



RECOVERY AUDITING IN THE PUBLIC SECTOR

By Paul Dinkins, Executive Vice President
The Profit Recovery Group USA, Inc.

Every year, private and public companies lose tens of millions of dollars through errors in overpayments to suppliers. It is a fact that every purchase and bill paying organization, regardless of size or quality, experiences this problem. Whether through oversight, human error or systemic problems, organizations are unfortunately losing dollars through holes in their purchasing process. Government agencies are no different.

Thankfully, a significant effort is underway to assist government agencies in identifying and recovering overpayments made to suppliers. The process is known as recovery auditing and it is a technique that has been popular in the private sector for over thirty years. It is a specialized professional service that identifies and recovers overpayments and under-deductions made to suppliers. Recovery auditing makes sense in the public sector for much the same reason it has become so prominent in private industry — volume purchasing.

Most commonly applied in large purchase and payment environments, the error rates recovery auditing uncovers are typically small. However, a small error rate becomes meaningful in large environments. For example, most large private sector purchase and payment organizations have an accuracy level of 99.9 percent. The error rate .1 percent becomes meaningful as it represents one million dollars of loss per one billion dollars of purchases.

Recovery auditing in the public sector has gained momentum in recent years on a number of fronts. Recovery auditing is supported by President Bush in the Government Reform section of his budget “*A Blueprint for New Beginnings: A Responsible Budget for America’s Priorities.*” The budget states that the president will direct agency heads to use recovery auditing services – such as those offered by PRG – to ensure that overpayments are avoided or returned to the Federal Government. The payoff is clear. Recovery auditing is a proven method for ensuring that the best financial management practices are brought to bear for your agency and that the most efficient use is made of tax dollars.

The leader in the recovery audit industry is The Profit Recovery Group International, Inc. (PRG), a public company headquartered in Atlanta, Georgia. Working closely with thousands of leading companies, PRG auditors have gained tremendous experience sifting through the details of purchase and payment transactions. This wealth of experience allows PRG to bring best practices from different industries to each of its clients. Overpayments happen in all purchasing

environments and the use of recovery auditing should not be viewed as an assessment of job performance. Recovery auditing deals with tenths of a percent. It is simply the billions of dollars in expenditures by government agencies that make the potential recoverable sums so large.

Professional recovery audit services continue to become a resource and financial management best practice for large organizations. PRG serves over 2,500 clients in 34 countries worldwide including more than one-half of Fortune’s Top 100 companies in the United States. Last year PRG recovered in excess of \$1 billion for its clients. And the practice is gaining wide use in the public sector as well.

The General Accounting Office (GAO) publicly supports this practice of recovery auditing throughout the Federal Government. The GAO identified \$19.1 billion in erroneous payments made last year, and noted that the amount could be considerably larger. In 1998, recovery audit services were piloted within the Department of Defense (DoD). The program has since been expanded within DoD and to other agencies.

The Government Waste Corrections Act of 2000, which provides recovery auditing for every government agency that purchases over \$500 million in goods and services per fiscal year, was introduced by Rep. Dan Burton (R-Ind.), chairman of the House Government Reform Committee in March 2000. Although it passed the House unanimously, the Senate’s passing of the legislation was delayed last year. There are plans to reintroduce the bill this year with a new title, The Erroneous Payments Recovery Act of 2001.

It cannot be stressed enough that recovery auditing is not an exercise in faultfinding. It is simply an acknowledged, effective method for maximizing the financial performance of an organization. In the high-volume purchasing environments of major corporations and large public agencies there is no way to avoid overpayments. One-tenth of one percent of a multi-billion budget hardly indicates poor management. Recovery auditing is a primary way for an organization to ensure that it is following the best financial management practices available.

Implementing a new program in government takes time. PRG has spent the last few years expanding understanding of the program, demonstrating early results and gaining receptivity across agencies. It is critical for government agencies to act quickly to begin recovery auditing, before too much money goes undetected. The payoff comes from the tremendous volume of purchasing prevalent in today’s large corporations and government agencies. For entities purchasing goods and services with price tags in the billions, small errors mean overpayment of a few million dollars.

RECOVERY AUDITING IN THE PUBLIC SECTOR (CONT'D.)

The Profit Recovery Group International, Inc., is the leading worldwide provider of recovery audit services. Beyond recovering overpayments for more than 2,500 clients around the world, PRG provides insightful value to optimize and expertly manage their business transactions including recommendations to mitigate future overpayments. With industry experts utilizing proprietary software and expert audit methodologies, PRG reviews invoices, purchase orders, receiving documents, databases and correspondence files to recover losses due to overpayments or under-deductions. The company is retained on a pay-for-performance basis receiving a percentage of each dollar recovered. Headquartered in Atlanta, PRG's accounts payable operations employ approximately 2,500 professionals in 34 countries. PRG is the largest and only publicly-traded recovery audit firm. For additional information on PRG's government services, please contact Paul Dinkins, Executive Vice President, (970) 221-2000, or pjdinkins@prgx.com.

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Federal Supply Schedule 874V Logistics Worldwide (LOGWORLD)

YOU'VE COME A LONG WAY - LOGWORLD



Logistics Worldwide (LOGWORLD) Schedule 874-V is celebrating its first birthday by reporting \$4M in sales as of April 2001. The schedule, which first hit the streets in April 2000, helps agencies utilize the latest concepts, methodologies and technologies in material, resource, distribution and

supply chain operation management in order to achieve more efficient logistics operations.

Agencies can write task orders for:

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- Contingency Planning
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- And more!

There are 39 LOGWORLD Schedule holders as of April 2001, with additional offers in house. Current contractors fall into several socio-economic categories, including 8(a), small, small-disadvantaged, women-owned, HUBZone, disabled veterans and large businesses.

For a listing of LOGWORD contractors, please see our Schedules E-Library at fss.gsa.gov/elibrary.

Comprehensive Logistics Solutions!



TRANSPORTATION PRE-PAYMENT AUDIT SERVICES

For years, Federal agencies have been reducing their transportation costs by having their freight bills audited before payment. And now with the Travel and Transportation Reform Act of 1998, pre-payment audits are a requirement.

All modes of transportation can be audited including truck, air, household goods, rail, ocean and passenger invoices. The pre-payment audit includes the following procedures:

- Each bill is date stamped the day that is received in our office.
- Each bill is checked to ensure that the SCAC code is entered on each SF1113 or equivalent commercial invoice. If the SCAC code is omitted, the bill and supporting documentation are returned to the carrier with instructions that the SCAC be added,
- Each bill is checked to ensure that it is complete and supported with required documentation such as weight certificates.
- Amounts of the SF1113 are checked to verify that the invoice amounts are equal to the total amounts of the individual bills. Any discrepancies are noted.
- Each bill is audited to ensure that it does not contain any charges higher than the lowest charge applicable to the movement and is valid, proper and conforms to tariffs, quotations, agreements, purchase orders, tenders or authorized shipments.
- Each bill is checked to ensure that all extensions and computations of charges are correct.
- The appropriate ordering agency is notified of invoices that are doubtful for reasons other than application of rates.
- A statement of difference (SOD) is prepared for each bill containing any excess charges. One copy of the SOD is attached to the voucher and two copies are mailed to the carrier.

- Any challenges to the SOD by the carrier are addressed within 10 days.
- All bills and appropriate reports are returned to the ordering agency within 7 calendar days.
- Appropriate daily, weekly and monthly reports are run as requested and sent to the appropriate ordering agency.

Savings as a result of pre-payments transportation audits can be substantial. So far this fiscal year, the adjustments made by our firm to transportation invoices for the agencies that we are working for represent 2.2% of total freight charges. It should be noted that some of these adjustments are due to incomplete documentation which the carrier does eventually provide. However, millions of dollars are saved for the government every year by eliminating potential overcharges as a result of our audits.

Order directly from the contractor:

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Federal Supply Schedule 874

THE BENEFITS OF EMPLOYING THE MANAGEMENT, ORGANIZATIONAL AND BUSINESS IMPROVEMENT SERVICES (MOBIS) SCHEDULE FOR YOUR ORGANIZATION

Agencies seeking total management improvement solutions need only use the MOBIS schedule contract.

Technological advances and budget cuts have resulted in a strong need for management consulting services within Government since the down-sizing that results from reduced funding does not coincide with decreased expectations and demand. Federal agencies are expected to perform at a competitive level despite a shortage of people within their work force.

Searching for the best competitive strategy is a daunting task. Did you know that the Management, Organizational and Business Improvement Services (MOBIS) schedule encompasses over 650 management consulting firms and provides Federal agencies with assistance in efficiently locating needed services specifically suited to their needs at a competitive price? Did you also know that many of the MOBIS contractors offer complete solutions to your financial management problems. They work directly with your controller staff to leverage your abilities in situations where current organizational staff or skill levels are insufficient to

take on additional “special projects.” MOBIS gives you a huge pool of talent that can solve your immediate financial issues and provide the power to integrate the new solutions into existing policies and procedures. They design financial policies and procedures to improve operating procedures, improve overall cost-effectiveness of billing and accounting.

The job of the management consultant is to:

- Provide the agency client with information they request;
- Diagnose their current situation, often helping them redefine problems in the process;
- Present a coherent and well-articulated set of strategic recommendations;
- Build commitment and consensus around required change;
- Assist with implementation, ensuring high quality standards are followed;
- Facilitate learning so that the client can assume the task over time; and,
- Improve organizational effectiveness.



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Using **GSA's Multiple Award Schedule (MAS)** puts Federal Employees in the driver's seat for the convenient purchasing of millions of high quality products and services. GSA has done the time consuming tedious work for you, so you can spend your time choosing the best products and services that meet your needs. Competitive contracts have been awarded for fair and reasonable prices and those discounts are passed directly to you. In addition to the fabulous prices you'll receive by using MAS contracts, you'll also have –

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