



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** September 23, 2011

**IBA Report Number:** 11-57

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# Draft RFP Scope of Work for Accounts Payable Revenue Recovery Audit

## OVERVIEW

On June 6, 2011, the IBA presented Report 11-32 to assist the Audit Committee in further considering possible implementation of revenue recovery auditing services in FY 2012. This report followed two earlier reports from the Office of the City Auditor suggesting significant revenue recovery auditing opportunities may exist in the areas of accounts payable, reverse sales tax and municipal court revenues.

Following discussion of revenue recovery auditing at the June 6th meeting, the Audit Committee requested the IBA prepare a Request for Proposals (RFP) for an accounts payable audit and other types of revenue recovery audits. While willing to pursue an accounts payable audit in FY 2012, the CFO informed the Audit Committee that her staff was in the process of removing duplications from their master vendor list and would therefore not be ready for an audit until later in calendar year 2011. In directing the IBA to develop a revenue recovery audit RFP, Audit Committee members suggested the IBA be sensitive to the timing concerns expressed by the CFO.

In accordance with the Committee's direction, the IBA has developed a draft RFP for Audit Committee review. If the Audit Committee approves the issuance of this RFP at their September 26<sup>th</sup> meeting, an outside auditor could be selected by the end of 2011 when the CFO's staff will have completed data clean-up work on the City's master vendor list. This report briefly discusses key sections of the draft RFP Scope of Work for Audit Committee consideration.

## FISCAL/POLICY DISCUSSION

The FY 2012 General Fund Budget includes \$500,000 of revenue attributable to revenue recovery auditing. While audit outcomes are never known in advance, \$500,000 was estimated to be a reasonable target for revenue recovery auditing in FY 2012. If an accounts payable audit were to begin by January 2012, the IBA believes the audit would be completed before the end of the fiscal year. Additionally, the CFO informed the Audit Committee in April that her staff would be conducting an audit of the County's court fee revenues later in FY 2012.

The draft RFP is primarily focused on procuring an accounts payable audit but also solicits experience performing other types of revenue recovery audits. Other types of revenue recovery audits might include, but are not limited to, contract compliance audits, court revenue audits, utility audits, reverse sales & use tax audits, etc. The resulting contract will provide the City with the option of requesting additional revenue recovery audits where auditor compensation would be a percentage of recoveries made for the City.

### Key Sections of the Draft RFP Scope of Work

The Scope of Services section of the draft RFP (Attachment 1) provides the best description of the City's objective and requirements for revenue recovery audit work. IBA comments on key sections of the Scope of Work are provided below:

**A) BACKGROUND:** Informs prospective bidders that the City converted to a new SAP financial system in July of 2009 and has never had an outside audit of its accounts payable. Provides data on the City's annual payment transactions and notes the City's payment related documents are imaged and stored electronically. Indicates that the City seeks an accounts payable audit focused on recovering duplicate payments, overpayments, other open credits, missed discounts and contract price variances.

**B) OBJECTIVE:** States that the City seeks a qualified Contractor to perform an accounts payable recovery audit and other revenue recovery audit services as needed. Specifies the City's interest in best overall value and maximizing revenue recovery opportunities for the City.

**D) CORE REQUIREMENTS:** This section details what the City expects to receive from the selected Contractor in course of providing an accounts payable audit or other revenue recovery audit services if requested. Contractors are expected to address their ability to provide the City with the following: a pre-audit planning meeting; work plan and schedule for completing audits; comprehensive analysis of the City's accounts payable over the last 2.5 to 3 years; demonstrated experience working effectively with vendors to facilitate recoveries for the City; a written approach for investigating potential payment errors and coordinating repayments to the City; and unlimited access to their audit database to review potential payment errors.

**E) TRAINING:** This section allows proposing firms to indicate if they offer no-cost training or processes for City staff to enhance audit results or prevent future payment errors.

**G) DOCUMENTATION AND REPORTS:** Requires the selected Contractor to help designated City staff understand the causes of payment errors so the City can take steps to prevent similar errors. Additionally, as requested by Councilmember DeMaio, the selected Contractor shall provide the City's Audit Committee with a report, every quarter for the first

year, summarizing common payment errors discovered during the course of an audit and actions the City should consider taking to eliminate those errors going forward.

**K) QUALIFICATIONS AND EXPERIENCE:** In this section, we ask the Contractor to cite their relevant experience and qualifications in performing revenue recovery audit services. Specifically, we ask the Contractor to detail: what makes their approach to these types of audits unique and effective; any relevant experience performing accounts payable audits for public agencies; and how they are able to work effectively with vendors and their clients in performing accounts payable audits. We also ask the Contractor to describe their experience in performing other revenue recovery audit work (contract compliance, court revenue, utility, reverse sales & use tax, etc.). Finally, we request the Contractor provide information about their company and the personnel they would assign to perform audit work for the City.


**L) OPTIONAL SERVICES:** Although the primary focus of this RFP is to procure an accounts payable audit, the Audit Committee requested the RFP also provide the City with the option of requesting additional revenue recovery audits. This section informs the Contractor that this is the City's desire. Examples of other revenue recovery audit services may include, but are not limited to, contract compliance audits, court revenue audits, utility audits, and reverse sales & use tax audits.


## CONCLUSION

The primary focus of this RFP is to procure an accounts payable audit to maximize revenue recovery for the City and also improve internal controls supporting payment processing. The IBA worked with the Purchasing and Contracting Department to develop the draft RFP for revenue recovery audit services. Additionally, the IBA solicited and received feedback from the Office of the City Auditor and the Office of the City Comptroller.

The IBA stands ready to receive any feedback the Audit Committee may have for the attached draft Scope of Services. Once Audit Committee approval is received, the IBA will work with the Purchasing and Contracting Department to expeditiously issue the RFP. If the RFP is issued in the next few weeks, the IBA believes an outside auditor can be selected by the end of 2011. The resulting consultant contract would then require Council approval before an accounts payable audit could begin. If an accounts payable audit were to begin by January 2012, the IBA believes the audit and associated recoveries for the City would be made before the end of FY 2012.

As \$500,000 of revenue attributable to recovery audits has been budgeted for FY 2012, the IBA requests Audit Committee feedback and approval to expeditiously issue this RFP.

  
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Attachment: 1. Draft RFP Scope of Work for Accounts Payable Revenue Recovery Audit