Why embrace the use of Recovery Audits
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A recovery audit is an operational audit process that is used worldwide. The practice had its origins in the retail sector characterized by large inventories and high volumes of payables transactions.
Healthcare embraced the use of these audits because of the complexity of business processes supporting patients, payers, and providers. Commercial, manufacturing, and financial services organizations are now relying more and more on recovery audits to ensure policies and procedures are working optimally. Let's explore the reasoning behind the popularity.

Definition:
Recovery auditing is the process of reviewing historical data to identify and file claims to recover accounting errors and oversights. Typical accounting errors and oversights include vendor overpayment, under-deductions, pricing, shipment and contractual performance errors. Profit recovery, AP audit, EP audit, post audit, and cost recovery audit are terms often used synonymously with recovery audit.

Immediate positive impact* on *earnings:
Funds that are recovered through the audit process fall directly to the company's bottom line. It is literally found money. Many companies have a multi-level approach to ensure money is recovered. It is not uncommon to have an internal staff plus one or two outside firms searching for claims.

Low risk and cost effective:
Most recovery audit firms work on a contingency basis. Accordingly, payment is made only when results are realized. Companies assume almost no risk because auditors are paid a percentage of what they recoup. The auditors only make money if they identify overpayments that are later recovered.

It is often difficult for a company to maintain a knowledgeable staff to capture lost funds. Contracting with an outside recovery audit firm is a great way to recoup funds without dedicating company resources to the task. In many cases recovery audit firms offer the most cost and time-effective way to recoup lost dollars.

External certification and review of business processes:
Recovery firms are an external, independent, unbiased resource. They can provide an unvarnished review and opinion of internal processes and policies. External firms have no reason to hide inefficiencies for fear of management retribution.

Best practice insight:
External recovery audit firms can offer insight into industry best practices. Recovery audit firms review numerous companies annually. They have a unique viewpoint on how others address common business problems and can provide this insight in the form of recommendations at end of the audit.

Support of continuous improvement initiatives:
Recovery audits provide meaningful input into continuous improvement programs. Companies merge, change systems, outsource, and have employee turnover. These scenarios expose companies to lost profits and dictate the need for continuous improvement initiatives.

Eliminate the false sense of security:
Companies can get a false sense of security from financial audits and the existence of internal audit departments. Financial audits were not designed to review individual transactions in detail. Internal audit departments have a multitude of responsibilities and rarely have the resources necessary to review all past transactions for errors. Recovery audits not only review past transactions in detail but also identify errors and the root cause of many financial irregularities.

Factors that contribute* to *the success of a recovery audit:
It is hard to predict the success of a recovery audit without specific knowledge of the environment. A number of years ago the industry started using a formula that suggested for every million dollars of accounts payable transactions there is a thousand dollars in recoveries. Unfortunately, there are so many variables that effect audits formulas like this are truly a shot in the dark. However, there are circumstances under which the chance of oversights and errors expand dramatically. If one or more of the factors below exist in your environment chances are a recovery audit will produce results.

Contributing factors include:

- Large number of transactions
- Large number of vendors
- Large number of locations (or location changes)
- Change to environment or business model
- Organization and/or staff changes
- Implementation of aggressive cost cutting measures
- Existence of or integration of multiple IT systems
- In process of major IT system upgrade or conversation
- Existence of and reliance on manual processes
- In process of major acquisition

In summary, this discussion presents very interesting if not compelling reasons to utilize recovery audits on a regular basis. Management should consider the use of recovery audits that cost effectively review critical processes for inefficiencies, recover funds when possible, and provide recommendations for areas of improvement. As recovery claims are time sensitive, the longer you wait, the more difficult it is to identify, validate, and retrieve them. Should you schedule your recovery audit soon?