

Integrated Audit - Cost Recovery and SOX 404

Reducing Sarbanes-Oxley Section 404 Compliance Costs

Bob Benoit



- President and Director of SOX Research at Lord & Benoit - a SOX consulting firm specializing in smaller public companies
- Serves on COSO Monitoring Project Taskforce
- Has served on the AICPA Peer Review Acceptance Board for 10 years
- Peer Reviewed the quality of over 100 CPA firms in past 17 years
- Author, The Lord & Benoit Reports referenced by SEC, PCAOB, SEC Advisory, SEC Staff, SEC Commissioners, Wall Street Journal, Big 4, U.S. Chamber of Commerce, AAA, AICPA, IIA and over 200 newspapers, magazines, legal, educational and trade journals.
- Taught Sarbanes-Oxley Section 404 compliance across the country through State CPA Societies and various other organizations
- Significant Contributor to SEC Interpretive Guidance – see SEC Concept Release and PCAOB websites
- Invented Virtual SOX compliance methodologies – AICPA Technology



Course Outline

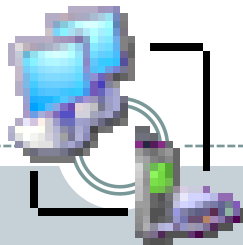


- Regulatory Update
- Key lessons learned from historical SOX efforts
- Scalable model to SOX compliance for maximum efficiency
- Define Virtual SOX compliance and understand its cost saving benefits
- Learn to apply the linkage and integration of SOX efforts for testing controls and cost recovery audit
- Questions and Answers

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Shining Light on Section 404 Compliance



Regulatory Update

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Shining Light on Section 404 Compliance



Regulatory Update



“The Sarbanes-Oxley Act Section 404(a) requires public companies (including non-accelerated filers) with fiscal years ending after December 15, 2007 to perform a Management Assessment and report on its system of Internal Controls over Financial Reporting (ICFR).

ALL filers, foreign, domestic, accelerated and non-accelerated must comply regardless of market capitalization.



Regulatory Update



“It is the SEC Division of Finance's view that the failure to provide this management report **RENDERS THE ANNUAL REPORT MATERIALLY DEFICIENT.**”

“If management **DID NOT COMPLETE THE EVALUATION** and provide the report as required by Item 308T(a), the company would not be timely or current in its Exchange Act reporting

Regulatory Update



Failure to perform an assessment “would result in the company **NOT BEING ELIGIBLE TO FILE NEW FORM S-3 or FORM S-8 REGISTRATION STATEMENTS** and the loss of the availability of Rule 144.

Additionally, “because the filing of the Form 10-K constitutes the Section 10(a)(3) update for any effective Forms S-3 or S-8, **THE COMPANY ALSO WOULD BE REQUIRED TO SUSPEND SALES UNDER ALREADY EFFECTIVE REGISTRATION STATEMENTS.**”

Regulatory Update

For more information see [CAQ Alert #2008-94](#)

Regulatory Update



“Under Sarbanes-Oxley Section 404(b) outside auditors of ALL filers are required to test and express an opinion on internal controls over financial reporting under PCAOB (Public Company Accounting Oversight Board) Auditing Standards for years ending after December 15, 2009.

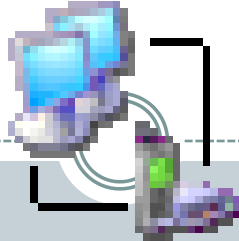
Regulatory Update



“Regarding SOX 404... right now, we have a system where some issuers are complying with 404 and others are still exempt from it. It’s time that we bring uniformity to the system so that investors know what to expect from companies, while being sensitive to the needs of small businesses.

Quote taken from questions from Senator Carl Levin for Mary Schapiro, now Chair of the Securities and Exchange Commission, January 8, 2009





Key Lessons Learned from Historical SOX Efforts

Lessons Learned – Material Weaknesses

Material Weaknesses Identified Management Report Disclosures		
Material Weaknesses Issue	Companies Disclosing	% of Companies
Ineffective accounting procedures	555	96.5%
Issues with competency, training, tone at top, ethics	449	78.1%
Departures from FASB/GAAP/Disclosures	394	68.5%
Ineffective design of controls not mitigated with compensating controls	311	54.1%
Reliance on outside auditors for material adjustments	192	33.4%
Information technology, software, security & access issues	118	20.5%
Audit Committee - Ineffective, non-existent or understaffed	110	19.1%
Accounting for deferred, stock-based comp, debt, warrants, derivatives	101	17.6%
General ledger close process	96	16.7%
Foreign, related party, affiliate, merger, acquisition, consolidation issues	93	16.2%
Untimely or inadequate account reconciliations	80	13.9%
Accounting for Accounts/loans receivable, investments & cash issues	76	13.2%
Accounting for Liabilities, payables, reserves and accrual est. failures	65	11.3%
Revenue recognition issues	62	10.8%
Controls over property, intangibles, deprec	60	10.4%
Controls over inventory/cost of sales	59	10.3%
Accounting for expenses (payroll, SG&A, leases)	47	8.2%
Accounting for income tax expense (FAS 109)	30	5.2%
Restatements, regulatory compliance	29	5.0%
Insufficient or non-existent internal audit function	22	-

Lessons Learned – Audit Committee

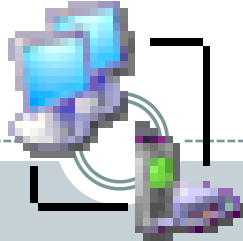


Overall 32% had ineffective audit committees

- ❑ 14.1% (451 companies) of non-accelerated filers were non-compliant indicating ineffective oversight of financial reporting by the Board and/or Audit Committee.
- ❑ Plus another 3.4% thru self reporting (110 companies) a materially ineffective, nonexistent or understaffed audit committee (19% of adverse non accelerated filers vs. 1.9% for accelerated filers)
- ❑ And one could argue another 14.5% thru (465 companies) through other forms of self reported material weaknesses

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Shining Light on Section 404 Compliance



Scalable Model to SOX Compliance to Maximize Efficiency

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Shining Light on Section 404 Compliance

Scalable Model to SOX Compliance



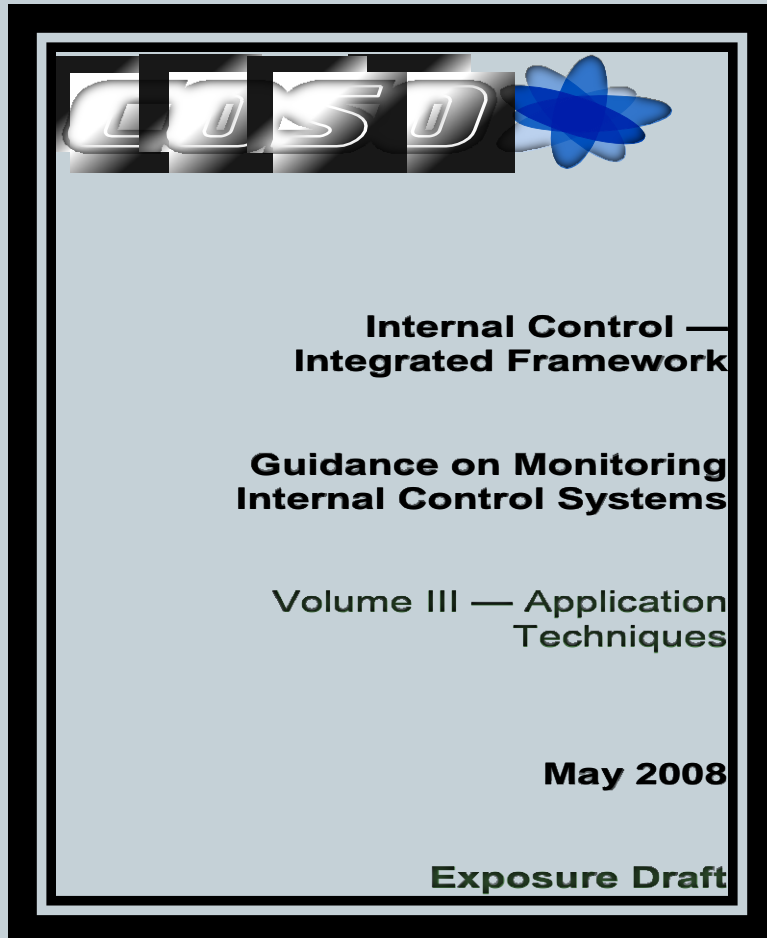
“Under the Commission’s rules, management’s annual Assessment of the Effectiveness of Internal Control over Financial Reporting must be made in accordance with a suitable control framework...”

COSO (Committee of Sponsoring Organizations of the Treadway Commission)



www.COSO.ORG

COSO (New! Monitoring Framework)



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Scalable Model to SOX Compliance



Scalable Model to SOX Compliance



		Dec 31,	
		2007	2006
ASSETS			
Current assets:			
Cash	\$ 2,400	\$ 11,700	
Accounts receivable, net	1,700	1,300	
Prepaid expenses and other assets	2,400	2,400	
Total current assets	6,500	15,400	
Property, plant, and equipment, net			
Goodwill			
Other intangible assets			
Total assets	6,500	15,400	
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 117	\$ 319	
Accrued liabilities	8,223	4,450	
Deferred revenue	1,100	2,100	
Long-term debt	480	480	
Total current liabilities	10,020	7,349	
Long-term debt			
Total liabilities	10,020	7,349	
Commitments and Contingencies			

Top Down

Enterprise Risk Assessment	Applicable?	Risk		Comments
		Magnitude	Likelihood	
1. Major Assets and Liabilities				

Fraud Risk Assessment	Applicable?	Fraud Risk			Comments
		Reporting and Misstatements	Internal Control	Good	
1. Susceptibility of the client's financial statements					
Which accounts, transaction or locations might be susceptible to material misstatement due to fraud?	Y	H	L	See workpaper on significant accounts, locations and business units. Also: AR at practice level, AP (joint effort), PR (corp, except for LA) Insurance billing fraud	

Risk Based

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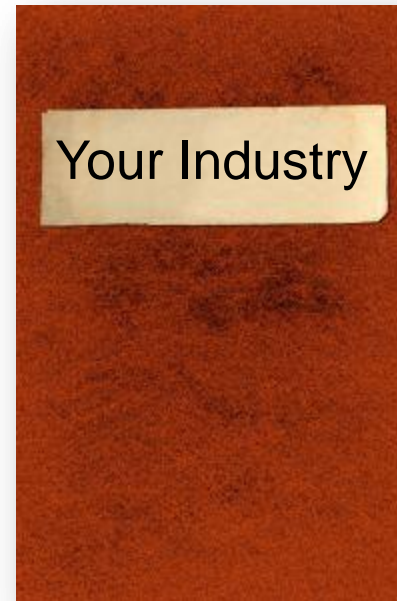


Free Industry Specific SOX Research:

YOUR INDUSTRY SOLUTION

Free Leading Edge SOX research of material weaknesses reported by accelerated filers, broken down by industry...

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Scalable Model to SOX Compliance



“Management’s evaluation of the risk of misstatement should include consideration of the vulnerability of the entity to fraudulent activity.”

Fraud Risk Assessment

Risk	Materiality	Likelihood	Comments
Susceptibility of the client's financial statements to misstatement			
Which accounts, transaction or locations might be susceptible to material misstatement due to fraud?			

Scalable Model to SOX Compliance



Control Environment Principles	Summary of Controls		Design Effectiveness (Fully met, partially met, not met)	Summary Evidence of Control	Operating Effectiveness (Fully met, partially met, not met)
	Entity Wide	Process Level			
1. Integrity and Ethical Values - Sound integrity and ethical values, particularly of top management, are developed and understood and set the standard of conduct for financial reporting.					
Information and Communication Principles	Summary of Controls		Design Effectiveness (Fully met, partially met, not met)	Summary Evidence of Control	Operating Effectiveness (Fully met, partially met, not met)
	Entity Wide	Process Level			
15. Financial Reporting - Pertinent information is identified, captured, used at all levels of the company, and distributed in a form and timeframe that supports the achievement of					
Risk Assessment Principles	Summary of Controls		Design Effectiveness (Fully met, partially met, not met)	Summary Evidence of Control	Operating Effectiveness (Fully met, partially met, not met)
	Entity Wide	Process Level			
8. Financial Reporting Objectives - Management specifies financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.					
Monitoring Principles	Summary of Controls		Design Effectiveness (Fully met, partially met, not met)	Summary Evidence of Control	Operating Effectiveness (Fully met, partially met, not met)
	Entity Wide	Process Level			
19. Ongoing and Separate Evaluations - Ongoing and/or separate evaluations enable management to determine whether the other components of internal control over continue financial reporting to function over time.					

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Done 1

Scalable Model to SOX Compliance



Entity Level Accounting Controls

- ✦ Period End Closing Activities
- ✦ Use of Significant Estimates
- ✦ Application of GAAP
- ✦ General Ledger
- ✦ Disclosures

Ref	FS Assert	Fraud	Control	Risk	Process Level Control	Key Control?	Design Deficiency?	Resp Person	Prev Date
FS-1	E			Personnel or management authority added to the accounts or modified access rights, which may lead to incorrect financial statements.	Personnel or management authority added to the accounts with the appropriate review by the administrator.	Y	N	J.P.	Preve
FS-2	E			Manual journal entries are processed and posted to the general ledger, which may lead to incorrect financial statements.	Manual journal entries are processed and posted to the general ledger by the Staff Accountants maintain a list of monthly recurring journal entries including adjusting and reversing entries, to ensure that all required journal entries are captured.	Y	N	J.P.	Preve

Scalable Model to SOX Compliance

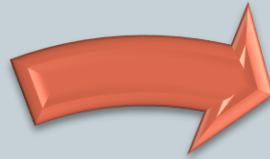


“Management then evaluates whether it has controls placed in operation that are designed to adequately address those risks.”

Scalable Model to SOX Compliance



**Control
Design**



**Policies,
Narratives**



**Control
Matrix, Inquiries,
Walkthrough**



Scalable Model to SOX IT Compliance

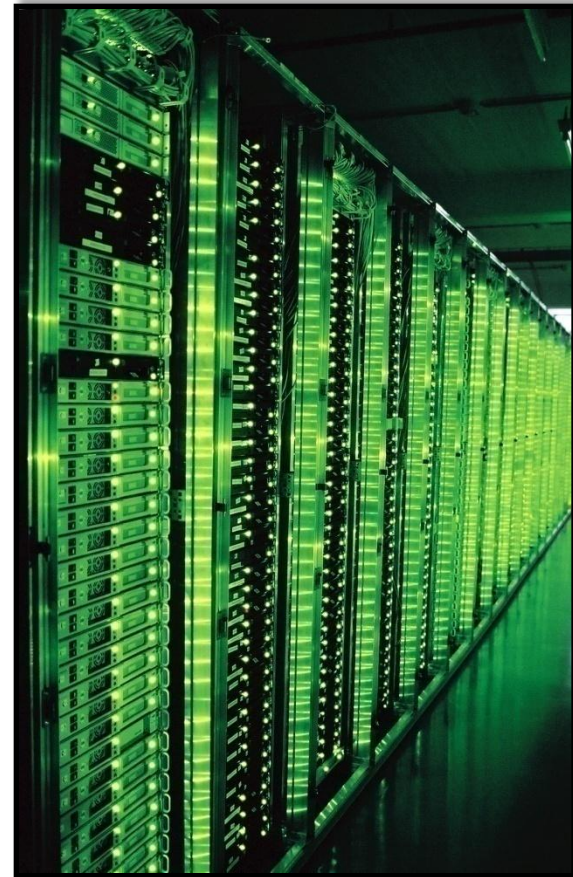


Company Level
Controls

Risk
Assessment

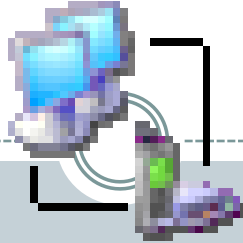
Design of
Controls

Test Operating
Effectiveness



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Cost Savings with Virtual SOX Compliance

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Cost Savings with Virtual SOX Compliance



Why Can Virtual SOX Be Done Remotely?

- Not an audit
- Management Self Assessment
- Local administrative personnel
- As long as objective
- Relationship of objectivity to size of business

Cost Savings with Virtual SOX Compliance



- Most cost effective: no travel time or travel costs
- Centralized “testers” are well trained and supervised
- Minimal management disruption
- Efficient Audit Trail for Retests by outside auditors
- Planning
- Less Ad Hoc Meetings
- Audit Committee involvement

Cost Savings with Virtual SOX Compliance



- Give access to outside auditors
- Send and share documents
- Version controls
- Backup virtual sites
- Access control tools to prevent unauthorized or inadvertent file changes
- Automatic notification of document updates

Cost Savings with Virtual SOX Compliance



Type	Date	Time	Source	Category	Event	User	Computer
Success Audit	8/31/2006	5:05:43 PM	Security	Logon/Lo...	538	M...	BMA-FILES-08
Success Audit	8/31/2006	5:05:41 PM	Security	Logon/Lo...	576	e-d...	BMA-FILES-08
Success Audit	8/31/2006	5:05:41 PM	Security	Logon/Lo...	528	e-c...	BMA-FILES-08
Success Audit	8/31/2006	5:05:41 PM	Security	Logon/Lo...	552	SYSTEM	BMA-FILES-08
Success Audit	8/31/2006	5:05:37 PM	Security	Logon/Lo...	540	...	BMA-FILES-08
Success Audit	8/31/2006	5:05:37 PM	Security	Logon/Lo...	576	...	BMA-FILES-08
Success Audit	8/31/2006	5:05:37 PM	Security	Logon/Lo...	538	M...	BMA-FILES-08
Success Audit	8/31/2006	5:05:37 PM	Security	Logon/Lo...	540	...	BMA-FILES-08
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Success Audit	8/31/2006	5:05:37 PM	Security	Logon/Lo...	576	lau...	BMA-FILES-08
Success Audit	8/31/2006	5:05:36 PM	Security	System E...	515	SYSTEM	BMA-FILES-08
Success Audit	8/31/2006	5:05:25 PM	Security	Logon/Lo...	538	tam...	BMA-FILES-08
Success Audit	8/31/2006	5:03:14 PM	Security	Logon/Lo...	538	m-s...	BMA-FILES-08
Success Audit	8/31/2006	5:02:45 PM	Security	Logon/Lo...	538	M...	BMA-FILES-08
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Success Audit	8/31/2006	5:02:35 PM	Security	Logon/Lo...	576	M...	BMA-FILES-08
Success Audit	8/31/2006	5:02:35 PM	Security	Logon/Lo...	538	M...	BMA-FILES-08
Success Audit	8/31/2006	5:02:35 PM	Security	Logon/Lo...	540	...	BMA-FILES-08
Success Audit	8/31/2006	5:02:35 PM	Security	Logon/Lo...	576	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:43 PM	Security	Logon/Lo...	538	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:43 PM	Security	Logon/Lo...	540	M...	BMA-FILES-08
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Success Audit	8/31/2006	5:01:42 PM	Security	Logon/Lo...	538	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:42 PM	Security	Logon/Lo...	540	M...	BMA-FILES-08
Success Audit	8/31/2006	5:01:42 PM	Security	Logon/Lo...	576	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:33 PM	Security	Logon/Lo...	538	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:28 PM	Security	Logon/Lo...	540	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:28 PM	Security	Logon/Lo...	576	...	BMA-FILES-08
Success Audit	8/31/2006	5:01:28 PM	Security	Logon/Lo...	576	br...	BMA-FILES-08
Success Audit	8/31/2006	5:01:28 PM	Security	Logon/Lo...	576	br...	BMA-FILES-08
Success Audit	8/31/2006	4:58:04 PM	Security	Logon/Lo...	538	m-r...	BMA-FILES-08
Success Audit	8/31/2006	4:57:29 PM	Security	Logon/Lo...	538	jess...	BMA-FILES-08

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Cost Savings with Virtual SOX Compliance



Change Management Ticket

IT Staff Change

File Edit View Tools Actions Help

Save and Close

ID: 512
Registered: 03/02/06 18:50
Status: Closed

Management authorization for change development
 Management authorizes development of this change

Management approval for change implementation
Planned Start: 03/08/06 18:00
Planned Finish: 03/08/06 20:00
 Management authorizes implementation of this change

Impact: Organization
Priority: Important

Assignment Priority

To workgroup: Administrators
To person: [Name]

More: Assignment Status: Accepted
From workgroup: Server Operators

Description: CRM implementation

Information

General Relations Impact Analysis Development Testing User Testing

Folder: Underwriting
Category: Generic Change / With User Acceptance Testing
Classification: Upgrade

Configuration I...: [Value]
Project: [Value]

Work orders

Assignment...	ID	Description	C..	To person	Status	Priority	Impact
---------------	----	-------------	-----	-----------	--------	----------	--------

Add... View... Remove... Relate... Unrelate...

History

Subject	Created by	Creat...	Spent time
Planned Finish set to 03/08/06 18:00		03/0...	0:00
Planned Finish set to 03/08/06 20:00		03/0...	0:00
Top priority set to Important		03/0...	0:00

Add... View... Remove...

Preview Information:



Cost Savings with Virtual SOX Compliance

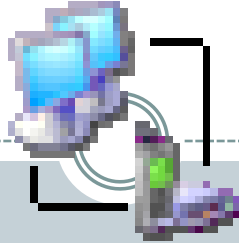


For more about Virtual SOX go to

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Shining Light on Section 404 Compliance



Learn to Apply Linkage Between SOX Efforts for Testing Controls and Cost Recovery Audits

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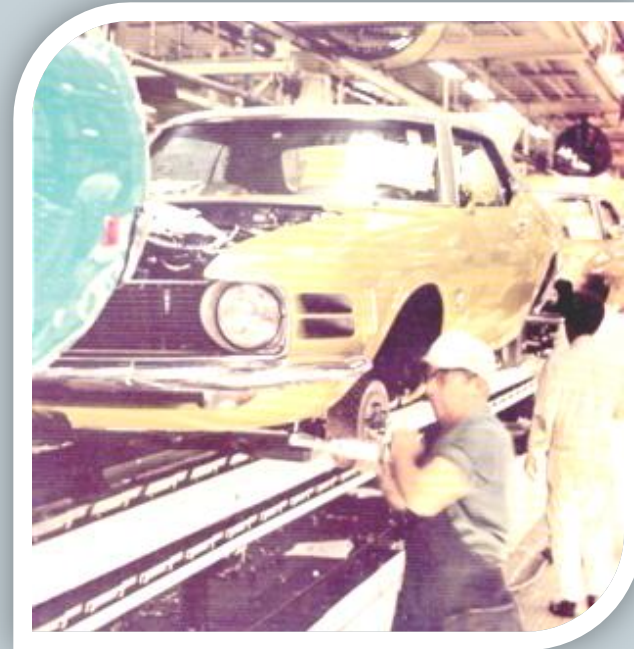
Shining Light on Section 404 Compliance

Linkage of Testing to Cost Recovery Audits



Testing Operating Effectiveness

- Key controls
- Test Plan
- Understand population
- Sample selections and document requests
- Testing
- Summarize
- Retest if necessary
- Update Summary



Linkage of Testing to Cost Recovery Audits



Expenditures Testing

- Key controls include cost recovery
- Controls over duplicate payments
- Evaluations include monitoring



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CPA, CFE, PMP

President



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Richard B. Lanza, CPA/CITP, CFE, PMP

Helps companies identify their hidden financial assets, mostly using technology and referring them to specialists. He has a decade and a half of experience in audit technology and recovery auditing, becoming a leading authority in these areas.



Rich is the author of 12 publications and training courses in audit software and recovery, having over 100 articles for major audit and accounting publications. He has worked for companies ranging in size from \$30 million to \$12 billion, and in all he has helped them save money through the use of technology and recovery auditing.



Introduction

Why Recovery?

- In a process flow of \$100 million, a 0.1% error margin (that is .001 and standard for recovery engagements) **translates into \$100,000 in recoveries!** Most recovery methods generate much higher returns (from 1% to 40% of the spend category)
- Profit recovery audits **measure the need for improvements** within the business process in specific dollar amounts
- **There is no downside** for all contingency engagements (\$0.70 for every \$1 you never knew you had is better than \$0)
- Help comply with Sarbanes-Oxley by using recovery auditing as an **extension of your internal control testing team**....bearing in mind this team has an incentive to identify issues



Cost Saving Potentials

Area	Retro.	Pro.
Accounts Payable	1 – 5%	N/A
Advertising	1 - 6%	1 - 2%
Document Fleet	5%	20 – 40%
Freight – Postage	N/A	10 – 20%
Freight – Heavy Freight	1 – 3%	5 – 11%
Healthcare	N/A	4 – 8%
Real Estate	.25 - \$4 per sq. ft.	N/A
Travel & Entertainment	N/A	10 – 20%
Utilities	2 – 10%	5 – 20%

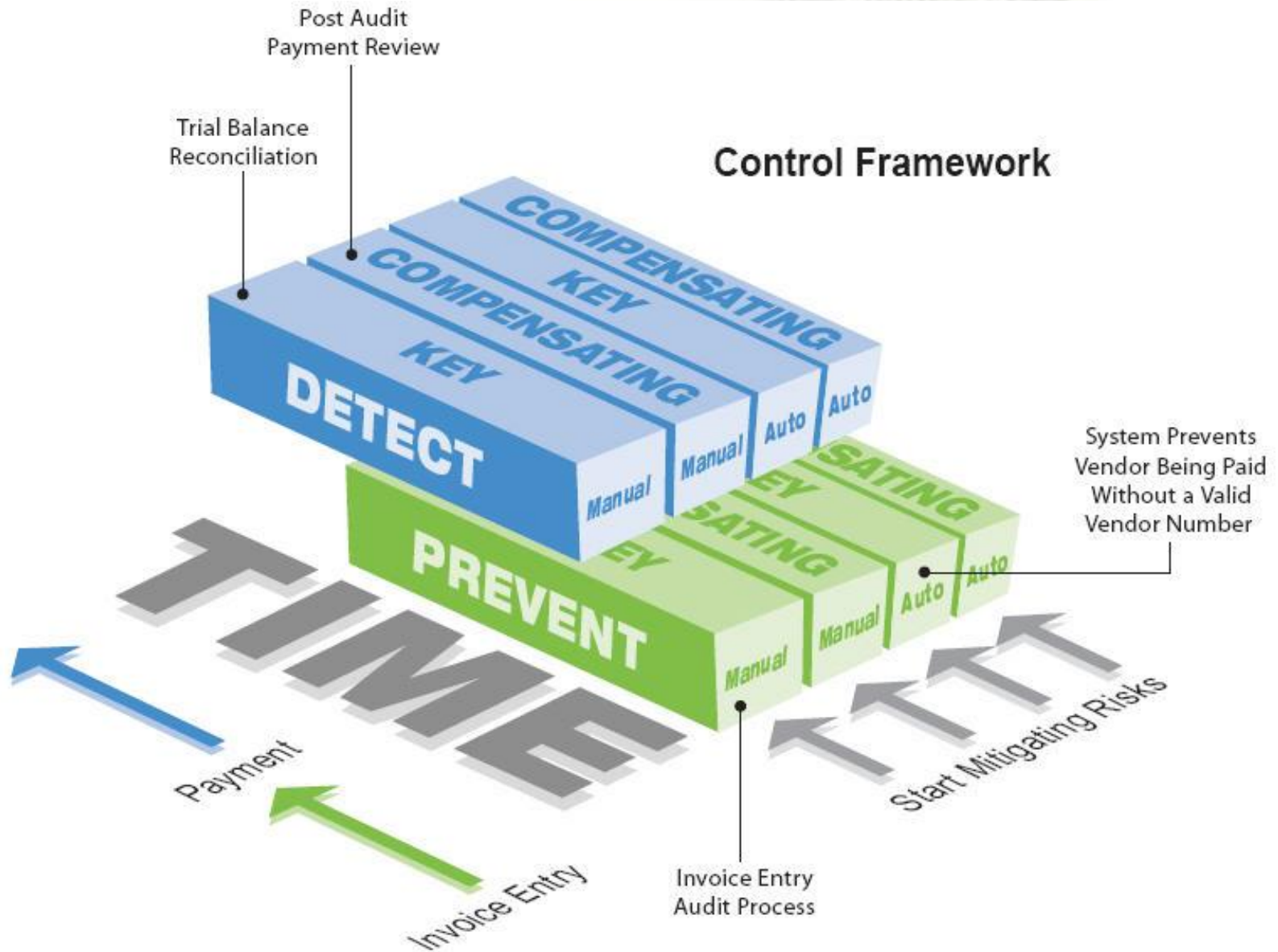
Source: Cost Recovery Solutions

S-Ox Benefits

- Accurate financial statement reporting
 - Identifies hidden assets
 - Corrects overstated expenses
- Detects fraud and deters fraudsters
 - Think of recovery projects as a **proactive whistleblowing hotline** to detect fraud (mostly with vendors)
 - Remember that employees and vendors will ask **“Will I get caught?”** so if no one is looking.....fraud has more of a chance to happen.
 - Collusion is the leading method for almost all of the headline frauds and vendor audits / strategic sourcing reduces the “spread” to make vendor conflicts less attractive
- Quantifies the need for improvement and focus in future year audits



Control Framework Visualization



Why Recovery?

- Rather than increasing sales, **recovery increases profits and earnings per share**
 - Recovering \$1 million to the pre-tax bottom line can equate to \$10 million in sales.
- Recovery audits create an **air of transparency between your company and your business partners**
- Recovery audits provide the company an opportunity to **learn from outsiders niche expertise** as to industry best practices....**for FREE!**
- The Association of Work Process Improvement noted that for any manually keyed data, **error rates exist between 2 - 4%.**
- **Get it before it disappears** since money left on your business partner's table will stay only so long before it is written up to income



Overcoming Obstacles to Getting Recovery Started

This is a No-Brainer

Dirty Little Secrets Why We Don't Do Recovery

People

- Egos may be hurt - Inviting outside auditors to find errors and shine a spotlight on a department's shortcomings is hardly an attractive prospect for most managers
- CEO's are focused on sales targets, market growth and not on the bottom line
- Team approach – let's get buy-in before a review
- Can be perceived as a bounty service
- Audits are confrontational which people tend to have an aversion to regardless of the resulting benefits



This is a No-Brainer

Dirty Little Secrets Why We Don't Do Recovery

Process

- No time allotted to departments to even select a recovery auditor...even when they work for free
- Perception that it will take a lot of the department's time
- Department is in charge to decide if they get audited



This is a No-Brainer

Dirty Little Secrets Why We Don't Do Recovery

Technology

- Lack of data access – Remember that great decisions require great information
 - Internal data access
 - Access to external vendor data
 - External data not tabulated by companies
- Every day, more of what we do becomes digital but are we using all of the tools to review the data, or just keep up with it?
 - Most accounting systems were built to process transactions and not to provide users access to the data for reporting purposes.



Overcoming Obstacles

- **People**

- Get over it!
 - Audits are healthy preventive maintenance
 - Internal Audit needs to do be able to do their job
- CEOs may not care about cost savings but CFOs do



- **Process**

- Recovery is 95% the auditor and 5% the company as far as effort is concerned
- More internal time is usually taken by a company to select a vendor than anything else to complete the audit.
- There is never a “better” time for a review....you just need to do it!

- **Technology**

- Internal audit is in a great position to extract information
- Learn from recovery providers by sampling their technology for free in the first audit

Why Internal Audit is the **WORST** Department to Manage Recovery Efforts

- Don't want to step on departmental toes
- Find many of the recovery areas to be outside of their domain expertise (Finance and Accounting)
- Think they need to do it all themselves
- Afraid to admit that outsiders have the answers
- Can't pull the trigger to do an audit
- Assess certain recovery areas as not large enough to warrant an audit

Why Internal Audit is the **BEST** Department to Manage Recovery Efforts

- **Independence**

- Trumps the issue of "We found millions...now what do we do?"
- Have the company's interests at heart
- Want to save money for the company, not egos
- Contracts should never be audited by the same department

- **Less IAD Resources**

- Recent studies have show internal audit to be more focused on regulatory aspects which has impacted their ability to complete operational audits
- A shortage of skilled internal auditors is seen as the most critical challenge to fulfilling internal audit mandates....so use free recovery vendor resources!



Why Internal Audit is the *BEST* Department to Manage Recovery Efforts

- **Access**

- Have an easy ability to request data, under their audit charter
- Can enter most departments to do an audit, especially if they see potential risks

- **Improved Company Learning**

- Learn from recovery auditors with specialized methods, technology, and people. Identify new control techniques that are not financial statement in nature but help save the company financially.
- Able to take knowledge from one audit and apply it across the numerous silos of the company.
- Allows internal audit to be the knowledge base for cost savings.

Why Internal Audit is the **BEST** Department to Manage Recovery Efforts

Re-Branding

- Change the perception of IAD from solely being a regulatory watchdog
- Allows IAD to show cost savings beyond those associated with doing more S-Ox work internally
- IADs have an opportunity to re-brand before the pendulum swings too far back to cut them
- Recovery providers have no issue letting IAD look like the “stars”

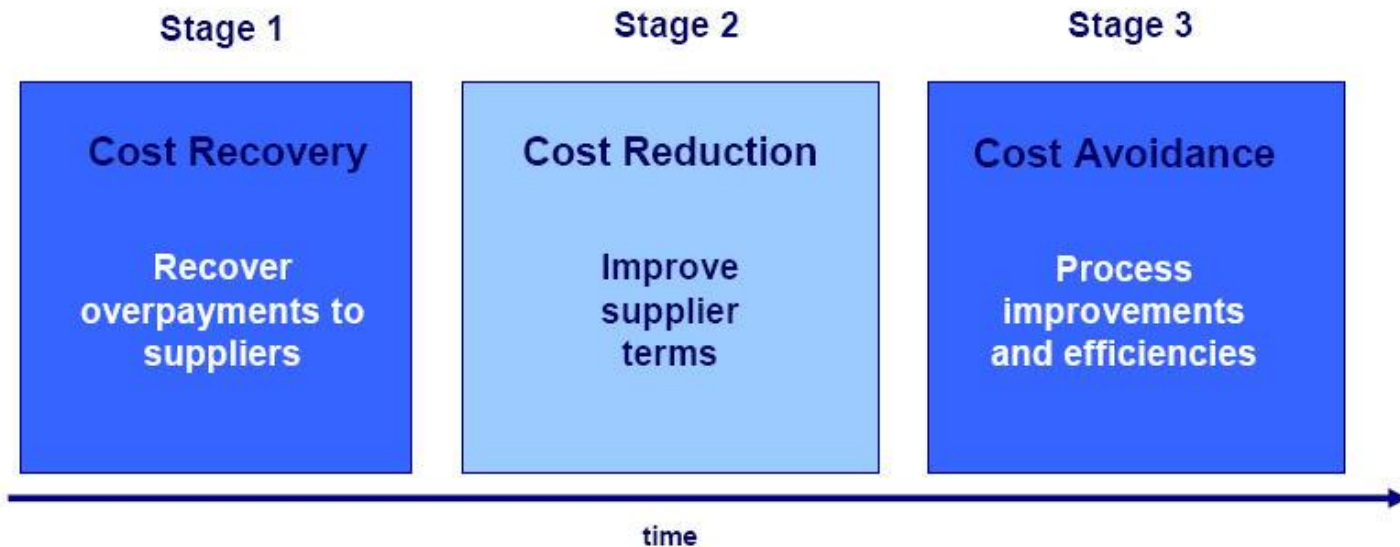
The Quick Run-Through of Recovery Opportunities

Profit Opportunities

- Accounts Payable
- Audit Fee Benchmarking
- Advertising Agency
- Document Fleet
- Freight
- Health Benefits
- Info. Technology
- Lease
- Media
- Order to Cash
- Proactive Fraud Detection
- Project Fraud
- Real Estate Depreciation
- Sales & Use Tax
- Strategic Sourcing
- Telecom
- Travel and Entertainment
- Utilities



Recovery Types



Categorically Speaking

- Internal Error and Fraud
- External Error and Fraud
- Industry Benchmarking / Tax Advantages
- Contractual Analysis
- Contractual / Price Sheet Compliance



Profit Opportunity Case Studies

Accounts Payable

A Few Options

- D.I.Y. Reporting Service
- Moderate scope fee/contingency audit
 - Duplicate payments
 - Supplier statements
 - Tax issues
- Full scope fee/contingency audit
 - Discounts
 - Procure to pay
- Continuous Monitoring

Types of Recoveries

- Pricing (charging errors, price protection, margin protection, mark-downs, promotions, etc.)
- Discounts (Cash discounts not taken or wrong amount taken)
- Allowances (advertising, freight, promotions, defective, market development)
- Duplicate payments (paid twice, wrong vendor paid - \$.25 to \$3.00 per invoice processed or .05% of values)
- Overpayments (wrong amount paid, credits on suppliers' books)
- Taxes – (sales and use tax, VAT)



Reasons Why...Technology

- System controls are not well-established to detect duplication
- Reports are not pre-loaded with systems
- Reports are not regularly run (the forgotten task)
- Reports are not perfected and lead to a great deal of false positives

Reasons Why...Process/People

- SO MANY DETAILS TO LOOK AT!!!!
 - 70% of findings come from a manual review and some have nothing to do with the data reports
- A/P and Procurement do not always work well together
- A/P is the last to receive any funding
 - Staff are usually the lowest paid
 - Technology advancements come last to A/P
- Vendor duplication is a major cause of duplicate payments
- Vendor billing schemes is one of the top frauds per the ACFE

But We Already Do an Audit

- Do a secondary A/P audit
- Get a supplier statement auditor
- Focus on vendors that are “repeat offenders” to do additional audits
- Assess based on other recovery categories whether they are being seen as an A/P risk



Advertising

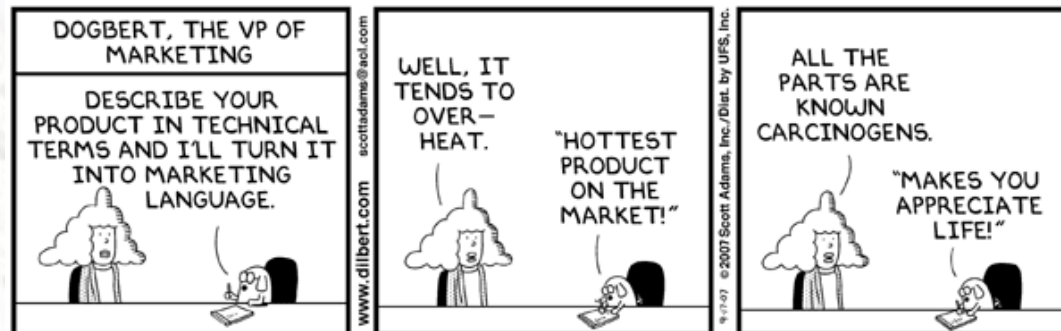
Some Truth in Comedy



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Creative Firms Can Lead To Creative Billings

OMNICOM PR FIRM TO PAY L.A. \$4.5 MILLION TO SETTLE CHARGES

**Fleishman-Hillard Acknowledges 'Improper and
Indefensible' Invoices**

April 19, 2005

By Matthew Creamer

NEW YORK (AdAge.com) -- Trying to snuff out a scandal that has become an embarrassing headache, Omnicom Group's Fleishman-Hillard said it will pay the city of Los Angeles \$4.5 million to settle charges that the PR agency overbilled the city for work for the Department of Water and Power and other city accounts.

The logo for Fleishman-Hillard International Communications is displayed on an orange rectangular background. The word "FLEISHMAN" is at the top in a large, white, serif font. Below it, "INTERNATIONAL COMMUNICATIONS" is written in a smaller, white, sans-serif font. At the bottom, the word "HILLARD" is written in a large, white, serif font, matching the style of "FLEISHMAN".

FLEISHMAN
INTERNATIONAL COMMUNICATIONS
HILLARD

Fleishman had previously quarreled with \$4.2 million that City Controller Laura Chick said the agency improperly billed, vowing to fight the

What Clients Don't Know About Their Agency



1. Did you overpay the agency due to an error in paying the agency's invoice?
2. Did you overpay the agency due to an error by the agency in paying the agency's vendor invoices?
3. Are there charges posted by the agency that were paid on invoices by you that do not reconcile to the agency contract?
4. Are there cleansing adjustments or unsupported chargers made by the agency that were invoiced and paid by you?
5. What is the float cost absorbed by you for paying the agency prior to it releasing funds to their vendors or internal studio?
6. Are there any monies owed to you that are currently being held on the books and records of the agency?
7. Does a conflict of interest exist with a the agency supplier that leads to inflated charges being made to you than what is common in the marketplace?

Actual Case Studies.

Routinely 1% to 2% of past advertising spend is recovered.

Client's Industry	Technology	Consumer Products	Entertainment	Technology
Agency Function	Creative Production & Media	Creative Production	Creative Production & Media	Media
Agency Billings Tested	\$ 115 Million	\$ 405 Million	\$3.6 Million	\$6 Million
Years Tested	Three	Four	One	Two
★ Client Recovery (% of Agency Billings)	\$5.2 Million (4%)	\$6.6 Million (2%)	\$333 Thousand (9%)	\$540 Thousand (9%)
Estimated Future Annual Savings	\$1.7 Million	\$1.6 Million	\$333 Thousand	\$270 Thousand

★ Client Recovery

A return of resources. Money that a client had paid and expensed without realization of having been over-billed.

STAY ON TRACK



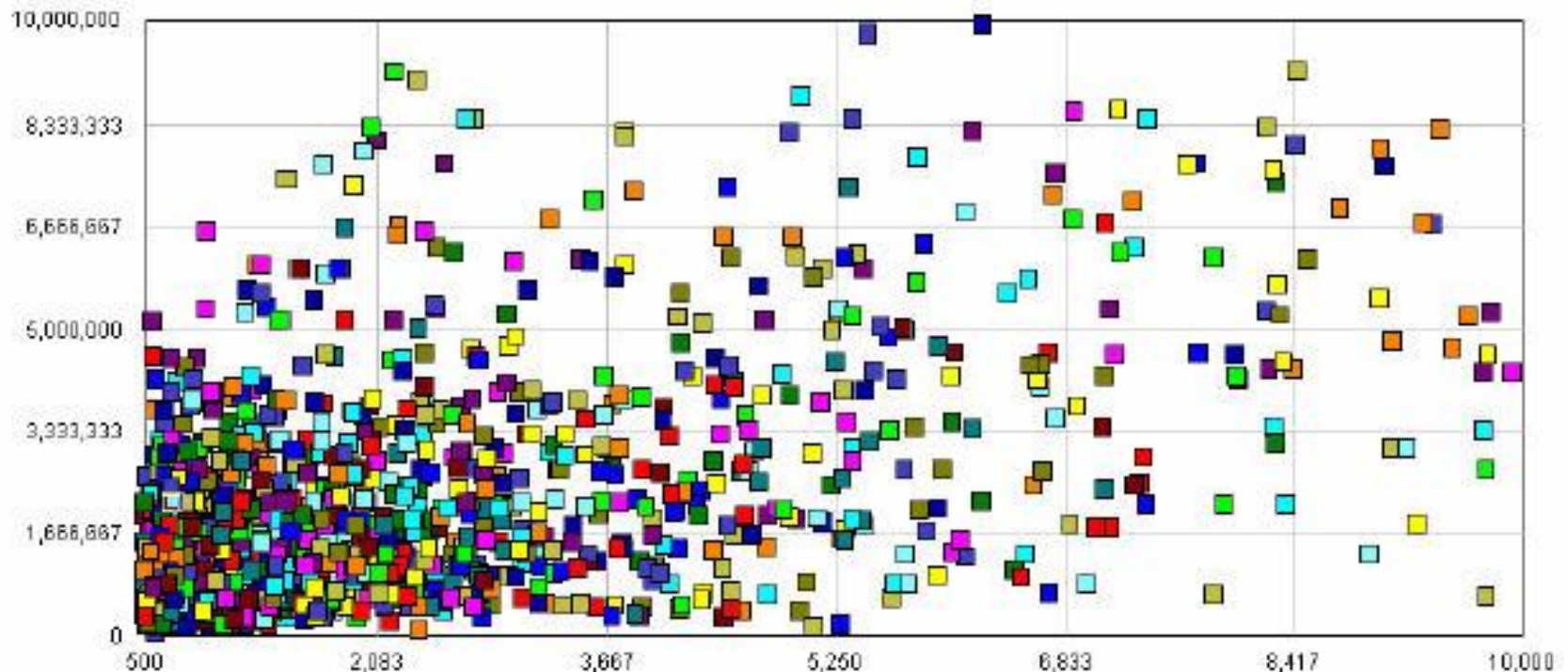
AARM

Audit Fee Benchmarking

Audit Fees Vary Too Widely How Do You Know Your Deal is OK?

Audit Fees (\$)

2004



www.auditanalytics.com

Revenue (\$M)

Audit Fee Benchmarking Process

Questions to Ask

- Are you paying too much for your audit services?
- Are audit service fees increasing or decreasing in relation to the industry?
- What is the quality of your auditor's services in relation to the industry's competing firms?
 - Market share of the auditor in that industry
 - Market share of the auditor in your region and specific area
 - Changes from that audit firm to other firms for the industry or your area
 - Your share of the auditor's location fees
 - The level and type of control deficiencies issued by your auditor in relation to others in the industry

S-Ox Fees Should Decline

- Increased efficiencies from moving up the learning curve and adopting new standards
- Reduction in documentation creation from year one to year two
- Reduction in the use of outside parties to complete the analysis

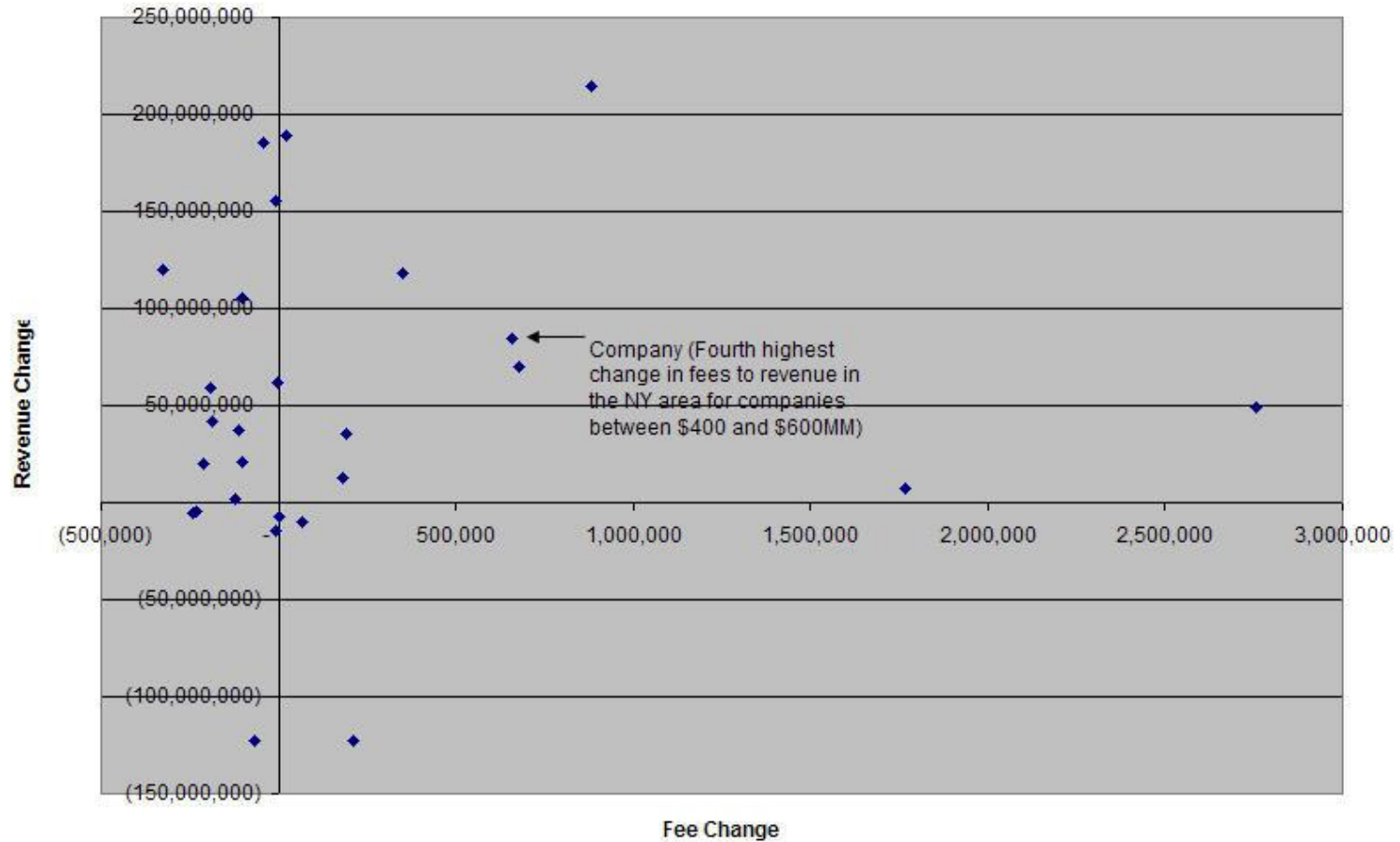
What You Need To Do

- Develop a peer group
- Map audit fees by company
- Summarize internal control opinions and deficiencies to correlate to audit fees
- Review audit firms
 - Changes in firms
 - Market size for the peer group and for the location auditing the company
 - Company's portion of the audit firm's revenues



Audit Fees Sample Chart #1

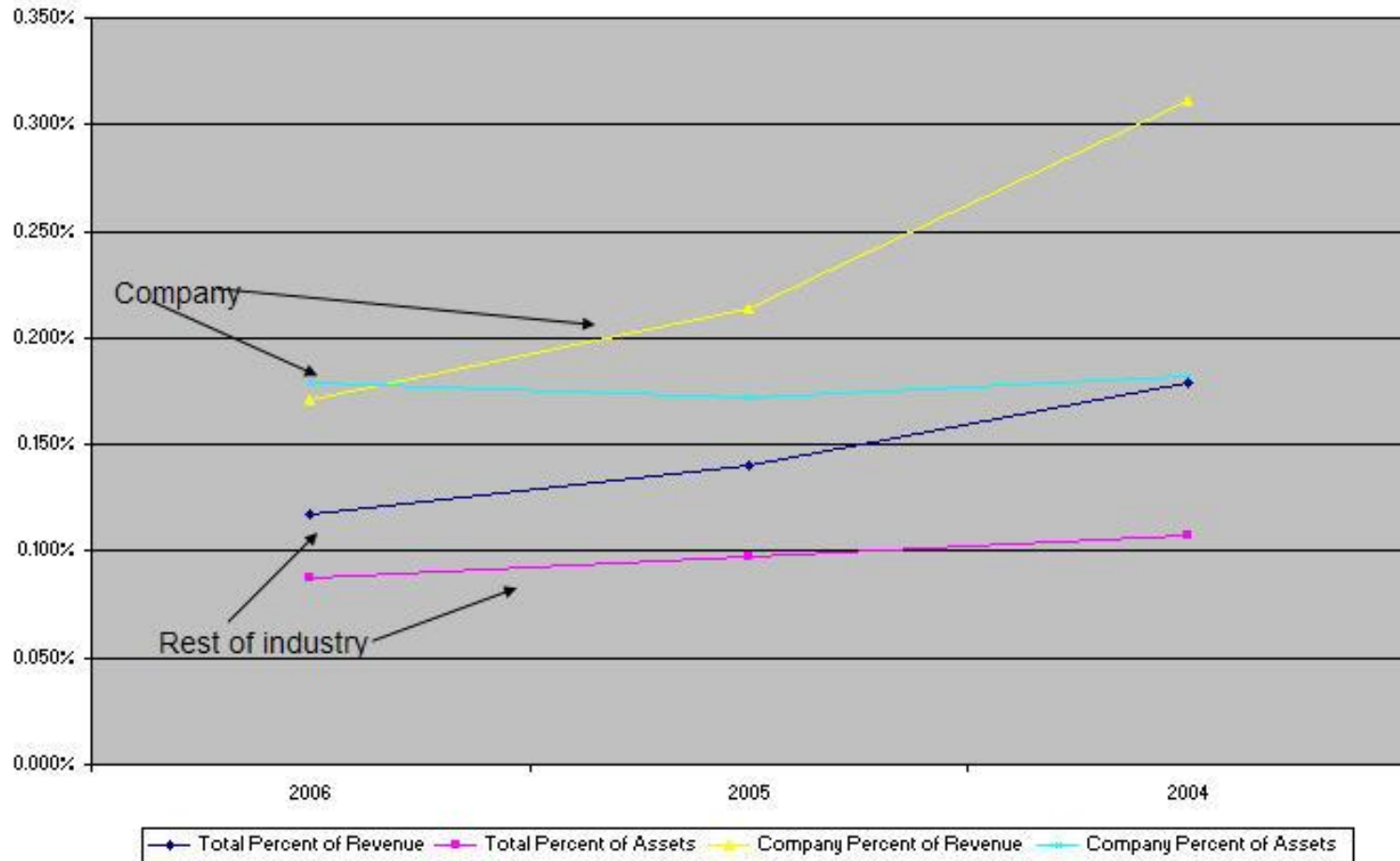
Change in Fees and Revenue - 2004 to 2005



<http://www.auditsoftware.net/AuditAnalytics.html>

Audit Fees Sample Chart #2

Percent of Fees to Revenue and Assets



<http://www.auditsoftware.net/AuditAnalytics.html>

Health Benefits

What Are the Errors?

- Eligibility leakage
- Medicare leakage
- High cost claims
- Undiscounted services
- Expensive biotech drugs
- Duplicate charges
- Services not rendered



Why Are There Errors?

- TPAs' work is mostly unchecked
 - Invoices are sent and then paid in a summary form by sponsors
 - TPAs are focused on making payments within a short window
 - Sponsors assume the TPA is just “handling” it for them
 - Audits are scoped down as much as possible
- Benefit Departments hold employee relations paramount
- Information is fragmented among a variety of systems and owners
- Plans get complex to manage and/or automate
- Fraud is rampant
 - OIG of Health & Human Services reported the potential dollar amount of false health care claims is as high as 10%



Is It All the TPA's Fault?

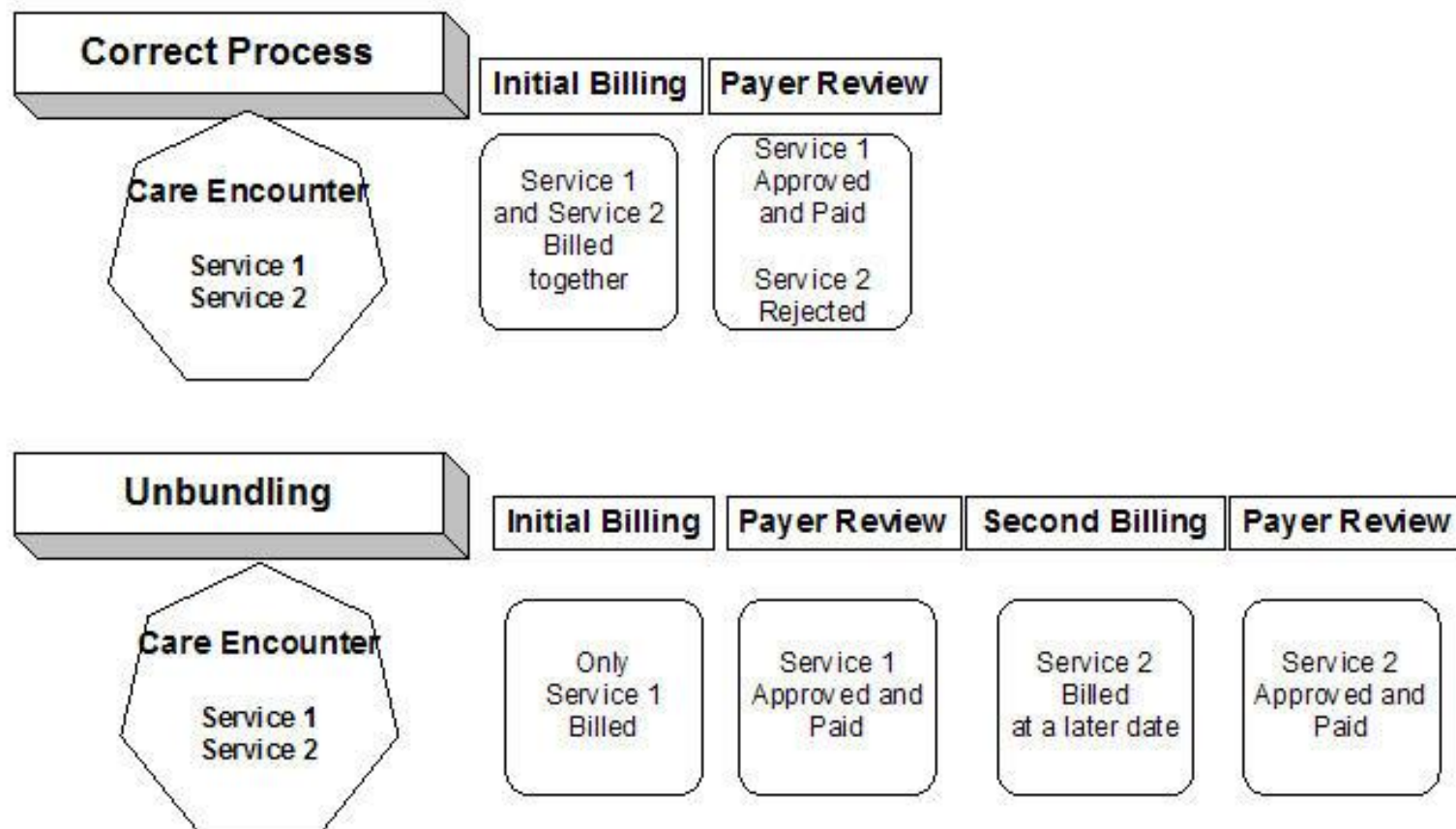
- Claims must be paid quickly
 - Usually within two weeks / 30 days at the latest which limits review
 - Auto-adjudication leads to fast inaccuracies
- Providers stack the deck in their favor
 - Hire consultants to maximize revenue through upcoding, unbundling, and incremental service charge increases
- Facts change all of the time
 - Many times the data is inaccurate at the time of payment but may be corrected later
 - Consultants have developed different plan “adjustments” based on their employee base and trends

When It Turns to Fraud

- Services not rendered
- Upcoding (routine visits billed as an initial visit or basic wheelchair billed as a premium piece of equipment)
- Duplicate claims (on purpose)
- Excessive and/or unnecessary services (Oxycotton schemes)
- Fee manipulation (avoid PPO discounts incremental fee increases)
- Kickbacks for referrals
- Collecting on multiple policies for the same illness or injury
- Individuals gaming the system (provider “hopping” for drug abuse)
- Unbundling



Unbundling



Source: HealthDecisions

Reasons to Select a Provider

- HIPAA
 - Third party and independent party is best to run the data
 - You need to not be in a position to promote and fire
 - Firewall servers, data policies, and contractual language around confidentiality are critical to ensure compliance
 - Penalties are severe
- Niche experience
 - Similar to tax laws in that you need to keep up with the latest trends
 - They have the TurboTax™ product in their proprietary software
- TPA / Administrator Experience
 - TPAs are difficult to work with as they are constantly audited
 - Not only do you need to provide the targeted sample but WHY you selected the claim (which is waiting for you when you arrive in a designated room).
 - What they are most trying to avoid are fishing expeditions.
- Will not only complete data analysis but will also perform the audit and issue recommendations

Common Recommendations

- Eligibility cleanup
- System changes (change the way the plan is loaded into the system)
- System Discounts (not updated properly in the system)
- Refunds (subrogation) for other insurance who should have paid
- Clearer plan documents

***Are You Susceptible to
Profit Leaks?***

Trial Balance Analysis

- **Expenses for Analysis**
 - Primarily SG&A
 - Cost of goods sold (i.e., freight)
- **Data Files**
 - General Ledger (trial balance)
 - A/P Invoice Detail Distribution
 - Purchase Orders
 - Pricing List



Trial Balance Analysis

- **A/P and G/L Review Factors**
 - Accounts that are sole sourced
 - Accounts that have too many vendors
 - Categories that map to the “recovery list”
 - Assess to industry cost category benchmarks
 - Top 100 vendors
 - Trend analysis over time
 - Trend analysis by vendor (scatter graph)
- **Purchase Order / Price List**
 - Match to invoice payments to assess price differences
 - Strategic sourcing vendor review



Structure the Engagement

Where Are You in The Decision Process?

- Informer
- Consiligere
- Selector
- Contract / Check Signer
- Delivery Assistant



Going Outside?

Did you put on your Audit Clause?

- Have a strong audit clause
 - Suppliers tend not to notice it on the way in
 - See provided example in the handouts
- Understand the limitations of the audit clause and work as best within them
 - Audit scope can always be expanded later once findings are made at the supplier
- If you don't have one, don't be afraid to ask
 - What is the supplier hiding?
 - Common for many industries to allow auditors

Engagement Management Success Factors

- Executive buy in / Sponsor can resolve issues as they arise
- Finance/Accounting cooperation
- Clearly defined roles and responsibilities / Realistic project plan
- Availability of data, contracts, and supplementary information / evidence



Engagement Planning

Recover first and build cleanup budget

- People need to get “hit” before they see the pain in “getting hit”
- Consulting firms come in to help improve business processes
- People, process, and technology budgets easily are made once the previous findings are realized

Venturing Out Alone? Not Recommended

- Detailed work always underestimated
- Lack of departmental focus will limit recoveries
- Niche expertise leads to an awareness that can't be “learned from books” or “as you go along”
- Incentive to uncover findings vs. internal department that simply doesn't want to personally find too much on themselves / others
- You have one shot at an audit....departments are not going to allow a double-audit if the first one doesn't go as planned



Fee Structure

- Fixed Fee
- Hourly Rate
- Hybrid
- Contingency



Selecting a Provider

- Company Background
- Rate Structure and Fees
- **Personnel**
- Conflicts of Interest
- The Process
- Technology



It's Just Not That Complex What Do You Have To Lose?

- ***Determine*** - if an audit was planned for the area in the next 12 months
- ***Realize*** - If not, then you will lose any associated recoveries in those 12 months
- ***Authorize*** – Select a provider and have them get started on a contingency basis
- ***Review Status/Work*** – Keep up with provider as much as you want to get status and/or learn from their efforts

Find Millions *with*



Strives to be the top website of free resources related to recovery services and related technology.

- Comprehensive List of Providers
- Recovery Library
- Ezine
- Training Events
- Free Recovery Locator
- Other Services

Can't Beat Free Advice!

- **Sign up for our free assessment service** to risk assess your best opportunities and identify new areas for asset recovery previously not considered.
- **We do the work for you** to track down the information you need to decide on which profit recovery service is best for your situation.
- **There are so many providers**, it only makes sense to have us help you prioritize and pick the best provider for your needs.
- **We will not have any vendor contact you** unless you express interest in talking to a specific vendor.



Let's talk for 15 minutes....what can you lose?

*Thank
you*