

Report on the

# STATE OF ALABAMA RECOVERY AUDIT

State Agencies and Departments  
October 1, 2008 through September 30, 2011

CONDUCTED BY  
RECOVERY AUDIT SPECIALISTS, LLC

Filed: December 26, 2014



## Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: [www.examiners.alabama.gov](http://www.examiners.alabama.gov)

*Ronald L. Jones, Chief Examiner*



---

---

## *Table of Contents*

---

---

	<i>Page</i>
<b>Chief Examiner's Transmittal Letter</b>	1
Alabama State Agencies and Departments Accounts Payable Recovery Audit Management Report – Final Report	2

---





Ronald L. Jones  
Chief Examiner

Mailing Address:  
P.O. Box 302251  
Montgomery, AL 36130-2251

State of Alabama  
Department of  
**Examiners of Public Accounts**

Telephone (334) 242-9200  
FAX (334) 242-1775

December 15, 2014

Location:  
Gordon Persons Building  
50 North Ripley Street, Room 3201  
Montgomery, AL 36104-3833

Dear Members of the Legislature and Citizens of the State of Alabama:

In accordance with the *Code of Alabama 1975*, Section 41-5-6.1, the Chief Examiner of Public Accounts hereby releases the following Final Recovery Audit Report prepared by Recovery Audit Specialist, LLC (RAS). Agencies were provided a draft copy of the recovery audit report by this office and were given an opportunity to respond to the contents of the recovery audit report; however, no responses were received.

*RECOVERY AUDIT SPECIALISTS, LLC - ALABAMA STATE AGENCIES AND  
DEPARTMENTS 2014 ACCOUNTS PAYABLE RECOVERY AUDIT MANAGEMENT  
REPORT*

Any views, opinions or findings in the recovery audit report are solely those of the contractor. The Examiners of Public Accounts makes no representations or warranties of any kind, express or implied about the completeness, accuracy, or reliability with respect to its content. Any reliance placed on such information is therefore strictly at the users' risk.

This report may be obtained by visiting our website [www.Examiners.State.Alabama.gov](http://www.Examiners.State.Alabama.gov) and clicking the **Information and Other Resources** Icon and then clicking "**Other**" or by contacting us at Department of Examiners of Public Accounts, P.O. Box 302251, Montgomery, Alabama, 36130-2251, (334) 242-9200.

The report has been reproduced as submitted and is being released by this office to comply with applicable statutes. The Department of Examiners of Public Accounts did not participate in the preparation of the report.

Sincerely,

Ronald L. Jones  
CHIEF EXAMINER.



---

*Alabama State Agencies  
and Departments 2014  
Accounts Payable Recovery  
Audit Management Report*



*RECOVERY AUDIT SPECIALISTS, LLC  
ALABAMA STATE AGENCIES  
AND DEPARTMENTS 2014  
ACCOUNTS PAYABLE  
RECOVERY AUDIT  
MANAGEMENT  
REPORT*

**Final  
Report**

Prepared for the State of Alabama  
Department of Examiners of Public Accounts  
Ronald L. Jones, Chief Examiner  
July 2014

# Recovery Audit Specialists

Accountability ▪ Transparency ▪ Recovered Funds

## Executive Member Advisory Board

### General (Retired)

**Wesley Clark**  
CEO, Wesley K. Clark &  
Associates, Former Supreme  
Allied Commander &  
Commander in Chief US  
European Command, NATO

### Clark Kent Ervin

Partner, Patton Boggs LLP,  
former first Inspector General  
US Department of Homeland  
Security & Inspector General  
of the US Department of State

### Bob J. Nash

President, Bob J. Nash &  
Associates; former Assistant  
to the President and Director  
of Presidential personnel for  
the White House & former  
Undersecretary U.S.  
Department of Agriculture

### Dr. Raymond Scalettar

MD, DSc, FACP, MACR  
Practicing Physician;  
Clinical Professor of Medicine  
George Washington University  
& former Chair of the  
American Medical Association  
Board of Trustees

### Alan B. Smith

Senior Fellow, Heartland  
Institute & former Executive  
Director, American Legislative  
Exchange Council (ALEC)

### James Lee Witt

CEO Witt Associates  
& former Director  
U.S. Federal Emergency  
Management Agency

### Brenda Russell

President/CEO, Recovery  
Audit Specialists, LLC

July 28, 2014

Ronald L. Jones  
Chief Examiner  
Alabama Department of Examiners of Public Accounts  
P.O. Box 302251  
Montgomery, AL 36130-2251

Dear Mr. Jones:

Recovery Audit Specialists (RAS) is pleased to provide you with the Final Accounts Payable Recovery Audit Management Report for state agencies, departments and commissions, as specified by Alabama Act 2011-703. The report includes RAS' audit observations and recommendations.

RAS sincerely appreciates the support provided by you and other officials in the Examiners Office; in particular, Christine Harden, Sharon Russell and Alice Martin, with whom RAS closely worked.

State personnel that RAS encountered at the state agencies and departments were helpful and supportive of the audit effort. Those individuals were interested in learning about any errors and how they could prevent them in the future.

It appears that Alabama's state agencies and departments have adequate controls and procedures in place to appropriately process financial transactions. RAS' audit technology analyzed more than \$18 billion in expenditures from 2.5 million invoices for potential overpayments and identified transaction with potential overpayments for examination by auditors.

In total, four RAS auditors were on-site at Alabama agencies and universities for forty-five weeks examining supporting documentation for transaction with potential overpayments. An additional auditor worked remotely from the office.

RAS auditors discovered that state personnel had already corrected overpayments and processed credits due. This resulted in no recoveries of overpayments for state agencies and departments.

RAS appreciates the opportunity to perform our services for the State and the confidence and trust you placed in us to conduct this recovery audit.

Sincerely,



Brenda Russell  
President/CEO



# Table of Contents

Alabama Leading the Way .....	2
Scope of the Recovery Audit.....	3
Definition of Overpayment .....	3
Audit Exclusions .....	4
Invoices and Expenditures .....	4
Recovery Audit Methodology .....	5
Three Accounts Payable Audit Categories.....	5
Eight-Step Accounts Payable Audit Process.....	6
Data Cleanse and Analysis Process .....	7
Auditors Fieldwork in Alabama.....	7
Documentation Process.....	9
Statement Audit.....	10
Audit Results .....	11
Problems Identified.....	12
Lack of One Uniform Disbursement Tracking System .....	12
Hard Copy Records.....	13
Vendor Responsiveness .....	13
Recovery Audit Process.....	13
Recovery Audit Recommendations.....	14
One Uniform System for all Agencies .....	14
Record Accessibility and Retention.....	14
Strengthen State Contracts.....	14
Approval Procedures.....	14



## *AP Recovery Audit Executive Summary*

---

Recovery Audit Specialists was contracted to perform an Accounts Payable audit on state agencies, board and commissions expenditures for Fiscal Years 2009 – 2011. Recovered funds are deposited into a special fund established by the state legislature.

Alabama State Government is comprised of 199 state agencies, departments and commissions. The State uses a Central Accounting System (CAS) with approximately 152 agencies' expenditures being processed through the State Comptroller's Office. RAS obtained all the financial transaction data for all state agencies directly from the Department of Finance, Office of the Comptroller.

The Medicaid program, payroll expenditures and transfer of funds from one unit of government to another (intergovernmental transfers) were excluded from the recovery audit.

RAS' audit technology analyzed almost two and one-half million (2.5 million) invoices for a total amount of \$18,443,692,145 in disbursements by state agencies, boards and commissions.

RAS' audit process includes examination of: agency financial transactions (excluding payroll), a statement audit designed to discover unused credits from vendors and service providers, and sales, use and utility tax analysis to identify exempted taxes that were charged to the state inappropriately.

Recovery auditing is a process of elimination, whereby, the initial electronic analysis uses powerful software algorithms to analyze all the raw data for potential overpayments. Transactions that do not show a potential for an overpayment, which is a majority, are culled out of the dataset. Based on the results of the electronic review, auditors selected the agencies with the most significant vendor expenditures flagged as potential overpayments (covering 70% of expenditures) for the initial fieldwork.

Alabama's Central Accounting System does not include scanned images of the invoices and purchase orders for the transactions. CAS tracks disbursements and paper documentation for all agencies chronologically by warrant (check) number, not by agency. Agencies retain a hard copy of documentation, usually filed by vendor, not the CSA warrant number. This presented a challenge from an agency specific recovery audit standpoint,

The audit trail was made more difficult since both supporting documentation systems are paper-based and filed under differing systems,. this manual discovery and transaction validation process increased the amount of time and work auditors required to examine transactions.

RAS assigned four auditors to perform onsite work at the agencies to further investigate flagged invoices and locate the supporting documentation to validate each payment. In total, the four auditors spent forty-five (45) weeks conducting fieldwork in Alabama at various large state agencies and educational institutions; an additional auditor worked remotely.

RAS did not discover any overpayments that had not already been corrected by state personnel. Likewise, there were no outstanding credits discovered.



# ***Accounts Payable Recovery Audit Management Report for State Agencies and Departments***

---

## ***Alabama Leading the Way***

The Alabama legislature led the nation by enacting the most comprehensive statewide recovery audit law to date, Act 2011-703 (Act) (AL Code § 41-5-6.1 (2012)). By enactment of its law and initiation of a program of recovery audits, Alabama has taken the lead in providing transparency and accountability and ensuring public resources are being prudently managed.

Recovery audits are a strong management tool that can help control costs, strengthen financial systems and encourage state vendors and service providers to operate in a transparent manner, as well as document the State's achievement in being prudent managers of state resources.

The law authorizes the Chief Examiner of Public Accounts to enter into contracts for recovery audits to recover overpayments made by state agencies to individuals, vendors, service providers and other entities. The Department of Examiners of Public Accounts (EPA) contracted Recovery Audit Specialists, LLC (RAS) through an open Request for Proposal (RFP) process to conduct statewide recovery audits of state expenditures made during Fiscal Years 2009 through 2011.

The Alabama Statute established a special fund within the State Treasury for the deposit of all funds generated from the recovery audits. All recovered funds were paid directly to the state.

RAS performed the audits on a contingency fee basis. This means that auditors identify, document and recover the overpayments for the State. Auditors are then compensated by a percentage of the amount recovered after funds have been deposited into the state's special fund that was established by the state legislature for receipt of the overpayments.

The law stipulates that auditors shall be provided with any and all payment-related information necessary to perform the audit, including any confidential information as determined by the Chief Examiner. The final success of a recovery audit depends on compliance with the audit requirements, transparency and accountability by vendors and service providers.

The Request for Proposal (RFP) issued by the Examiner's Office for comprehensive recovery audits required the auditor to examine expenditures for state agencies and departments, state universities and colleges, and the state's health insurance benefits plans.

This report, however, is focused solely on the Accounts Payable (non-medical related) transactions made by state agencies and departments. It includes auditors' observations and recommendations arising from the audit. This report complies with Alabama Act 2011-703 requirements that auditors provide a detailed report to the Examiner describing the methodology used to conduct the recovery



audit component and the results, including problems found, overpayments identified, actual amounts collected, and recommendations to correct any problems identified.

Recovery Audit Specialists appreciates the opportunity to be of service to Alabama and wants to acknowledge the guidance and assistance provided by the staff from the Department of Examiners of Public Accounts during the project.

## *Scope of the Recovery Audit*

RAS was selected to perform recovery audits to identify, document and recover overpayments or inappropriate disbursements of state funds during Fiscal Years 2009, 2010, and 2011 (October 1, 2008 through September 30, 2011). Its work was designed to complement, not replace, existing state financial management processes and other audit or program integrity activities. A recovery audit examines all expenditures to identify potential overpayments.

RAS was contracted to examine the transactions (excluding payroll) for the following three broad state components required by the RFP:

1. State agencies and departments;
2. State universities and colleges; and
3. Public Education Employees' Health Insurance Board (PEEHIB) and the State Employees' Health Insurance Board (SEHIB)

Alabama State Government is comprised of 199 state agencies and departments, which vary greatly in size. The State uses a Central Accounting System (CAS) with approximately 152 agencies' expenditures being processed through the State Comptroller's Office. RAS was able to obtain the raw financial transaction data for all state agencies directly from the Department of Finance for fiscal years 2009 through 2011. Those agencies whose expenditures are not directly processed by the CAS have the data entered in the system through software add-ons or manual data entry.

RAS' cutting edge technology tools use algorithms to mine the data to identify irregular patterns and trends and compare the data against many factors specific to each audit type. Our systems and processes identify, document and recover outstanding overpayments that are due to the State.

### *Definition of Overpayment*

RAS was charged with reviewing payments and determining whether State funds were spent appropriately. Alabama Act 2011-703 defines an overpayment as:

- Any payment in excess of amounts due;
- failure to meet eligibility requirements;
- failure to identify third party liability where applicable;
- any payment for an ineligible good or service;
- any payment for a good or service not received;
- duplicate payments;
- invoice and pricing errors;
- failure to apply discounts, rebates or other allowances;



- failure to comply with contracts or purchasing agreements, or both;
- failure to provide adequate documentation or necessary signatures, or both, on documents; or
- any other inadvertent error resulting in an overpayment.

### *Audit Exclusions*

The recovery audits excluded the Medicaid program (which is audited separately) and state payroll expenditures. In addition, intergovernmental transfers (for example, a state grant to a municipality or school district) were excluded since another unit of government is not a vendor or service provider. Institutions of higher education, the Public Education Employees' Health Insurance Plan and State Employees' Health Insurance Plan audits are covered in separate reports.

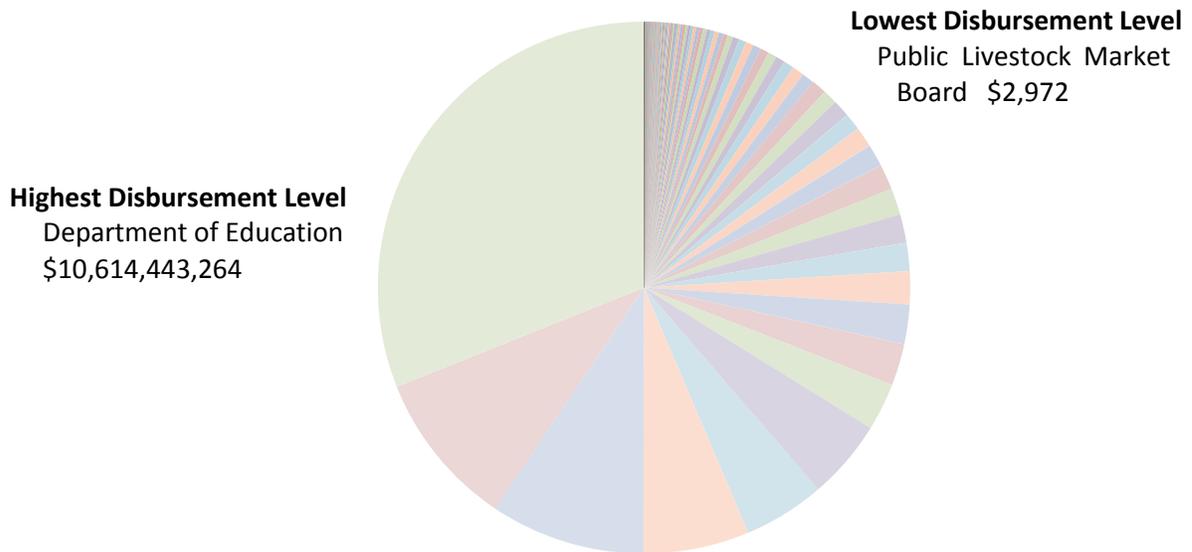
### *Invoices and Expenditures*

RAS analyzed almost two and one-half million (2.5 million) invoices for a total amount of \$18,443,692,145 in disbursements by state agencies, boards and commissions.

The dollar amount of individual disbursements ranged from a low of \$167 from the Public Livestock Market Board to a high of \$24,895,083 from the Finance Special Fund.

As shown in the chart below close to an eighth of Alabama's boards, commissions and state agencies had fairly low expenditure levels paid to vendors for purposes of the recovery audit.

### *State Agencies', Boards' and Commissions' Expenditure Proportions*





## ***Recovery Audit Methodology***

To begin the audit, RAS held meetings with key leadership of the Examiners' Office in October 2011 and with the EPA and state agency personnel in November of 2011 to review the recovery audit process and begin implementation. RAS provided the Examiner and other key officials with the *Alabama Accounts Payable Recovery Audit Guide*, which details the data and documentation required to perform the audit.

RAS worked closely with the EPA throughout the audit process. Auditors provided written status updates and held weekly phone meetings with EPA to report on the audit progress and discuss any issues that might arise.

### ***Three Accounts Payable Audit Categories***

RAS has developed specific analytical tools and reporting mechanisms that enable it to perform recovery audits without disrupting current state system procedures or personnel. RAS' audit process includes examination of:

- agency financial transactions (excluding payroll),
- a statement audit to discover unused credits from vendors and service providers, and
- sales, use and utility tax analysis to identify exempted taxes that were charged to the state inappropriately.

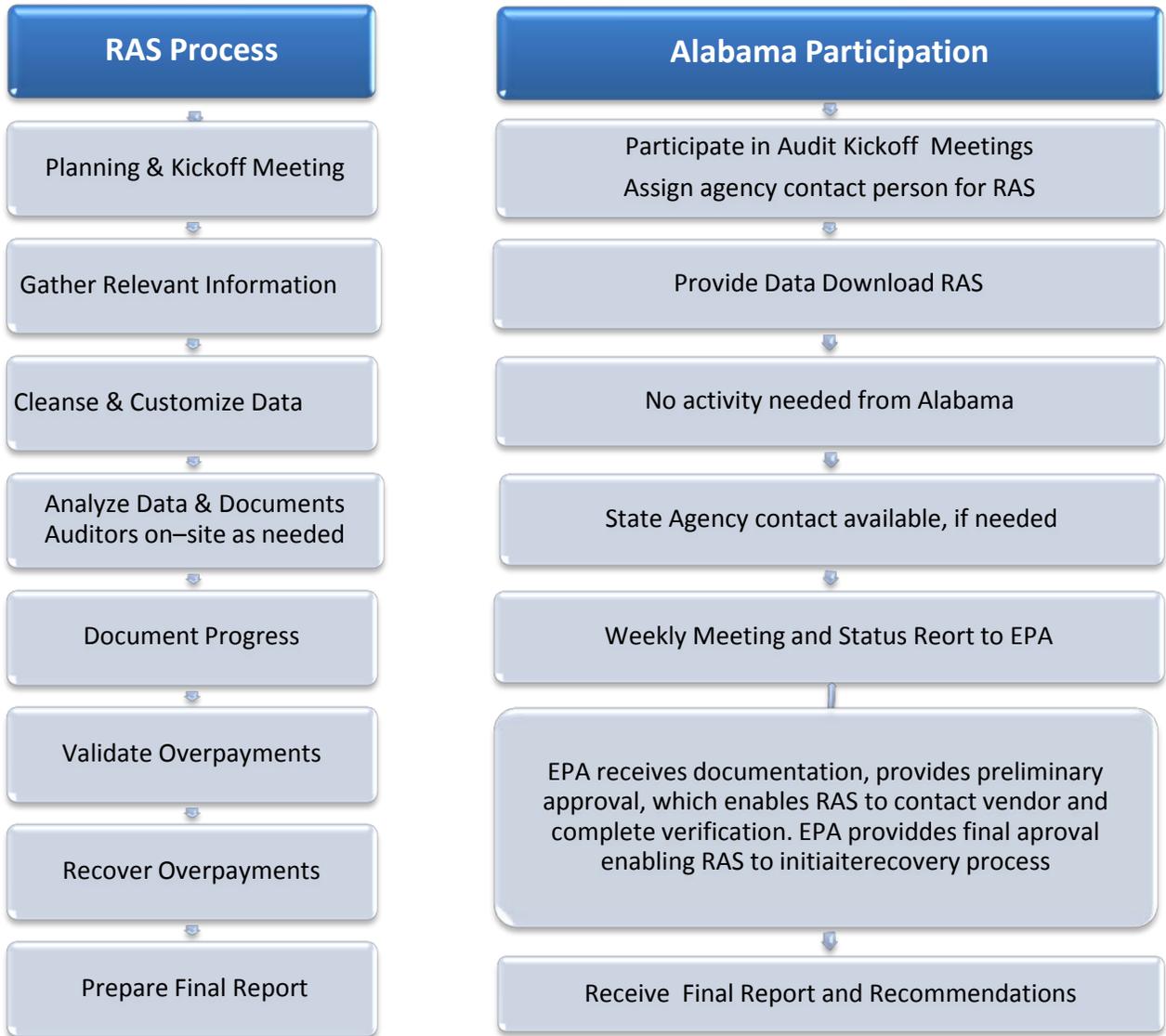
Recovery auditing is a process of elimination, whereby, the initial electronic analysis uses powerful software algorithms to analyze the raw data for potential overpayments. The analytical process involves an initial step of data discovery and descriptive statistics. During this step, the data is brought into the system and the analyst runs a series of analyses to better understand the overall makeup of the data and assess the data set for completeness and quality. The analyst may also run processes to cleanse or enrich the data (such as eliminating vendor duplicates and matching/correcting vendor addresses) to make it more analytic ready.

Variations found during this step are evaluated to determine whether they are data errors or potential overpayments. The next step is to run a standard set of rules and irregularity detection models against the data. These models surface transactions that are unusual compared to what is expected. This process selects out all the clean transactions that do not indicate a potential overpayment, which is the vast majority of payments.

Once the analytical process is complete, those remaining transactions with the potential risk for an overpayment are passed to the auditors for manual review and validation.

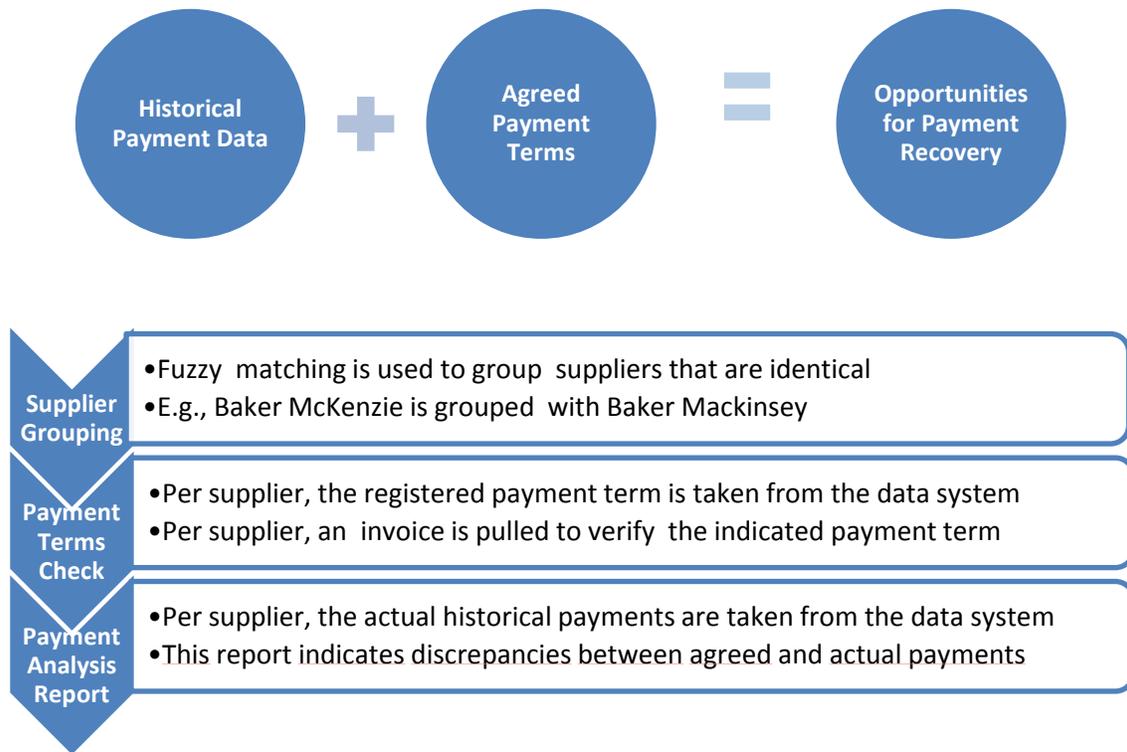


## *Eight-Step Accounts Payable Audit Process*





## Data Cleanse and Analysis Process



### Auditors Fieldwork in Alabama

Alabama’s Central Accounting System does not include scanned images of the invoices and purchase orders for the transactions. CAS tracks disbursements by warrant (check) number with all agencies comingled into one system. A comprehensive accounting system is a good thing. CSA, however, files all supporting documentation chronologically according to warrant number, not by agency. This presented a challenge from an agency specific recovery audit standpoint, making the audit trail more difficult. One cannot run a “sort by agency” on a room full of paper files not categorized that way. Agencies retain a duplicate hard copy of the transaction documentation they send to CSA. Those files are stored at an agency, or its archives, usually by vendor, not the CSA warrant number.

Given that both supporting documentation systems are paper-based and filed under differing systems, this manual discovery and transaction validation process increased the amount of time and work auditors required to examine transactions.

After the initial electronic analysis of all transactions, auditors reviewed the results and identified transactions that required further examination. Since the invoices and purchase orders are not scanned into CAS, auditors developed a state agency schedule for transactions flagged as potential overpayments.



RAS assigned four auditors to perform onsite work at the agencies to further investigate those flagged invoices and locate the supporting documentation in order to validate each payment. In total, the four auditors spent forty-five (45) weeks conducting fieldwork in Alabama at various large state agencies and educational institutions; an additional auditor worked remotely. For example, one auditor personally met with twenty different state agencies. Auditors continued follow-up activity with vendors and service providers once back at the office.

Auditors selected twenty-two state agencies with the highest expenditure levels and number of flagged transactions for supporting documentation review on-site at Alabama agencies. The following agencies, listed in order of expenditure level, represent approximately seventy percent of the expenditures subject to the audit.

- |                                     |                                      |
|-------------------------------------|--------------------------------------|
| 1. Education                        | 12. Youth Services                   |
| 2. Transportation                   | 13. Conservation & Natural Resources |
| 3. Mental Health                    | 14. Public Safety                    |
| 4. Education Remainder              | 15. Admin. Office of the Courts      |
| 5. Economic & Community Affairs     | 16. Industrial Relations             |
| 6. Corrections                      | 17. Agriculture & Industries         |
| 7. Public Health                    | 18. Forestry Commission              |
| 8. Finance – Special Appropriations | 19. Forensic Sciences                |
| 9. Rehabilitation Services          | 20. Soil & Water Conservation Comm.  |
| 10. Military Department             | 21. Banking Department               |
| 11. Environmental Management        | 22. Historical Commission            |

Auditors examined the relevant documentation for records that were on-site. Some agencies had sent one or two prior years of the supporting documentation to off-site storage per their usual archiving procedures. Some older transaction documentation, therefore, was not available for verification of payment accuracy while the auditor was on-site.

Given that auditors detailed examination of more recent records (and at some agencies all three years' of records) was validating that flagged overpayments had already been corrected by state agency staff, it was judged that acquiring the additional documentation would exceed the benefit and it did not seem productive to request agencies to retrieve older records from storage for examination by auditors. In general, the older transactions flagged as potential overpayments were not for significant amounts of money.

Given that manual examination of seventy percent of expenditures did not uncover any overpayments that had not already been corrected by agency staff, it was determined that conducting additional on-site work at agencies, boards and commissions with smaller expenditure would exceed the potential benefit.



### *Documentation Process*

RAS presents each potential overpayment and its supporting documentation to the EPA for preliminary approval. Once preliminarily approved by EPA, RAS can contact the vendor/service provider to obtain any additional documentation from the vendor that might validate the appropriateness of the transaction. If the vendor has additional documentation that validates the appropriateness of the payment, auditors eliminate it as a finding. If not, when presented with documentation on the overpayment, almost all vendors concur with the finding. Occasionally, a vendor may protest repaying an overpayment even after being presented with the documentation. This, however, did not occur with the state agency audits.

If the transaction is determined to be an overpayment, RAS presents the documentation to the EPA for final approval. Once RAS receives final approval, auditors request the vendor make its repayment to the state. Auditors follow up with vendors as needed until the state is repaid.

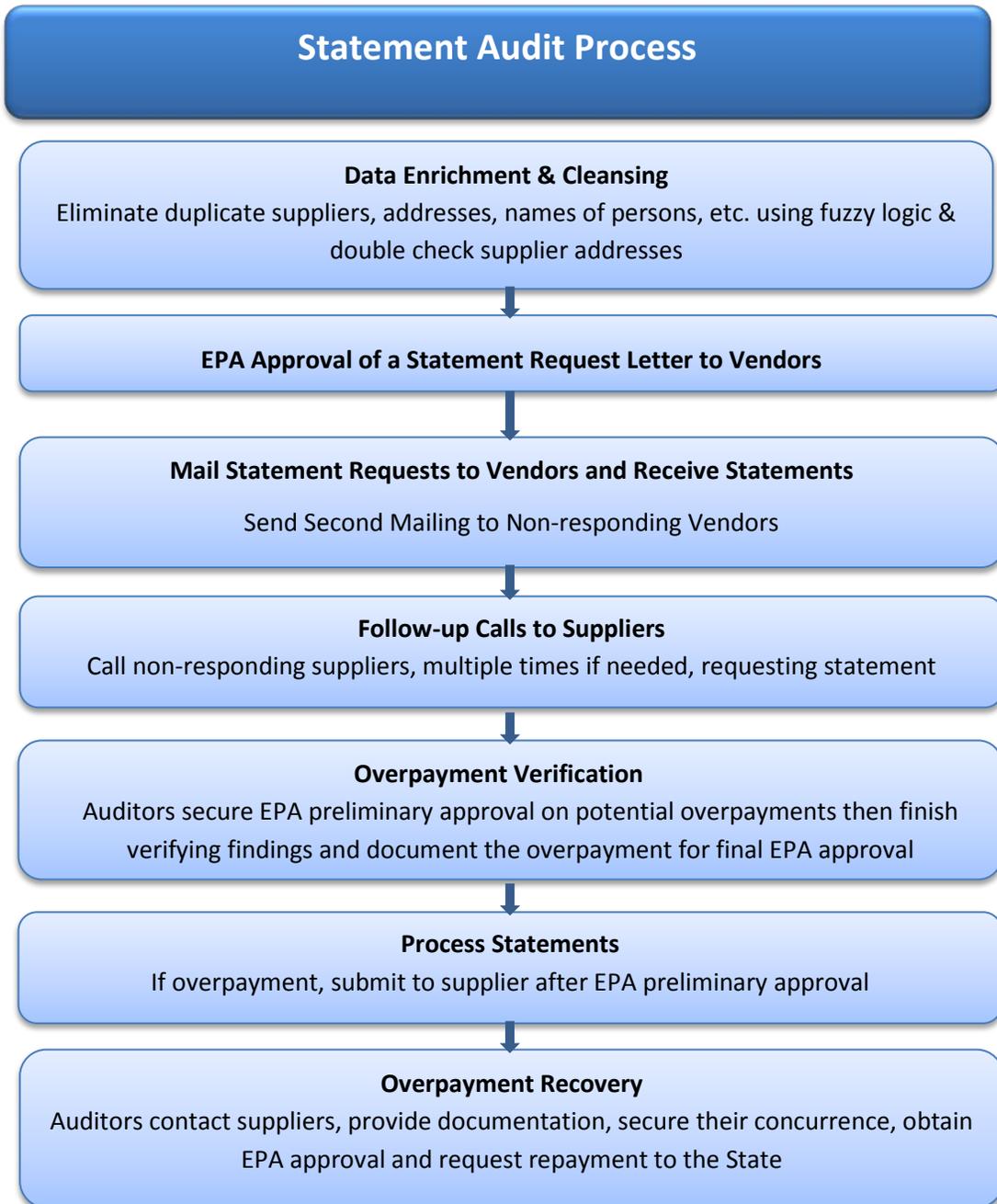
All recoveries from vendors and service providers are returned directly to the State for deposit in a special fund created by the State Legislature for this purpose. Once the State receives its repayment, it compensates RAS from a portion of those recovered funds.

RAS strives to be unobtrusive and not create additional work for state personnel at state agencies. RAS makes all the contacts with vendors and suppliers in order to validate the accuracy of payments our technology has flagged as having a potential overpayment.



### Statement Audit

In addition to the accounts payable audit, RAS performs a Statement Audit in order to identify any outstanding credits from prior disbursements that might be due to Alabama. RAS mailed a request for a statement of accounts to 235 of the state’s vendors with the largest transactions (number of transactions and dollar amount). These vendors represented eight percent of the expenditures subject to the audit. The mailing of the pre-approved letter was followed up with a second mailing to non-respondents. Then phone calls (multiple, if needed) were made to the remainder of vendors that did not respond to either mailed request. The following chart shows the overall statement audit process.





RAS received approximately seventy-five percent of the vendor statements it requested. Many of these vendors do business with numerous state agencies. The returned statements represented eighty percent of the dollars. Since auditors' did not uncover any outstanding credits due from those statements it was deemed that further review would exceed the potential benefit.

Typically, about ninety percent of requested statements are returned by vendors in a statement audit. Even after numerous requests from auditors, approximately twenty-five percent of those vendors did not comply with the statement audit request. Some vendors stated that they did not have to respond to a "third party request" even though a Letter of Authority on Alabama letterhead explaining that the State had retained RAS to perform the audit was provided to them twice with the written request and followed up with phone calls..

This was the first recovery audit the state has undertaken and Alabama's vendors are not used to the process. A recovery audit education campaign might be useful to inform vendors on the new state requirements. It is important to remember that seventy-five percent of the state's largest vendors, which account for eighty percent of the expenditures, did appropriately respond to the statement audit request.

After reviewing the draft audit report EPA questioned why auditors did not request that the state agencies contact the non-responding vendors and suggested that RAS should list the vendors that did not respond. RAS strives to not be obtrusive or request the client take on additional tasks for the audit unless it is necessary. The statement request to vendors is for one statement of accounts for all state entities, not a request from each individual agency. Making one comprehensive request to a vendor lessens the workload on the vendor (and each state agency) and usually produces a better response rate from vendors.

As an example, many, if not most, state agencies might have used the same office supply company over the course of the three years covered by the audit. If that vendor received more than a hundred letters requesting agency specific statements it is unlikely the vendor would respond. It is likely, however, that the vendor would complain to the state regarding what it might consider an unreasonable request.

Once the statement audit work is complete, auditors destroy any state data they might have on their computers. RAS has not previously been requested to include the non-responding vendor list in any report. Had RAS known that the list of non-responsive vendors would be requested, it could have easily retained that list for the report.

## ***Audit Results***

Generally, Accounts Payable audits on non-medical expenditures typically recover from one one-hundredth (1/100) to three-one-hundredths (3/100) of one percent of expenditures.

No matter how well trained state personnel are, when dealing with so many external vendors some errors will occur. RAS analyzed \$18,443,692,145 in expenditures from state agencies. Upon examination



by auditors, the overpayments identified by RAS' analysis were found to have already been corrected by Alabama state personal. Therefore, no outstanding overpayments were identified for recovery at state agencies and departments for fiscal years 2009 through 2011. Had RAS discovered unresolved overpayments, conducting further analysis would have been undertaken.

Likewise, in the statement audit RAS did not uncover any outstanding credits due to the state agencies. It therefore, was determined that further analysis would exceed the potential benefit.

RAS is compensated solely by a percentage of the funds it recovers for the State. Therefore, since there were no recoveries for the state, RAS was not compensated for its audit work on state agencies, boards and commissions, in accordance with its contract.

It appears that Alabama's centralized accounting system provides adequate checks and balances for state transactions, as does the state's procedures for staff that process the transactions. Additionally, auditors encountered a stable workforce with long-term state staff, operating and managing the accounts payable systems at the various agencies.

RAS' observations during the audit revealed that Alabama state agencies and departments appear to have adequate internal controls and procedures in place to identify overpayments and process credits and rectify errors that occur.

A mitigating factor in the success of the recovery audit, however, is the different tracking/document retention systems for the same transaction used by state agencies and Alabama's CAS. This required auditors to do more manual matches than is typical of today's technological capability and complicated the audit trail discovery process.

RAS understands financial constraints faced by government, however, to the extent it is possible, developing the capability in CAS to capture scanned images of transaction documentation would benefit the state. It would also increase the efficiency and thoroughness of future audits.

Auditors found state agency staff to be cooperative and helpful—some even expressed appreciation for the audit. Most personnel seemed interested to learn of the cause of any errors so they could prevent them in the future. RAS sincerely appreciates the responsiveness and professionalism of Alabama's state agency personnel throughout the recovery audit process.

## ***Problems Identified***

This was the first recovery audit Alabama has undertaken and there are steps it can take to improve the recovery audit process going forward for its state agencies, boards and commissions.

### ***Lack of One Uniform Disbursement Tracking System***

The different documentation tracking/filing systems employed by CAS and the state agencies made comparison of CAS data with hard copy documentation at agencies challenging. This increased the time auditors needed to conduct fieldwork at the agency level and diminished the potential of the RAS' software analysis.



### ***Hard Copy Records***

If possible, the State should strengthen its Central Accounting System so that CAS can accept scanned payment documentation (such as invoices and purchase orders) into the system. This would improve record retention and retrieval capability, create efficiencies for state agencies and enable a timelier and more thorough recovery audit process. It might also be of benefit to the state in its annual financial audit process.

As an example, RAS has discovered over many audits with other clients that purchase orders or initial invoices may contain provisions, sometimes hand written, that are not contained in the contract and therefore, do not get entered into the accounting system, such as special discounts. The vendor may never reflect the discount on its subsequent invoices and the state may miss out on a discount that it was entitled to over an extended time because accounting staff were never made aware of the discount. If the discount is not entered into the system, the missed discount will only be discovered if that initial document is pulled from the file for some other reason. An electronic document is easier to retrieve than a box in storage. Scanning financial documentation into CAS would also lessen the warehouse storage space the state would require to archive such records.

### ***Vendor Responsiveness***

Every company under contract to the State needs to be accountable for its financial transactions made with Alabama's taxpayers' dollars and to operate in a transparent manner. The State could educate vendors on the recovery audit process and inform them of the need to cooperate in the future. This would increase the level of return on the statement audits and make for a more timely response from vendors during the overpayment validation process, as well as the timeliness of the repayments to the State.

### ***Recovery Audit Process***

Alabama might consider streamlining its recovery audit procedures. This would lessen the time both EPA and the auditors require to validate overpayments. Currently, EPA has a two-step approval process: preliminary approval and final approval. Auditors must submit their documentation to EPA and receive preliminary approval before auditors can contact vendors to verify the overpayment. Then, once auditors verify the overpayment with the vendor it is resubmitted to EPA for final approval prior to initiating recovery.

In a typical recovery audit, auditors identify the potential overpayment, assemble the documentation and present it to the vendor/service provider for verification and to determine if the vendor might have additional information that shows the payment is not in error. Sometimes an email or phone call to a vendor can clear up the issue. Then, the documentation and the vendor/service provider's concurrence, or objection, is presented to the responsible governmental entity, in this case the EPA, for final approval, or not, before recovery can commence.

In our experience, the vast majority of the time, vendors concur with the overpayment once presented with the documentation. This enables a more timely process and requires less work on the part of the government, which would only need to review the overpayment documentation one time instead of



twice. It also simplifies the work of the auditor, enabling them to efficiently determine the validity of suspected overpayments.

## ***Recovery Audit Recommendations***

### ***One Uniform System for all Agencies***

- If financially feasible, RAS recommends moving all agencies onto the CAS so the State has a comprehensive system that includes all its disbursements in a coordinated system.
- Require all agencies to coordinate with the Comptroller's Office so there is one uniform documentation tracking system for financial transactions. This would greatly facilitate the tracking, comparison and auditing of expenditures.

### ***Record Accessibility and Retention***

- If possible, scanning purchase orders and invoices into the Central Accounting System would allow for a more thorough and timely audit to be conducted for the state. It would also solve the problem of different record retention systems since all supporting documentation would be available for discovery in an audit.
- If the state is unable to scan documents into the CAS, consider conducting recovery audits ninety days after the end of the fiscal year so the necessary documentation is available on-site.

### ***Strengthen State Contracts***

- Include a mandatory provision in Alabama's master contract requirements specifying that all vendors and service providers under contract with the state are required to cooperate with state audits.
- Further, that vendors and service providers shall provide the requested data and/or documentation within thirty (30) days of the written request for such records.
- The state may want to consider imposing a sanction for non-timely compliance.
- The State may want to consider adding Lost Interest Income charges to funds that are not returned to the State timely as an incentive for vendors/service providers to refund overpayments quickly.

### ***Approval Procedures***

- Streamline the recovery audit procedures so potential overpayments and the supporting documentation only needs approval one time. This enables auditors to validate potential overpayments with vendors before obtaining approval of the overpayment by the state in order to begin recovery. If the vendor provides additional documentation that the transaction is not an overpayment, auditors drop it from the list of potential recoveries. This is typically the approval process used in other public and private recovery audits.