF ADJUSTMENT

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July 19, 2011

MEMORANDUM

TO: STATE AGENCY HEADS
CC: CHIEF FISCAL OFFICERS
CHIEF LEGAL COUNSELS
FROM: ALABAMA STATE BOARD OF ADJUSTMENT
RE: BOARD OF ADJUSTMENT POLICIES REGARDING CLAIMS FOR PRIOR
FISCAL YEAR INVOICES AND EMPLOYEE EXPENSES

INTRODUCTION

An analysis of claims filed with the Board of Adjustment in recent years disclosed that a majority of the claims are for services rendered or goods delivered in the prior fiscal year ("Prior Fiscal Year" claims). The study also disclosed that most of these prior fiscal year claims are uncontested by the respondent agency and the agency requests authority to pay the claim in full.

A second category of claims in the prior year sector are filed by state employees for reimbursement of travel expenses and per diem. In the majority of these claims the employing agency acknowledges that the reimbursement is due and requests that the Board authorize payment.

A typical claim in these two categories is less than \$500.00, which is far exceeded by the cost to the taxpayer for the Board of Adjustment to process a claim. For a claim for payment for goods or services, the amount of the claim can be increased by interest at the rate directed by Code of Alabama, 1975, Section 41-16-3. For all claims, the agency has the monetary cost plus the loss of production of its personnel who handle the claim, the Board of Adjustment operating expenses, and for the Board members and their staffs it is the value of time that could be utilized for other services.

CLAIMS FOR PAYMENT FOR GOODS OR SERVICES

The usual reason given by an agency for nonpayment of a vendor for goods or services is that the vendor's invoice was not processed by the end of the thirteenth accounting period. The analysis indicates that many of these claims are the result of an agency's failure to apply proper fiscal

policies and accounting procedures to encumber funds and process payment by the end of the thirteenth accounting period. This is true particularly for claims for recurring expenses such as utilities, supplies, health insurance charges and maintenance contracts.

A related category of claims is for health insurance charges for employees who are hired in the last quarter of the fiscal year. Those costs can be determined at the date of hiring without waiting for an invoice from SEIB, and funds can be encumbered.

The "End of Year Memo, 2011" from David Perry, Director of Finance, Tom White, State Comptroller and Michael Jones, State Purchasing Director is attached herewith and can also be found on the Comptroller's website at www.comptroller.alabama.gov. Explained in that document are instructions regarding encumbering funds to pay for expenses incurred in the current fiscal year, which ends September 30, 2011.

When an agency admits that a claim is due to be paid in the amount claimed, the Board must still determine if it is a legitimate claim against the State Treasury. To assist the Board in meeting this duty, it is required that each agency explain the reason for nonpayment in detail. In the event the Board sets the claim for hearing, the Board will require that the agency's chief financial officer attend the hearing to offer testimony regarding reasons the invoice was not paid.

As a pattern of prior fiscal year claims may indicate a disregard for state law, including the Fiscal Policies and Procedures, the Board may make a referral to the Examiners of Public Accounts for review. An example of such is a claim where there is insufficient evidence to assure the Board Members that every attempt was made to pay the invoice through normal accounting procedures.

EMPLOYEE CLAIMS FOR TRAVEL AND PER DIEM

Frequent claims by employees of an agency for travel and per diem incurred in a prior fiscal year generally indicates that an agency does not have, or does not enforce, policies and procedures which require requests for reimbursement to be filed by set deadlines. When reviewing an agency's request to pay a claim the Board may require the employee and agency managers to appear at a hearing and provide testimony to support the recommendation for payment.

CONCLUSION

An agency can avoid the cost and administrative burden required by the Board of Adjustment claims process by having the following preventative measures in place:

- Comply with the prohibition against deficit spending.
- Recognize and anticipate all obligations in the year incurred.
- Encumber funds to cover those obligations
- Pay those obligations prior to the end of the thirteenth accounting period.

Please contact the Board of Adjustment staff at (334)242-7175 if you have questions.

Enclosures: "End of Year Memo, 2011" dated June 3, 2011
Flow Chart of Board of Adjustment Claims Process, revised January 25, 2011

PROCESS FOR FILING BOARD OF ADJUSTMENT CLAIMS

