

## Recovery Audit: Now In-a-Box

### *Best Practices Using Software Tools*

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***For two decades now human expertise has methodically— often quite brilliantly— been encoded in software, and made available far more widely and at lower cost than the human expertise ever could be. A great example is the notion of optimizing the personal computer. For many years after the dawn of the PC, service technicians would come on-site and “tune” your PC. Of course, had this continued, these service techs might represent something like a third of our workforce. Instead, the expertise for tuning a computer— and later for protecting it from the ever-growing plague of viruses— was built into low-cost PC software. It started with a product that bore the name of one of the early pioneers of PC tuning (Peter Norton), and now few servers lack anti-virus and other automatic optimization software, running on a batch basis or in real-time.***

***There’s another business that is moving rapidly from high cost services to low-cost packaged software. It’s called Profit Recovery Audit, or usually just Recovery Audit.***

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For decades now, accounting and other consulting/services firms have dropped into organizations for multi-month to multi-year engagements whereby they methodically comb through the organization’s accounting data and records to find mistakes of almost any kind. Then, once these overpaid monies are recovered, the Recovery Audit services firm pockets up to about one-third (33%) of the total. So, for example, if a Recovery Audit finds \$1 million in errors and this money is recovered, the customer itself gets \$667,000, and the Recovery Audit consultancy reaps \$333,000. Of course, this can be highly profitable work for the Recovery Audit consultancy.

Naturally, the Recovery Audit consultancies focus on the low-hanging fruit, which is egregious overpayments and the bigger, the better. Data shows that even companies with strong internal controls have overpayments each and every year.

### Solution Overview

#### **Vendor Profile**

CashFlow Guardian, Inc. (CFG) is a packed software developer with a wide variety of customers in multiple industries that use the firm’s landmark Profit Audit Recovery Tool. CFG offers single- and multi-user software that accepts a payables data load from any accounting system, then flags problem items for review and action.

#### **Why CFG Software?**

Pay each vendor the right amount, and not a penny more™.

#### **Benefits**

- √ Save .1-.4% of payables
- √ Discover problems before vendors are (over)paid
- √ Correct the problems so they don’t reoccur
- √ Do all this quietly & rapidly, without need to engage outside consultants.

#### **Software Requirements**

Windows 2000

If multi-user edition of CFG, Microsoft SQL Server is required

#### **Contact**

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Overpayments are caused by a wide variety of factors, from the mundane (mistaken double-entries) to the ridiculous (vendors sending two bills).

The fact is that US companies have an average payables error rate (primarily overpayments) of between .1% and .4%. See where your company might fall—

Payables of:	<u>\$1 million</u>	<u>\$10 million</u>	<u>\$100 million</u>	<u>\$1 billion</u>	<u>\$10 billion</u>
Overpayment rate--					
.1%	\$ 1,000	\$ 10,000	\$ 100,000	\$ 1,000,000	\$ 10,000,000
.4%	\$ 4,000	\$ 40,000	\$ 400,000	\$ 4,000,000	\$ 40,000,000

In the last five years, the Recovery Audit (RA) Services business has become mature, with flat growth and industry consolidation. There are three prominent national brands that together have some 70% of the total U.S. market, which is about \$1 billion/year: Profit Recovery Group-Schultz (called PRG-Schultz, HQ in Atlanta), Connolly Consulting Associates (called CCA, HQ in Atlanta), and Stout Causey (HQ in Baltimore). The remainder of the market is divided among smaller, regional firms. Note that RA services firms almost always charge based on contingency: about 25% of the dollars they recover on behalf of their client from the client’s vendors.

***That Was Then, This Is Now***

It was inevitable that the Recovery Audit business would move from services to software, because it’s all about analyzing large but homogenous volumes of data from accounting systems, the rules are discrete and have eminently understandable logic ranging from simple to complex, and Recovery Audit customers have long yearned for a much faster, less invasive, less public way to find and fix their payables problems.

Also, the services firms themselves make use of home-grown software tools to speed up their engagement— a fact they cannot easily hide from their clients.

And there’s a better reason: Recovery Audit services players work on contingency, and tend to be very focused on finding the obvious, big payables problems, and doing so just about every year for their customer. In other words, it’s not in their best interests to hang around and fix endemic problems. They only make money as a percentage of what’s recovered— and they make big bucks.

But now organizations themselves can use software tools equal to or better than Recovery Audit consultancies have been using themselves for years. The beauty of today’s Recovery Audit software packages is that they allow organizations to see what they need to fix/change so that problems do not reoccur. These packages rank problems by severity, and allow for sorting and filtering so the cause can be diagnosed. And they can even run tests relating to “Audit Controls,” which are ever more important in this era of Sarbanes-Oxley.

So today, highly packaged (read: *easy-to-use*) software is available for organizations to address Recovery Audit themselves. These packages have muscular database engines, allow the running of custom or canned rulesets of almost infinite complexity, and can be kicked off each month before checks to vendors are even cut.

With the traditional Recovery Audit approach, targeted vendors are contacted months or even years after the fact, and petitioned for a refund. Vendor “X” may not still be in business, or in any case may no longer be doing business with the customer, making a refund highly problematic.

With the right Recovery Audit software, “pro-active” chargeback memos can be attached to outgoing checks—that is, the barn door can be locked before the horse is out romping around in the pasture.

### ***What to Look For In Recovery Audit Software***

√ Here’s a simple 10-point checklist, if you’re contemplating buying Recovery Audit Software:

1. Is exceedingly easy-to-deploy and use, and is not just a programming framework or database system, but rather a canned software package for accounting personnel to utilize for rapid analysis and decision-making.
2. A software package that allows for secure, automatic upgrades/updates over the Internet from the software vendor, because compelling functionality is being added by the month in this growing market space.
3. Can easily accept a data load, including with item detail, from your accounting system.
4. Has a true SQL, (Structured Query Language) database engine at its heart— but you need not be a database programmer to use it.
5. Provides canned rules that rank flagged items by severity, size, vendor, etc., and allow filtering/sorting with a colorful and clean graphical user interface (GUI).
6. Provides the ability to easily add custom rules or rulesets using plain English queries that are then automatically translated in background into the correct computer SQL statement/syntax.
7. Allows comparisons and analysis across data loads, with a scorecard showing the relative dollar proportions of flagged items, recovered items, etc.
8. Allows for single- or multi-users, with appropriate row/record locking.
9. Not only highlights problem payables, but runs **Audit Control** checks against the data to help organizations remove ongoing problems or lessen the likelihood of reoccurrence.
10. Has its **Analysis** capability seamlessly integrated with a highly automated **Recovery** capability, such that chargeback memos can be issued with checks cut, and other actions initiated and tracked for turning accepted findings into re-captured dollars.

### ***For More Information***

For more information about CashFlow Guardian® software, call the CashFlow Guardian at 410/290-0800, email [sales@CashFlowGuardian.com](mailto:sales@CashFlowGuardian.com) or visit <http://www.CashFlowGuardian.com>.

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