Improper Payments Information Act
Kickoff Meeting

July 10, 2003

Deloitte & Touche

Why Deloitte & Touche

Deloitte & Touche

Our Mission: To help our clients and our people excel.

We have more than 100 offices and 30,000 people across the United States providing services to thousands of public and private sector clients.

We understand and have deep experience in providing professional services to Public Sector Organizations.

- A global network that combines assurance, tax and consulting expertise
- Dedicated Federal Practice
- Commitment to quality that is recognized by independent industry analysts

Why Deloitte & Touche

Deloitte & Touche

Named to Fortune® Magazine's "List of the 100 Best Companies to Work for in America" for the seventh consecutive year.

The Emerson Companies

Banner headline of Emerson's 2000 Big Five Annual Report

"Deloitte & Touche Setting the Performance Standard"

"Deloitte & Touche is increasingly becoming the organization which believes in and can deliver seamless integrated professional services."

Setting the Performance Standard (Emerson 2000)

"There is also a significant intangible which characterizes Deloitte's performance. In my view, the firm is not only winning, it has uniquely combined winning with the highest level of class and professionalism."

The Gartner Group

"Deloitte & Touche is among the top firms with the unique competency in integrating Business Process, Organization, and Information Technology capabilities."

Named to the "Top 50 Companies for Diversity for 2001" and the "Top 10 Companies for Diversity Recruitment and Retention" by *DiversityInc.com*

Improper Payments Overview

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- Improper Payments Improvement consists of a two-part strategy:
  - Prevention
  - Detection/Correction

- Prevention
  - Automated Validation & Verification
  - Defined Procedures
  - Improved Controls

- Detection/Correction
  - Data Analysis and Mining
  - Forensic Analysis
  - Recovery Auditing
  - System and Process Improvements

Improper Payment Prevention

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- Development of Automated Systems
  - Automated Validation & Verification
    - Determine Eligibility
    - Identify and Reduce Fraud
  - Payment Processing
    - Manage Large Volumes
    - Enhance Payment Accuracy
- Process and Procedures
  - Standard Procedures
  - Built-In Internal Controls

Improper Payment Detection

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- **Improper Payment Detection is a cost-effective process that:**
  - Identifies overpayments and/or lost funds caused by transactional, contractual, or other types of control weaknesses
  - Is performed based on our industry experience
  - Provides beneficial and value-add recommendations related to the purchase-to-payment business process
  - Is customized to meet agency needs

- **Applies internal audit procedures plus proprietary and sophisticated data mining software**

Improper Payment Identification Recommended Approach / Methodology

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Approach – Simple and focused, collaborative approach leveraging automated tools to analyze procurement and accounts payable data to identify cost savings and cost recovery opportunities and to identify business process improvements.

Analyze Process and Strategy

- Understand current procurement and accounts payable policies and strategies
- Evaluate related process controls (financial, operational, technology, compliance)
- Obtain data (electronic and paper)

Account Analytics and Review

- Perform file interrogation script on purchasing and payables data
- Analyze population against payables metrics (e.g. over-payments, duplicate payments, rebates, leases, allowances, pricing, returns, freight, credit card interchange fees, sales & use/VAT/GST tax, etc.)

Evaluate Results

- Identify claims for recovery
- Evaluate trends and out-of tolerance benchmarks
- Review process control gaps and related root causes

Recommendations and Ongoing Strategy

- Develop approach for client to pursue claims for recovery
- Define recommendations and action plans for critical process control issues
- Design strategy for ongoing cost reduction using gap analysis and best practices

Implement Phase II Roll-Out

- Monitor pursuit of claims for recovery
- Develop internal controls & procedures observations and recommendations

Monitor Actual Benefits/Leakage

- Perform ongoing metric analysis using post-implementation data
- Measure actual leakage and future cost savings
- Quantify leakage by reason code, supplier and other critical data measures

Clients We Have Served

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- Federal Government
  - Department of Health and Human Services
  - Defense Logistics Agency
  - Department of Education
  - Department of Housing & Urban Development
  - Government National Mortgage Association
  - Social Security Administration
- State & Local
  - State of Wisconsin
  - State of Pennsylvania
  - State of Indiana
  - State of California
- Numerous Commerical Organization of All Sizes and Types

Related Improvement Services

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- Business Process Reviews
  - Includes a complete system and process gap analysis and review based on Deloitte & Touche methodology, Federal standards, and best practices
- Information System Risk Services
  - Includes control reviews and system improvement opportunity recommendations and implementation
- Process Redesign
  - Includes reengineering of specific or potential system, control or process weaknesses

Improper Payments Analysis Project Timeline

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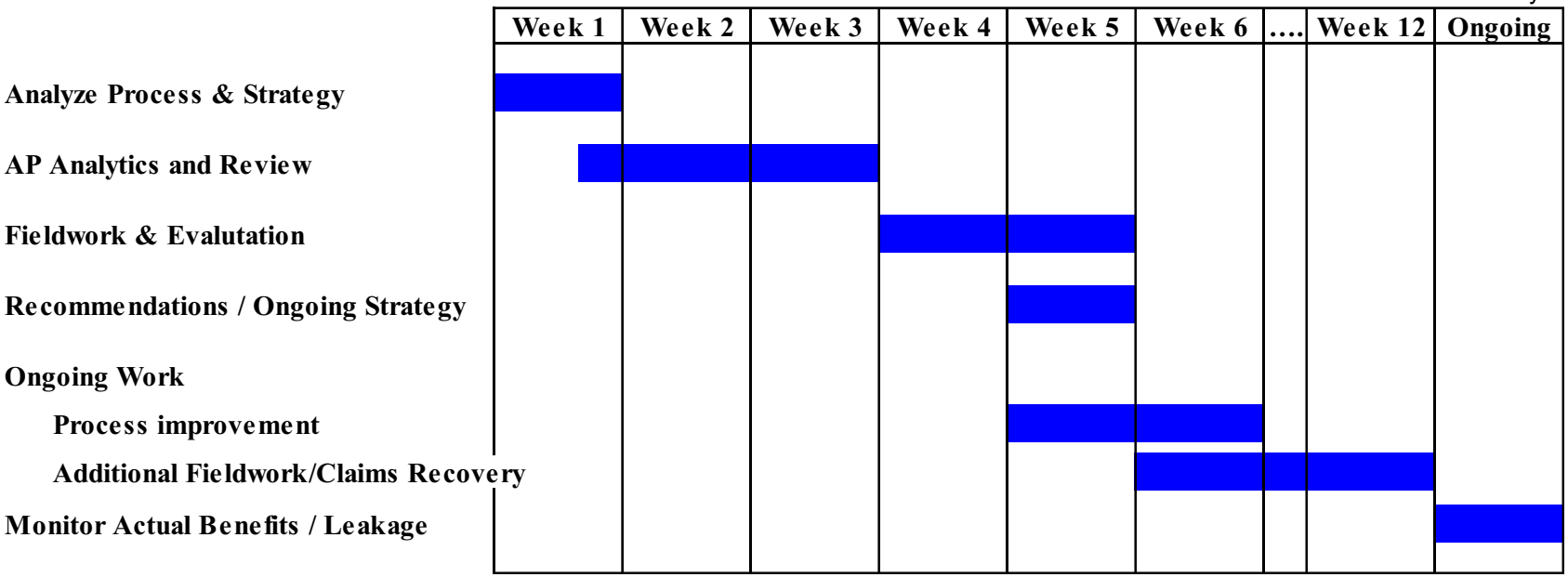
Draft - for discussion only



APPENDIX

Cost Savings and Control Review (CSCR)

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Evidence (Client)

- 14,087 vendors exist in the sample data files
- Period of sample data 1/1/98 thru 3/28/01 and total spend $1.39 Billion
- Suspect that discount and pricing information may not always match
- Suspect duplicate vendor setups in MVF
- Over 24,000 recovery exceptions were identified in our duplicate invoices query.

Impact

- Potential vendor duplicate and erroneous payments
- Potential for fraudulent vendors and payments
- Cash discounts may not be taken
- Spend by vendor may be inflated
- Potential price variances

Recommendation

- Initiate a 4-6 week project to analyze, validate and review the information in more detail to identify cost savings opportunities

Justification

- Based upon our initial review, we estimate $250,000 to $500,000 of cost savings are possible

Cost Savings and Control Review (CSCR)

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Evidence (Client)

- 16,200 vendors exist in the sample data files
- Period of sample data 4/1/97 thru 12/31/01 and total spend $1.73 Billion
- Suspect that discount and pricing information may not always match
- Suspect duplicate vendor setups in MVF
- Over 40,000 groups were identified in our duplicate invoices query

Impact

- Potential vendor duplicate and erroneous payments
- Potential for fraudulent vendors and payments
- Cash discounts may not be taken
- Spend by vendor may be inflated
- Potential price variances

Recommendation

- Initiate a 4-6 week project to analyze, validate and review the information in more detail to identify cost savings opportunities

Justification

- Based upon our initial review, we estimate $250,000 to $500,000 of cost savings are possible

Other Sample Savings & Solutions:

Consolidation of Check Runs

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Evidence

- XXX vendors had more than 50 checks written in 2000, totaling XXXXX checks.
- XX vendors had more than 100 checks written in 2000, totaling 3,953 checks
- One vendor was the payee on 1,392 checks

Impact

- The cost of check processing is higher than average.
- Vendors are receiving checks on a very frequent basis.
- Client foregoes the cash management benefit of utilizing the cash for a short period of time

Recommendation

- Consolidate check runs
- Execute check runs on a more infrequent basis
- Review procurement card strategy to reduce the number of payments for smaller amounts

Justification

- Consolidating check runs to twice per week results in a estimated savings of $50,000 to $60,000 annually
- Executing check runs once per month could result in savings of $130,000 to $150,000 annually
- Eliminating duplicate MVFs could result in savings of $200,000 annually

Example Deliverable – Executive Summary

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Objectives

We reviewed the "Company"'s procurement to disbursement process (the "process") to accomplish the following objectives:

- Document the flow of information within the current operational system
- Identify the control weaknesses, risks and exposures within the Company's procurement to disbursement process
- Identify overpayments or funds due the Company in detailed claim format
- Make recommendations to improve the Company's control, cash position, reporting and operational efficiencies throughout the process.

Interviews

We interviewed the following Company personnel:

- Director of Finance and Accounting Manager, Assistant Controller
- Managers of Accounts Payable and Payroll and Tax
- Accounts Payable Day and Night Crew
- Internal Audit Director and Staff
- Purchasing Manager, Staff, and Contract Manager
- Travel and Entertainment, Fixed Asset, Accounts Receivable Accountants
- Shipping/Receiving Manager

Schedule

This report identifies the key areas of control improvements, the related costs to the Comapany, the causes, the impact and risks inherent to each issue and suggested recommendations for improvement in each area. Please refer to the Appendices for operational reviews and diagrams. The key focus areas and related cost-saving opportunities are summarized below:

Statements-Unposted Amounts Due	$	146,968
Erroneous Payments	$	232,861
Duplicate Payments	$	220,406
Credit Memo/Chargeback Error	$	119,252
Accounting Error	$	3,557
Erroneous Payments-Unclaimed Properties	$	25,000
Sales/Use Tax Overpayments	$	48,700
Centralization of Purchasing Process	Unquantifiable	
Use of Procurement Card	Unquantifiable	

The total approximate cost savings to Company are at least $796,744.