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December 30, 2019

TO: The Honorable Jeffrey S. Gossett
The Honorable Charles F. Reid

FROM: Delbert H. Singleton, Jr. 
Division Director, Procurement Services

RE: Recovery Audit Reports Summary

We have received recovery audit reports from American Utility Auditors (AUA) and Recovery Audit Specialists (RAS). The following summary of the reports is being provided pursuant to Proviso 117.88 of the 2018-19 Appropriation Act.

Recovery Audit Specialists

RAS was selected by forty-six state agencies, seven public universities and sixteen two-year colleges and technical schools to conduct their audits. RAS indicates that the recovery audits are in the early stages of the audit process and will provide recommendations based on auditor observations and best practices in calendar year 2020. This audit covered state expenditures for fiscal years 2016, 2017, and 2018. Expenditures were required to be at least 180 days old to be included in the audit scope. The primary focus of the South Carolina recovery audit is to identify and recover overpayments, including but not limited to, duplicate payments, erroneous payments, rebates, discounts, and credits not received. In addition to recovering funds for the state, RAS reports on audit observations and recommendations to improve financial management and prevent future improper payments. A hard copy of the current report is attached, and a final audit report will be provided upon RAS' completion of the audit process.

American Utility Auditors

AUA was selected by twenty-two state agencies and two public universities to conduct their audits. AUA's report notes the stages of progress for each audit and the percentage of completion. Eleven of the audits are noted as completed with the remainder in varied stages of completion. A request for a more detailed report has been made to AUA. A hard copy of the current report provided by AUA is attached. Any supplemental reports will be provided.

dhs

Enclosures: Recovery Audit Reports

cc: Grant Gillespie



State of South Carolina

Recovery Audit Report December 2019

Submitted by

Recovery Audit Specialists

Accountability ▪ Transparency ▪ Recovered Funds

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Audit Overview

Background

RAS was selected through a competitive Request for Proposal process to conduct comprehensive recovery audits for South Carolina Executive Agencies and the public higher education system for fiscal years 2016 – 2018.

Forty-six state agencies, seven public universities and sixteen two-year colleges and technical schools selected RAS to conduct their audits. The recovery audits are in the early stages of the process. In addition, the University of South Carolina separately engaged RAS in the fall of 2018 to conduct unclaimed property and recovery audit from FY 2015 - 2018 and to recover all outstanding credits that are more than 120 days old at point of auditor contact.

State agencies operate on the South Carolina Enterprise Information System (SCEIS). Each institution of higher education operates its own accounting and payable system.

The South Carolina State Fiscal Accountability Authority (SFAA) is the agency charged with administering the recovery audit. Recovery Audit Specialists (RAS) works with and reports audit progress to the SFAA, the Comptroller's Office (CG) and Department of Administration (DOA) monthly.

Recovery auditing is a process of elimination, whereby our algorithms and multiple sorts examine each financial transaction for any potential anomaly and eliminate the error free claims. RAS' sophisticated software and data analysts examine the transactional data for potential overpayments. Then, auditors focus on validating and documenting transactions that were flagged as a potential overpayment. Once a transaction is documented as an overpayment, RAS recovers the funds for the State.

Primary Audit Contacts

Kristen Hutto, Procurement Manager, South Carolina State Fiscal Accountability Authority

Brenda Russell, CEO, Recovery Audit Specialists, LLC

Jonathan Miller, Lead Auditor, Recovery Audit Specialists, LLC

Recovery Audit Scope

This audit covered state expenditures for fiscal years 2016, 2017, and 2018. Expenditures were required to be at least 180 days old to be included in the audit scope. The primary focus of the South Carolina recovery audit is to identify and recover overpayments, including but not limited to, duplicate payments, erroneous payments, rebates, discounts, and credits not received. In addition to recovering funds for the state, RAS reports on audit observations and recommendations to improve financial management and prevent future improper payments.

Audit Results to Date

State Agencies

Recovery Audit Specialists (RAS) recently received the financial transaction data for state agencies. RAS' IT department has analyzed the majority of agencies' data and our auditors have begun the validation work to document overpayments for recovery.

Two-Year Colleges and Technical Schools

RAS received the data from fifteen of the sixteen schools, only Denmark Technical school has not provided its data yet. IT performed its analysis on the fifteen schools and recently released the data to our auditors to begin the validation work of documenting overpayments for recovery.

Universities

RAS received data from the seven universities that selected RAS as the audit firm. RAS' IT analysis is complete on most and that data was recently released for audit validation and recovery work.

University	Audit Status
Citadel	IT analysis completed; data released to audit
Clemson	IT analysis completed; data released to audit
College of Charleston	IT analysis completed; data released to audit
Lander	IT analysis being conducted
Medical Univ. of SC	IT analysis completed; data released to audit
SC State	Data just received by IT for analysis
Winthrop	IT analysis completed; data released to audit

In total, RAS is examining the following:

Entity Type	Invoices	Spend	Active Vendors
Universities	855,805	\$5,027,039,322	72,561
Technical Colleges	207,084	\$1,125,057,821	17,927
State Agencies	1,817,415	\$8,673,880,803	65,943
Univ. of SC	513,325	\$2,718,021,505	47,715
Grand Totals	3,393,629	\$17,543,999,451	204,146

University of South Carolina System

The University of South Carolina System (USC) separately engaged RAS in the fall of 2018 to perform an unclaimed property and recovery audit. RAS examined 513,325 invoices, with a value of \$2,718,021,505 from 47,715 vendors.

RAS is recovering outstanding credits due to USC that are more than 120 days old from point of auditor contact and going as far back as FY 2015. To date, \$206,655.43 in overpayments is documented and \$174,646.54 recovered for USC. The remaining claims are in process of recovery and RAS anticipates that the majority will be recovered. This audit is close to completion.

Clemson

To date, RAS has documented \$137,684.43 in overpayments for Clemson University and those verified claims are waiting on refunds. Additional potential claims are being verified.

Medical University of South Carolina

Auditor validation on MUSC has just begun, one claim for \$792 is identified.

Remaining Universities

Validation and recovery work for The Citadel, College of Charleston, Medical University of South Carolina, and Winthrop is in the early stages. Lander University's IT analysis will be completed shortly. RAS just received data from South Carolina State University and IT analysis is starting.

RAS Recovery Audit Process

Recovery auditing is a financial management tool that strengthens financial controls. First, RAS' IT experts and algorithms examine each financial transaction for any potential anomaly and eliminates all error free transactions. Then, we focus our work on validating and documenting transactions that may be a suspected overpayment; either validating the transaction as accurate, or as an overpayment. Once an overpayment is documented RAS recovers the funds for the state.

Accounts Payable Audit

The SCEIS system enables the State to maintain a comprehensive record of its financial transactions for state agencies, including supporting documentation, which is scanned into the system. This creates an efficient audit process whereby a vendor's transactions can be examined across multiple agencies where that vendor might provide goods or services. It also means that state agency personnel involvement in validating transactions is minimal to none.

Once RAS has the data and read-only remote access to the backup documentation, only agencies where an overpayment is verified will be contacted again for verification purposes.

Educational institutions maintain separate accounting systems and RAS obtained data from each institution individually via our secure FTP site. Each institution was processed as a separate audit. Some had older legacy accounting systems which cannot capture scanned images of invoices, purchase orders or other supporting documentation and hard copy backup will be needed.

Our recovery audit analytics process is the same for state agencies and institutions of higher education. RAS performs two recovery audit processes for the State:

1. The Accounts Payable transaction data analyses described above, and
2. A statement audit to identify outstanding credits due to the state described below.

Statement Audit

An important portion of the Accounts Payable audit is the statement analysis, which we perform for both state agencies and higher education institutions. These statements provide significant opportunity to locate unknown credits and/or other unresolved issues. Typically, fifty percent or more of the recoveries are from outstanding credits. RAS selects vendors with at least ten invoices or annual business transactions with the state of more than \$50,000 and request they provide a current statement of account.

Once the statement is received, we analyze and identify aged credits. Aged credits are defined as credits that are more than 180 days old. We also use this process to locate unapplied cash, overpayments, and erroneous payments.

Reporting, Audit Observations and Recommendations

SFAA convenes monthly reporting meetings via phone with RAS on the third Thursday of each month that includes key staff from the CGs office and the DOA. RAS submits a written audit status report on the 15th of each month to SFAA prior to the monthly meeting. The meetings review audit status, results, and address any questions or issues.

In addition, SFAA and RAS maintain contact via phone and email on an as needed basis throughout the audit.

An audit report is due on December 1, of each year of the audit. As noted in this report, RAS is in the early stages for most of the audits.

Since RAS is in the early stages of the audit, recommendations based on auditor observations and best practices will be included in the report next year. Recommendations will focus on ways South Carolina can strengthen its processes to prevent identified errors from being repeated in the future.

Optional Cost-Saving Services

The South Carolina Recovery Audit Proviso enables state entities to elect additional cost-saving services defined as, "Analysis of contracts and pricing structures and recommendations for future cost-savings and improved state agency financial operations." The State Fiscal Accountability Authority (SFAA) and the Department of Administration (DOA) selected RAS to identify future cost-saving opportunities.

RAS' evaluation to identify and negotiate on-going savings opportunities is performed by RAS' industry specific experts—through their industry experience they know the best options for savings and where hidden expenses can be eliminated.

The RAS cost reduction/strategic sourcing team delivers better priced products and services by addressing the following four components of sourcing and procurement:

1. Current market pricing opportunities
2. Product standardization opportunities
3. Negotiated volume discounts
4. Negotiated payment discounts

The objective of the review is to verify that the vendor complied with the current pricing terms and conditions of the contract, to negotiate refunds due from suppliers, and to negotiate improved pricing and services on behalf of South Carolina agencies and institutions.

The benefit of RAS industry specific experts negotiating best-in-class pricing and service levels for the State will lock in significant future cost reductions for the State.

State Fiscal Accountability Authority (SFAA) Cost-Saving Initiatives

RAS worked with SFAA leadership to develop a Request for Proposal (RFP) for managed print services (copy/print equipment and services), which is expected to be issued soon. The RFP requires higher levels of service standards, standardizes equipment requirements, and requires pre-negotiated, standard pricing on all equipment options. It is estimated that this RFP process will provide the State and its Using Governmental Units approximately thirty (30%) percent savings over current costs while improving program services.

In preparation for the RFP, RAS conducted research with current vendors to determine current usage from the vendor's data; compared that to the state's data, and sought input from current users via a survey implemented by SFAA and customer feedback at the annual South Carolina Association of Government Procurement Offices conference.

Once the RFP is issued, RAS will compile the responses and present a decision matrix and recommendations for SFAA's consideration and determination of contract award(s).

It is anticipated that the new more cost-effective program will be implemented in the first quarter of 2020. RAS will work with vendors and state entities to achieve optimal implementation of the program.

Department of Administration (DOA) Cost-Saving Initiatives

DOA requested RAS examine all its contracts for potential cost savings. Our initial examination revealed that the majority of spend by DOA is based on statewide contracts. RAS is currently examining wireless phone service, waste management, and the following areas for DOA.

RAS examined approximately \$129 million of DOA spend in the following broad categories:

- | | |
|------------------------------------|--------------|
| ▪ Consulting and Temp Labor | \$43 Million |
| ▪ IT hardware/software/maintenance | \$57 Million |
| ▪ Fleet/Fleet Maintenance | \$27 Million |
| ▪ Facilities Maintenance | \$ 2 Million |

From our preliminary examination of those DOA contracts, product specifications, and invoices, it appears that compared to current market pricing opportunities, RAS will be able to achieve savings of 7% - 14% or \$9 million - \$18 million from these categories for the State. RAS can work with existing vendors to renegotiate DOA's pricing benchmarked against market rates for similar sized entities.

To achieve maximum savings for the State, renegotiating statewide contracts held by SFAA will produce additional savings opportunities by addressing product standardization opportunities, negotiating additional discounts, and possibly reducing the number of vendors in categories.

If needed, RAS industry specific experts can draft detailed specifications and service levels for new RFP's issued by the state as we have done for SFAA in the managed print area.

Attachment A: State Agencies RAS is Auditing

- Attorney General's Office
- Board of Financial Institutions
- Commission of State Prosecution
- Commission on Higher Education
- Commission on Indigent Defense
- Comptroller General's Office
- Department of Administration
- Department of Agriculture
- Department of Alcohol & Other Drug Abuse Services
- Department of Commerce
- Department of Consumer Affairs
- Department of Disabilities & Special Needs
- Department of Education
- Department of Health & Environmental Control
- Department of Health & Human Services
- Department of Insurance
- Department of Labor Licensing & Regulation
- Department of Motor Vehicles
- Department of Natural Resources
- Department of Parks, Recreation, & Tourism
- Department of Probation, Parole, and Pardon Services
- Department of Public Safety
- Department of Revenue
- Department of Social Services
- Department on Aging
- Forestry Commission
- John de la Howe School
- Office of Regulatory Staff
- Office of the Secretary of State
- Office of the State Auditor
- Procurement Review Panel
- Public Service Commission
- Retirement System Investment Commission
- SC Arts Commission
- SC Law Enforcement Division (SLED)
- SC Museum Commission
- SC Patients' Compensation Fund
- SC State Housing, Finance, & Development Authority
- SC State Library
- SC Technical College System
- Sea Grant Consortium
- State Fiscal Accountability Authority
- Vocational Rehabilitation Department
- Worker's Compensation Commission
- Wil Lou Gray Opportunity School

Attachment B: Higher Education Institutions RAS is Auditing

UNIVERSITIES

- Clemson University
- College of Charleston
- Lander University
- Medical University of South Carolina (MUSC)
- South Carolina State University
- The Citadel
- University of South Carolina System (USC)
 - USC Columbia (Main Campus)
 - USC Aiken
 - USC Beaufort
 - USC Upstate

USC Palmetto Colleges (2-year Colleges)

- USC Lancaster
- USC Salkehatchie
- USC Sumter
- USC Union
- Winthrop University

TWO-YEAR COLLEGES & TECHNICAL SCHOOLS

State Board for Technical & Comprehensive Education

- Aiken
- Central Carolina
- Denmark
- Florence - Darlington
- Greenville
- Horry - Georgetown
- Midlands
- Northeastern
- Orangeburg - Calhoun
- Piedmont
- Spartanburg
- Tech College of the Low Country
- Tri - County
- Trident
- Williamsburg
- York

Attachment C: Proviso 117.88 on Recovery Audits

South Carolina 2018-2019 Appropriation Act

Part 1B Section 117 X900 – General Provisions

117.88. (GP: Recovery Audits)

117.88. (GP: Recovery Audits) The State Fiscal Accountability Authority shall contract with one or more firms to conduct recovery audits of payments made by all state agencies to vendors for goods and services. The audits must be designed to detect, document, and recover overpayments and erroneous payments to the vendors and to recommend improved financial and operational practices and procedures. A state agency shall pay, from recovered monies received, the recovery audit firm responsible for obtaining for the agency a reimbursement or payment from a vendor a negotiated fee not to exceed twenty percent of the funds recovered by that firm.

Unless otherwise restricted by law, funds recovered, less the cost of recovery, shall be remitted to a special fund subject to appropriation by the General Assembly. Agencies may recover costs that are documented to be directly related to implementation of this provision.

Recovery audits apply only to payments made more than one hundred eighty days prior to the date the audit is initiated and shall cover at least three complete fiscal years.

All information provided under a contract must be treated as confidential by the recovery audit firm. A violation of this provision shall result in the forfeiture by the firm of all compensation under the contract and to the same sanctions and penalties that would apply to that disclosure.

Each state agency shall participate in this recovery audit program and shall cooperate and provide the recovery audit firm with all information necessary for the audit in a timely manner. All vendors that provide goods or services to a state agency shall cooperate with the recovery audit firm in its audit.

A state agency shall expend or return to the federal government any federal money that is recovered through a recovery audit conducted under this provision. Payments to the recovery audit firm from the federal share of recovered funds shall be solely from the federal portion as allowed by the federal agency.

In addition to performing the recovery audits, the recovery audit firm may conduct an analysis of contracts and pricing structures, as determined and directed by the Executive Director of the State Fiscal Accountability Authority or her or his designee, to identify and recommend future cost-savings and improved state agency financial operations going forward. A state agency shall pay the recovery audit firm responsible for obtaining the agency actual cost-savings a fee as authorized by the contract with the recovery audit firm.

The recovery audit firm shall provide reports to the State Fiscal Accountability Authority detailing its findings, the causes for the overpayments and erroneous payments, future cost-savings opportunities and its recommendations for strengthening state operations and/or state contracts to prevent improper payments in the future.

For purposes of this proviso, the term vendor or vendors includes, but is not limited to, sellers, suppliers, service providers, other providers, contractors and third party administrators; the term overpayments and erroneous payments includes, but is not limited to, overpayments, duplicate payments, erroneous payments, and rebates, discounts and credits not received; and the term state agency or state agencies includes all state agencies, boards, commissions, institutions and institutions of higher education.

The State Fiscal Accountability Authority shall provide copies, including electronic form copies, of final reports received from a firm under contract to: the Governor; the Chairman of the Senate Finance Committee; the Chairman of the House Ways and Means Committee; and the state auditors office. Not later than January first of each year, the board shall issue a report to the General Assembly summarizing the contents of all reports received under this provision during the prior fiscal year.



Agency Name	Business Code	Agency Contact	Contact Email	Sceis /Non-Sceis	Progress	% Complete
Coastal Carolina University	H170	Daniel Rabon	dcrabon@coastal.edu	Non-SCEIS	2	75
Department of Archives & History	H790	Bernice Cooper-James	bcjames@scdah.sc.gov	SCEIS	6	100
Department of Juvenile Justice	N120	Diana Gantt	dkgant@scdjj.net	SCEIS	2	75
Department of Transportation	U120, U150, U200	Michael Guffee	guffeeml@scdot.org	SCEIS	2	50
Francis Marion University	H180	Cathy Swartz	cswartz@fmarion.edu	Non-SCEIS	2	50
Inspector General's Office	D250	George R. Davis	georgedavis@oig.sc.gov	SCEIS	6	100
Office of State Treasurer	E160, E170, R230	Allen R. Townsend	allen.townsend@sto.sc.gov	SCEIS	6	100
PEBA	F290, F500	John Pannell	jpannell@peba.sc.gov	SCEIS	6	100
Revenue and Fiscal Affairs Office	E500	Morgan O'Donnell	morgan.odonnell@rfa.sc.gov	SCEIS	6	100
S.C. Education Lottery	Y200	Brian Ford	brian.ford@sclot.com	SCEIS	6	100
S.C. Law Enforcement Training Council	N200	Karen Stewart	kstewart@sccja.sc.gov	SCEIS	2	50
S.C. State Ports Authority	Y140	Chris Baum	cbaum@scspa.com	SCEIS	3	10
SC Education Oversight Committee	A850	Lisa B. Nichols	lbNichols@eoc.sc.gov	SCEIS	2	50
SC Transportation Infrastructure Bank	U150	Jerry Butler	butlerjl@scdog.org	SCEIS	2	50
SCETV & South Carolina Public Radio	H670	Blaire Foutz	bfoutz@scetv.org	SCEIS	2	75
State Accident Fund	R120	Abigail Sellers	asellers@saf.sc.gov	SCEIS	6	100
State Human Affairs Commission	L360	Christina Jordan	cjordan@schac.sc.gov	SCEIS	6	100
Debt Service - (State Treasurer's Office?)	V040	Allen R. Townsend	allen.townsend@sto.sc.gov	SCEIS	6	100
State Treasurer's Office	E160	Allen R. Townsend	allen.townsend@sto.sc.gov	SCEIS	6	100
State Treasurer's Office - Aid to Subdivisions	X220	Allen R. Townsend	allen.townsend@sto.sc.gov	SCEIS	6	100
Wil Lou Gray Opportunity School	H710	Stephanie Morton	mortons@wlgos.sc.gov	SCEIS	2	60
Dept of Labor / License	R360	Patrick Jarvis	Patrick.jarvis@llr.sc.gov	SCEIS	1	25
SC DMH	J120	Curt Ferrier	Curtis.ferrier@scdmh.org	SCEIS	2	75
State Ethics Commission	R520	Ami Franklin	ami@ethic.sc.gov	SCEIS	2	50

Progress Key
 (1) = Started
 [2]= Work in Progress
 [3]= Awaiting agency response
 [4]= Work completed
 [5] Working on vendor collection
 [6] Completed letter being sent to agency

Vendor Name	Recovery/ Over Payment	On-going Savings	Amount	Recovery Audit Fee	AUA Invoice #	Date Paid	Hourd Worked
	none						4
Duke Energy		\$52,346.11	\$52,346.11	\$10,469.22	DOT-2019-1	Sept'19	200
	none						4
	none						5
	none						5
	none						5
	none						5
	none						4
	none						5
	none						6
	none						5
	none						5
Duke Energy		\$20,383.64	\$20,383.64	\$4,076.73	DMH-2019-1	Aug'19	200