



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 2

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 26th 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

SECTION C

SCOPE OF SERVICES

A. BACKGROUND

The City converted to a new SAP financial system in July of 2009 and has never had an outside audit of its accounts payable. On June 6, 2011, the City's Audit Committee requested that a Request for Proposal (RFP) be issued for an accounts payable audit.

The City of San Diego processes approximately 100,000 payment transactions annually. The annual dollar value of these transactions is approximately \$875 million. There are currently approximately 10,000 active vendors in the City's database. The City's payment related documents are imaged and stored electronically.

The City makes Accounts Payable (AP) disbursements to vendors as described below:

AP is processed Monday through Friday, generating on average two hundred sixty (260) warrant checks totaling approximately \$3.5 million per day. Ninety-eight percent (98%) of computer generated warrant checks are mailed and the remaining two percent (2%) are picked up, by a corresponding City Department, at the City Comptroller's Office located at 202 "C" Street, Suite 7A, San Diego, CA 92101 on the issuing day or immediately thereafter.

During Fiscal Year 2011 (i.e. July 1, 2010 through June 30, 2011), the City began offering Electronic Funds Transfer (ACH) directly into a vendor account, provided the vendor submits the required Enrollment Form. The City expects participation to continue to increase. An ACH file is submitted daily as part of the normal payment process and confirmation of the transfer of funds is provided within one (1) hour of time of submission.

This RFP is being issued to solicit competition and to make an award to a qualified Contractor who can best provide accounts payable recovery audit services. In general, this includes recovering duplicate payments, overpayments, other open credits, missed discounts and contract price variances. These services are requested as to begin late in 2011 and would cover payments made over the last 2.5 to 3 years.

Previous experience performing accounts payable and other types of revenue recovery audits for public agencies is desirable.

B. OBJECTIVE

The objective of this RFP is to make an award to a qualified Contractor which delivers Accounts Payable Recovery Audit, and other Revenue Recovery Audit Services As Needed that represents best overall value to the City while meeting or exceeding the specifications and requirements of this RFP including, but not limited to, maximizing revenue recovery opportunities for the City.

C. PRECLUDED PARTICIPATION

In order to avoid any real or perceived conflicts of interest, the successful Contractor to this RFP will be precluded from participation in any solicitations or contracts that result, directly or indirectly, from this RFP.

D. CORE REQUIREMENTS

The successful Contractor shall provide the following for the Accounts Payable Recovery Audit.

- 1) Within ten (10) business days after Notice of Proceed, the Contractor shall coordinate a Pre-Audit Planning meeting between involved City staff and Contractor's Key staff (those who will be directly involved or oversee the audit work). The purpose of this meeting is to review the scope of the audit and optimally coordinate the audit work to follow. To help ensure a productive initial meeting, the Contractor shall provide information deemed pertinent to the project, including but not limited to proposed audit scope, audit timeline, information required, and audit process considerations to designated City staff in advance of the meeting.
- 2) Following the Pre-Audit Planning meeting, the Contractor shall provide the Contract Administrator or designee with their initial work plan and schedule for completing the audit work. The work plan shall detail the agreed upon procedures for performing the audit and optimally communicating with City staff.
- 3) A comprehensive analysis of the City's accounts payable over the last 2.5 to 3 years with a goal of identifying and recovering duplicate payments, overpayments, other open credits, missed discounts and contract price variances.
- 4) Contractor shall facilitate revenue recovery payments directly from the vendor to the City. These revenue recovery payments shall be coordinated with designated City staff to ensure that the each payment is received and accounted for. Once a payment has been received by the City, the Contractor shall issue an invoice to the City in accordance with the firm, fixed pricing submitted as part of this contract.
- 5) Prior to beginning audit work, the Contractor shall detail in writing their approach for a) investigating potential payment errors with vendors and City staff, and b) coordinating with City staff to ensure that each payment is received and accounted for by the City.
- 6) The Selected Contractor shall provide the Contract Administrator or designee with recommended protocols for ensuring that confirmed payment errors are repaid directly to the City from the subject vendor.
- 7) The Contractor shall document and electronically maintain all related correspondence, account details and supporting documents in an audit database. The Contractor will provide the City with unlimited access to their audit database to review potential payment errors during the term of the contract; however, this period shall not be less than one (1) year from the Notice to Proceed.

- 8) In the event that additional recovery audit services (in addition to the Accounts Payable audit) are required, the City will request requirements similar to 1) through 7) from the Contractor above.

E. TRAINING

In advance of starting an audit, Contractor shall inform the City if they plan to provide City staff with training to enhance the revenue recovery audit results. If training would enhance audit results or prevent future payment errors, the Contractor should describe the training, indicate whether the training should be conducted on-site or off-site, provide a proposed training schedule and specify which City staff should be included. Any training offered by the Contractor, is at no additional cost to the City.

F. LICENSES

It is expected that the Contractor will use their proprietary/licensed analytical software to evaluate City payment and revenue data during the course of an audit. The Contractor shall subsequently provide the City with information related to their audit findings. If it is necessary for the City to have a copy of the Contractor's software to evaluate or otherwise follow-up on audit findings, the Contractor shall provide the City with a copy of their end user license agreement for the software and indicate whether the City has the right to make backup/archival copies or the right to make unlimited copies of documentation.

G. DOCUMENTATION AND REPORTS

After researching and confirming payment errors, the Contractor will be required to help designated City staff understand the causes of payment errors so the City can take steps to prevent similar errors. The Contractor shall summarize this information in writing to the City every two weeks, or immediately following a significant audit finding. Additionally, the Contractor shall provide the City's Audit Committee with a report, every quarter during the first year of this contract, summarizing common payment errors discovered during the course of the audit and actions the City should consider taking to eliminate those errors going forward.

H. CONTRACTORS IMPLEMENTATION PLAN

Contractors shall include an implementation plan proposing procedural, operational steps, technical approach and milestones of how Contractor intends to provide the work plan with requirements as previously specified. Any challenges or problems should be identified. A revised schedule may be required from the Contractor within ten (10) calendar days of the City's notification of provisional award.

I. CUSTOMER SERVICE

The Contractor shall identify a day-to-day contact for the City during an audit. The identified contact should be readily available to City staff to answer questions, facilitate necessary transfers of data, and resolve any issues that may arise with vendors or

otherwise facilitate an effective audit. Additionally, the Contractor should identify a back-up contact for the City should the day-to-day contact not be available for any reason.

J. COOPERATION AND TRANSITION

Contractor shall cooperate with the City at the expiration of the contract and the incumbent Contractor in order to accomplish a smooth phase-out and transition of responsibility and requirements, if applicable.

K. QUALIFICATIONS AND EXPERIENCE

The following experience, qualifications and skills are required to successfully complete the requirements of this RFP.

Contractor shall describe their experience and qualifications in performing revenue recovery audit services. Contractor shall include a description of what makes their approach to these types of audits unique and effective. Contractor shall describe any relevant experience performing accounts payable audits for public agencies; and shall explain how they are able to work effectively with vendors and clients in performing accounts payable audits. Contractor shall also describe their experience in performing other revenue recovery audit work (contract compliance, court revenue, utility, reverse sales & use tax, etc.).

Additionally, Contractor shall provide the City with the following information about their company and personnel:

- a. Provide a company/corporation organization chart and staffing profile including years of tenure for staff.
- b. Provide resumes for key personnel who will be assigned and dedicated to the City's account.
- c. Provide the names of the assigned project managers and key personnel. The City requires that the selected Contractor agree to not change key personnel without the prior approval of the City.
- d. Indicate whether assigned key personnel have prior experience in accounts of similar type, size, and scope.
- e. Clearly define what responsibilities assigned key personnel will be charged with relative to this Contract.

L. OPTIONAL SERVICES

Although the primary focus of this RFP is to procure an accounts payable audit to maximize revenue recovery and also improve the City's internal controls, the City may request other revenue recovery audit services at its option. Examples of other revenue recovery audit services may include, but are not limited to, contract compliance audits, court revenue audits, utility audits, reverse sales & use tax audits, etc. The City will, in

minor part, evaluate proposals for experience and capability to perform these other revenue recovery audits. Any other revenue recovery audit services, if required by the City, will be completed by an amendment to this Contract in accordance with Section I.13, Changes.