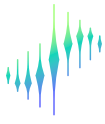# conductiv™

CATEGORY BEST PRACTICES

Recovery Audit Category Overview

What is Recovery Auditing?

Recovery Auditing, also known as an accounts payable (AP) audit, is a review of both your accounts payable historical data and your vendor's accounts receivable (AR) records.

The service helps to identify transaction errors such as overpayments, duplicate payments, pricing errors, under-deductions, unclaimed supplier credits, and more. Even if you feel your hospital has optimal controls, systems, and staff in place, the evidence strongly and consistently suggests that you should still be performing a Recovery Audit.

No system or employee operating within the procure-to-pay (P2P) cycle is completely error-free. Every ERP and legacy system can override established controls. And often, communication between supply chain, procurement, AP, receiving, and your suppliers is effective, but there will always be times when it is not.

The History of Recovery Auditing

Recovery Auditing traces its origins to the late 1970's retail industry where competition for suppliers vying to gain a presence in large stores was fierce. As such, suppliers issued many promotional discounts and rebates that led to confusion and accounting mistakes. These mistakes are part of a larger problem known as "financial leakage" which springs from different control gaps and process gaps that show up throughout the P2P process as well as the cost cycle.

As the recovery industry matured, new forms of Recovery Auditing became popular in other industries outside of retail.   In time, the healthcare industry began to embrace the use of these audits because of the overwhelming difficulties facing large healthcare systems as they tried to support patients, payers, and providers.

The Key Pressure Points in Healthcare

The healthcare industry experiences some of the highest rates of financial leakage and (subsequent profit recovery) due to three key pressure points: **Complexity, Compliance,** and **Change.**

Departments throughout the P2P cycle of a healthcare system are typically asked to function independently and must navigate through a host of competing global rules and local exceptions. The result is a never-ending series of complex policies and procedures. In addition to the host of complex and high-stress job tasks, healthcare associates are expected to comply with internal controls and external regulations. And finally, Hospitals and Healthcare systems face constant change regarding staff, management, software systems and even all the way down to which locations are in or out of their network at a given time. It's never-ending.

The Impact of Dark Data on Healthcare

"Dark Data" is a major cause in why financial leakage occurs and it is particularly rampant in healthcare due to the pressure points listed in the section above. In the simplest terms, "Dark Data" can be defined as the information embedded in the P2P cycle and the cost cycle that is not easily visible, sometimes not accessible, and rarely timely.

The inability to see this data is costing hospitals in significant ways. In a 2017 article, MedCity News offered the following observation, "Only 10% of collected data is analyzed and put to use. The resulting 90% of untouched information is known as **dark data**, or data that companies have recorded but failed to incorporate into their initiatives."

# Why Should you Perform a Recovery Audit?

There are many reasons to perform a Recovery Audit. The following list outlines a few of the key benefits your hospital will gain by working with an audit provider.

- **Drive dollars back to the bottom-line** — On average, for every billion dollars that a healthcare network spends on an annual basis, there can be a million dollars flowing back to the network's bottom line.

- **Gain insights and visibility** — Beyond the dollars, hospitals will gain key insights and visibility into their P2P process. In short, a Recovery Audit is the most effective tool a hospital can use to illuminate Dark Data in the P2P cycle and the cost cycle.

- **Patch control gaps** — Due to the nature of change, complexity and compliance in healthcare, control gaps constantly open up in the P2P process. Using the right Recovery Audit is the best way to keep those gaps monitored and under control.

- **Prevent Future Loss** — One of the most critical benefits of a thorough Recovery Audit is the reduction of future losses.

- **Reduce Fraud Risk** — When departments aren't running as efficiently as possible, the risk of fraud is greatly increased. Accounts payable audits will find the weak spots in the system along with red flags so they can be resolved.

The Typical Process of a Recovery Audit.

Every Recovery Audit firms offers a slightly different approach, but the general approach of most firms follows a similar pattern:

- **Discovery** —Each firm goes through an investigative or discovery phase in which the Recovery Audit firm will learn about the client, their process, and their preferred recovery parameters.
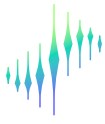
- **Planning** — Leveraging information from the "discovery" phase, the audit firm determines and presents a strategy for identifying and recovering payment errors. This phase outlines all tasks, timeframes, and schedules for future client review meetings.

- **Data Collection** – The Recovery Audit firm provides client IT with templates for pulling the necessary data for review. This process is quite well established and should not require much time from client IT.

- **Auditing** — Through automated and manual efforts the Recovery Audit firms runs trend and anomaly analysis to identify potential errors. It is at this point where industry familiarity plays a big part.

- **Recovery** —The Recovery Audit Firm works directly with suppliers (and client's staff when needed) to validate and prepare claims for deduction against future payments. When the supplier is in debit balance, auditors will secure a check from the supplier.

- **Recommendations** —Audit firms offers recommendations from their findings to help the client patch the gaps that have cause the financial leakage.

What are the basics for a Recovery Audit provider?

- At minimum your Recovery Audit firm should be checking all the following boxes.
- Working offsite/Remote access
- Online claims delivery
- Data files (AP, Vendor Master, PO, Receipt)
- Data security
- Healthcare experience
- No initial investment to get started

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What are the attributes of a
Best in Class Recovery Audit firm?

It is not enough to settle for a firm that simply checks the boxes. The following list outlines the attributes you should be looking for in a best-in-class Recovery Audit provider to ensure the best results and the highest levels of partnership.

- **Strong data security** — Provider should demonstrate strong security measures including encrypted data, SSAE16 Secured Data Centers, HIPPA Trained

- **Industry expertise and benchmarking** — Healthcare is a unique industry and your Recovery Audit provider should demonstrate deep expertise. A few of the insights they should provide are as follows:
  - What are your healthcare peers doing to address issues like yours?
  - How do you compare to other healthcare systems?
  - Best practices to patch gaps leading to financial leakage
  - Proven industry methods for driving cost saving efficiencies
- **Insights and visibility** — Provider should offer meaningful root-cause analysis and recommendations. Some of the key insights should include:
  - A listing of which suppliers (and staff) are not complying with processes
  - A clear understanding of why and where dollars falling out of the process
  - Strong recommendations for how to positively impact the problem
  - A focus on corrections and not collections

- **Cost savings opportunities** — As a result of the audit you should gain a clear outline of where to save dollars in your annual spend that are not simply related to recovery.
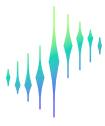
- **An up-to-date scope** — You best audit results will come from a scope that hovers around the 90-days and provides real time feed back

- **RNI, INR Reconciliation** — Your audit should support for the RNI (receipt not invoiced) and INR (invoiced not received) reconciliation. This is critical for healthcare.

- **Additional services** — Ensure your provider has other solutions beyond Recovery Audit otherwise they will not be incentivized to help you fix your problems.

- **A healthy vendor database** — Provider should have an up-to-date database of suppliers to help clean your vendor file and to aid in outreach to suppliers.

- **A strong partner ecosystem** — Provider should be connected to other industry providers to help gain a wider view into how to fix your network's larger issues

- **A Client Portal** — Claims should be delivered through an online portal with claim upload capabilities, drill down capabilities, in-depth reporting, communication, ease of use and 100% claim administration

- **A full-time staff** — Your auditors should be a team of full-time employees that are paid a salary or hourly wage to ensure they are consistently auditing all ranks of your vendor file and AP transactions history without competing incentives or prejudice.
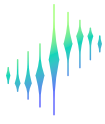
What are the key questions
you should be asking your RA firm?

Before embarking on a Recovery Audit, you and your management team must ask a number of pointed questions about the audit and the firm proposing to conduct the
audit. Below list outlines some key question you should be asking, along with the answers you can expect from a savvy provider.

- **What is your priority as a Recovery Audit firm?**
    - Your Recovery Audit firm should recover dollars for you, but their priority should be to provide visibility and insight that help to prevent future financial leakage.

- **Can we perform background checks on principals and key personnel?**
    - This step is critical. Your hospital's records are sensitive. Before handing over private financial information, perform due diligence on the principals that you will be working with.

- **Why should we pick you over other firms?**
    - You provider should clearly differentiate themselves by their ability to prevent future losses. Otherwise, your provider may simply expect to revisit and exploit the same financial gaps year after year for their financial gain.

- **What internal resources will you need and how much time will the Recovery Audit require?**
    - Your Recovery Audit provider should show you a path for how they will not take up your time, while demonstrating how they will return time to you.
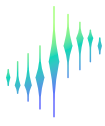
- What experience, credentials or accreditations are held by the audit staff that will be assigned to our account?
  - In our experience the best credentials you can review are successful client referrals and testimonials in the healthcare space. Advanced degrees may provide some comfort, but by and large, you should be looking for a firm that has had sustained success serving other healthcare entities.
- What precautions do you observe to maintain good buyer/supplier relations?
  - A best-in-class supplier should present two clear elements to ensure supplier compliance and relationships. 1) A large, up-to-date, constantly refreshed supplier database that has grown organically from the work they do with healthcare organizations. 2) A documented process for communicating and escalating (where appropriate) with suppliers. All communication should be archived and time stamped.

- What assistance or follow-up consultations do you provide to help ensure the recommendations provided at the close of the audit have been adequately implemented?
  - Your provider should place emphasis on their focus to provide recommendations to help prevent future errors from occurring. Also, your provider should commit to providing follow-up consultations as well as transferring all vendor and claims data whenever requested.

- What is the ideal working relationship with your RA firm?
  - Ideally you should work collaboratively with you Recovery Audit firm. They should offer a review of transactions at or around the 90-day mark after a transaction has occurred. This timing provides maximum cash flow benefit, timeliness for fixing gaps that lead to errors, and enough buffer to allow your staff to resolve 95% of issues on their own.
  - In addition, you should work with a provider that presents claims in an electronic format mapped to upload directly into your remittance queue. You should work in an automated fashion avoiding manual input and collaborate so that you only receive claims that you are confident to take immediately without inserting additional work.

About Conductiv

Companies today operate in interconnected world, with a growing reliance on third-party services to help them achieve their goals and create uniquely wonderful consumer experiences. However, managing service provider ROI can be difficult to measure and control.

Conductiv provides the procurement intelligence and spend management expertise to help businesses contain costs and optimize supplier relationships. With dedicated solutions for supplier lifecycle management, supply chain leaders are transforming their organizations via market intelligence, data-driven clarity and accelerated contracting timelines - delivering margin growth, improved service level terms, and evidence-based justifications to make wiser purchasing decisions. Transform your business into a sourcing authority to shape, grow, and sustain your company's future.

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