

Statement of Mr. Lee White  
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On Federal Financial Management, Government  
Information and International Security  
Committee on Homeland Security  
And Governmental Affairs  
U.S. Senate

Entitled “Eliminating and Recovering Improper Payments”

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Chairman Carper, Senator Coburn and distinguished members of the Subcommittee.

Thank you for the invitation to testify today on recovering improper payments. My name is Lee White, Executive Vice-President, PRG-Schultz International.

We are very aware of and appreciate this Subcommittee's work as steadfast overseers of the public trust and your efforts to take on the difficult task of ensuring strong stewardship of our Government's finances.

As the largest recovery audit company experienced in assisting corporations and government tackle improper payments, we are honored to make a contribution to assist you in ensuring that all means possible are brought to bear on this critical issue.

PRG is a recovery audit company and part of an industry that has graduated over the years from auditors collecting boxes of invoices, contracts and purchase orders to massive data centers containing multiple, integrated, proprietary applications, databases, and dedicated specialists. We are contingency auditors—that is, we keep a portion of money that we find and the overpayments that we identify would typically go unrecovered.

Recovery audits are an accepted part of American business. We audit many of the Fortune 100 companies. Corporate giants and mid-sized companies have embraced a process that has yielded billions of dollars in savings for their consumers and shareholders. Our company alone audits one trillion dollars in transactions or seven percent of the Gross Domestic Product and we recover nearly one billion dollars a year. Simply put, our corporate clients believe that the juice is worth the squeeze. They have fully embraced the process as a best practice that helps them recover lost funds, identify internal control weaknesses, and improve processes. With each of our clients we regularly provide advice on how to improve their processes to avoid future overpayments.

We do this with a process that sifts through mountains of data. We thrive in large-scale and complex environments. Proprietary algorithms kick out discrepancies and we drill into those discrepancies to find and validate overpayments or underpayments. Hallmarks of our approach are privacy and security of data which are fully compartmentalized and only used for the purpose intended.

Claims are fully researched and validated before they are submitted for collection. The government must sign off on each claim and payment requests are prepared by us and issued by government officials. We then work with the vendor to gain authorization to either recoup the funds from the future payments or have the vendor issue a check as

repayment of the overpayment. Because many relationships are repeat business, we frequently don't have to collect checks. Rather, return of overpayments takes the form of a credit on future purchases.

As you would expect, we also find that once vendors know that they are going to be subjected to a recovery audit, they improve their processes to ensure that they are not over billing.

Recovery auditing in government represents potentially the best of all worlds—private sector business principles and practices coupled with state-of-the art technology projected on government enterprises. It is a formula for success that can readily be achieved with the support of Congress, OMB, and the agencies.

We realize that contingency recovery audits are not a panacea for the improper payment problem but can be a useful and effective tool in the arsenal to ensure government and taxpayers are not paying for goods and services they don't receive. Employing professional recovery auditors can allow agencies to free-up audit and IG resources to go after improper payments that are not conducive to the contingency recovery audit model.

The Office of Management and Budget has made tremendous strides in taking on this issue and the Administration is increasingly strengthening its emphasis on the problem. Recovery audits can help further this effort. As with our most successful corporate clients, government has all of the fundamental ingredients to provide a ripe environment for success. These include massive and robust data bases, large and complex spending and central management of programs.

We have entered into contracts with GSA, HHS, and the Departments of Justice, Transportation, Interior, State, Agriculture and Defense. To date, we estimate that contingency recovery auditors government-wide have returned over \$600 million to the Government. However, we could have done much better. We have been successful when the agencies wanted the money and where they were willing to provide us with access to the data that we needed to do our job. Where this cooperation is lacking, we do not have good results.

Several Federal Agencies have yet to fully embrace the concept. An example of an agency where the program is started but yet to realize its full potential is the Department of Defense. Here, expenditures for goods and services exceed \$160 billion a year. Defense has taken a big first step with the issuance of a Directive and we hope that they will see fit to follow through with aggressive recovery implementation in all of their

entities for most of their spend categories. Other agencies have initiated internal recovery audits while still others have not undertaken recovery audits at all.

Wherever Government deploys the practice, success occurs in the same environment that engenders success in the private sector: (1) where we have willing partners who are incentivized to save money; (2) where we have large scale enterprises with complex systems; (3) where there is readily available data and supporting documentation; (4) where there is a forward looking mindset and motivation for continuous improvement.

Our experience is that providing real incentives will create the impetus to make the program work. Hard working Federal public servants have a lot on their plate. As such, they gravitate to those programs that will realize the biggest bang for their buck within their agency. If we want them to take the improper payment program head-on, agencies need to be incentivized.

Further on the matter of incentives, the 2001 Defense Authorization Act that mandated recovery audits in Government allowed auditors to be paid a portion of the money recovered. However, it only allows agencies to keep their portion of the funds collected if it was appropriated and recovered in the same fiscal year. If the appropriation had expired, funds would go to general receipts of the Treasury and agencies were only allowed to keep funds to cover expenses actually incurred in conducting the recovery audit programs.

A successful government recovery audit program is best exemplified at CMS. Here, recovery auditors already have identified over \$400 million in savings while operating only in three states without yet hitting full-stride. This results from a couple of key factors. Both the ingredients listed above for a successful government recovery audit program and legislation that allows CMS to keep savings for the Trust Fund exist because they operate under a statute that was enacted separately from the program established in the Fiscal Year 2002 Defense Act. CMS officials are willing partners prepared to remove any impediments to a successful program.

Once incentives are established, we would hope that the three remaining issues that impede fully successful government recoveries will be resolved. These are:

- Access to data. We have contracted with agencies and have moved forward vigorously only to run into obstacles to obtaining even rudimentary electronic and hard copy information that we need to do our job.
- Recovering valid claims. Another major issue arises when we identify claims and the agency does not follow through with the contractor to collect the money, frequently without explanation as to why the claim is not settled.
- Resolving claim disputes. There currently is no formal mechanism for escalating claims and ownership of the claim resolution issue. Overpayments often are identified only to lay dormant due to inaction by the Government with no follow-through.

We need to reward success. Today's culture needs to be changed from the existing mindset where agency officials may be reluctant to implement recovery audit programs because it might make them look bad to tomorrow's program of rewarding them for protecting the public trust by having an effective program. Our corporate clients use us to audit their payments for errors not because they are poorly managed, after all their aggregate payment accuracy rate of 99.9 percent is very impressive. Just the opposite: They use us to audit their payments for errors because they are well managed. Because they are well managed, they realize that finding and correcting that last one-tenth of a percent is worth millions of dollars in annual cost savings. Further, our best corporate clients realize that by using outside recovery audit contractors, they are not only able to identify and correct past errors, they are also able to improve their payment processes. They understand that over time, while errors can never be eliminated entirely, they reduce their number of errors that will occur in the future by assuring they don't happen in the first place. Recovery auditing will be more successful in government if the agencies audited benefit rather than are harmed by error corrections, and we encourage policy that supports this objective.

Another key area that warrants consideration is the process of getting the recovery audits started. Once contracts are awarded, we have to re-invent the wheel with each agency having to establish its own parameters for a successful program. And, as is the case with large agencies such as Department of Defense, each organization within Defense has to establish implementation procedures that take time to develop and often are different

from the last agency that implemented the process. The implementation process would be greatly expedited if Government developed a defined program structure that agencies could use to implement the audits. This would provide a guide to address issues such as data access and claims processing that continually arise with the award of each contract.

While contingency auditors bear nearly all of the start-up costs to recover overpayments, the Government has some costs associated with gathering data and issuing claims.

Agencies normally do not budget for these expenditures and cooperation with the recovery contracts means diversion of some resources. We recommend that some money be set aside to lay the groundwork for the audits and, once the process is jump-started, on-going recoveries can pay back costs incurred and provide the resources needed to proceed with further recoveries.

We know that the committee is very interested in accurate reporting of the scope of the improper payment problem in government. Along these lines, we believe that employing recovery audits in the agencies goes hand-in-hand with the implementation of the Improper Payments Information Act. Running payments through the recovery audit process will yield a wealth of information to improve reporting and payment accuracy.

A further area of great potential is grants made to local jurisdictions for various programs such as those issued by the Departments of Homeland Security, Justice, and Transportation. Naturally, as with all outlays, the best way to limit abuse in this area is to

strengthen and enforce the criteria on awarding grants in the first place. But when grants are made and abused, there are restrictions of the Single Audit Act that preclude a review of grants at the local level. The wide dispersion of thousands of grants may be more suited to fee-for-service work as it may not lend itself to large scale, electronic data-centric contingency audits. Also, in order to employ contingency recovery auditors in the pursuit of grant overpayments, there needs to be a mechanism for contingency auditors to be paid a share of the recoveries.

Based on our corporate experience and our analysis of government estimates that emanate from the data reported by agencies as part of the Improper Payments Information Act enacted in November 2002, our recoveries to date are only the tip of the iceberg. We can do better. Because we normally go back three years, we estimate that the recoverable audit base for all agencies is \$2.46 trillion. With error rates at one-half of one percent to five percent, depending upon the spend category, we estimate the potential savings for the taxpayer in the first full year of auditing the entire base would be between \$60 billion to \$90 billion with a reduced amount in ensuing years.

We have the experience, we have the technology, and we have the willingness to put a huge dent in the Government's improper payment problem. Often, despite their best efforts, agencies undertake their own internal recovery audit programs internally. We think the private sector can do it better. First, it is all we do and we are good at it. Second, we are third-party who can take an objective look at the problem and remedy it.

However, we believe that commercial recovery audits will work for some programs and not for others. We are good at recovering funds from businesses and organizations that overcharge the Government for goods and services. Government should take the lead role in recovering funds from individuals and beneficiaries such as underpayments for taxes and things like food stamps, earned income tax credits and social security payments.

Our recommendations for improving the process include:

- Require agencies as part of the Improper Payments Information Act to report on their contracted contingency recovery audit programs, efforts they have made to remove impediments to a successful program, and instances where overpayments have been identified but not collected. Sifting data through the recovery audit process can help the Government yield more reliable reporting data and generate funds at the same time.
- Establish a joint industry and government OMB-led task force comprised of key agency officials and recovery audit industry experts to firmly establish the scale of overpayments conducive to recovery audits such as purchases, leases, IT expenditures, telecommunications, and health care. This task force would develop recommendations and a road map for removing any impediments. Also, encourage the Office of Management and Budget to work with agencies

to remove impediments to successful recovery audits by mandating that ready access be provided to data.

- Institutionalize the recovery audit processes as a part of the traditional internal government erroneous payment identification techniques. With our corporate clients, our processes become an integral part of their overall procurement and financial management systems. The process works in the background with these systems sorting through data and yielding savings on a continual basis. It becomes an accepted way of doing business. Implementation can be facilitated by a government-wide template for agency implementation that includes procedures for data access, collections, security clearances and dispute escalation. This set of consistent protocols would greatly facilitate proliferation of the recovery audit process. Using pre-negotiated contract vehicles with a menu of recovery audit services can further expedite the process and therefore agencies can issue task orders based on pre-negotiated terms.
- Develop a contract vehicle for a Government-wide disbursement audit for all centralized payment facilities. Purchases of commodities are a natural early target. Disbursement overpayment recoveries would be withheld from future vendor remittances from the Treasury and would result in sizable and immediate savings to taxpayers.
- Build on the success realized by CMS in employing recovery auditors for Medicare payments and extend the process into Medicaid by using Federal

funding to provide incentives for states to implement an effective recovery audit program.

- Allow agencies to keep a portion of the funds recovered. One mechanism would be to create a “Government Efficiency Fund” wherein recovered money would be made available for Government efficiency initiatives that are reported to Congress annually. Remove restrictions of the Paperwork Reduction Act that impede the issuance of documentation requests and demand letters to suppliers of goods and services to the Government.
- Examine the Single Audit Act to facilitate recovery audits for programs such as grants to states by Federal Agencies that are currently prohibited from secondary audits under that Act. The provisions of the Act would be waived where these programs demonstrate an intolerable level of erroneous payments.

In conclusion Mr. Chairman, recovery auditing is a tried and tested method which, if properly implemented, can greatly assist the Government in taking on this massive issue. The recovery audit industry has the tools and experience while the scale and complexity of government creates a significant opportunity greater than even that of the private sector. Removal of the last remaining impediments through a working partnership with industry will yield great returns to the taxpayer.

Thank you Mr. Chairman. I’m prepared to answer any questions you may have.