

Minimizing “pay and chase”

- In “pay and chase” situations, agencies spend substantial resources proving that the payee was not entitled to the payment and attempting to recoup the funds.
- The presence of preventive controls helps to deter “pay and chase” situations.

State employees are dedicated to helping those who need assistance. However, in their desire to serve, employees cannot lose sight of their responsibility to ensure that only those eligible for the assistance should be helped. As a result, government employees often walk a fine line between getting money out the door quickly versus taking time to ensure planned payments will be made only to the right people for the right amounts.

Some controls, called preventive controls, are intended to prevent or stop undesirable events (such as inappropriate payments) from happening. Preventive controls include control activities such as advance reviews of supporting documentation, standard operating policies and procedures, and prior approvals or authorizations. These controls are proactive and emphasize quality. Spending more time verifying payments before they are released may, at first, appear wasteful. However, it may actually save time in the long run by minimizing “pay and chase,” where an agency spends substantial time reacting to and resolving erroneous payments after the fact.

“Pay and chase” most often occurs when control activities are performed predominantly after transactions have occurred (i.e. after payments have been sent out). These controls are called detective controls and include reconciliations, transaction reviews, budget to actual comparisons, and exception report reviews.

Detective controls may seem less

expensive in the short run because they can be efficiently applied to large numbers of transactions and may provide evidence that a loss has occurred. However, since the inappropriate payment has already been made, the agency must then move into “pay and chase” mode, expending resources first proving that the payee was, in fact, not entitled to the payment and, second, attempting to recoup the funds. As many program managers can attest, chasing down and recovering overpayments is both time consuming and expensive. In addition, depending on the magnitude and sensitivity of the payment(s) involved, the agency’s reputation may also be damaged if the transaction details become public.

Both preventive and detective controls have a place in an effective internal control system. Preventive controls should be the primary method of stopping errors from occurring. On the other hand, detective controls should be in place as a secondary tool, providing a final review on work performed, proving that the preventive controls are doing their job, and confirming that the processed payments were appropriate.

Suggested Action Steps: Think about the mix of control activities present in your key business functions. Is there a good mix of preventive and detective controls? Are sufficient preventive controls in place to minimize the potential for “pay and chase”?

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