

# **STATE OF SOUTH CAROLINA ACCOUNTING GUIDANCE FOR RECOVERY AUDITS**



Last update: 6/30/2019

# FY2019 Recovery Audit – Agency Accounting Guidance

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In order to track recovery audit revenues and expenses for the State, a fund as well as specific G/L accounts were created in SCEIS:

- Fund 38K80000 – RECOVERY AUDITS (38K89000 for Financial Statement agencies)
- Revenue G/L Account 4530210000 – REFUND FROM RECOVERY AUDIT
- Expense G/L Account 5021580000 – RECOVERY AUDIT SERVICES

## **Accounting for a recovery is generally a 3 step process:**

1. First, the agency is notified of a recovery by the recovery audit vendor. Once the refund check is received by the agency, the deposit will be recorded and coded to revenue G/L account 4530210000 and Fund 38K80000. Note: the preferred and most common recovery method is to receive a check, however, some vendors will only issue a vendor credit. Please review page 7 for instructions on how to account for a vendor credit.
2. Next, the agency will receive an invoice from the recovery audit vendor for any amounts collected. This will be a percentage of the recovered amount. When paying the invoice, the agency will record this expense against G/L account 5021580000 and Fund 38K80000.
  - *Note: if the recovery had been for an invoice originally been paid with Federal funds (5\*fund), then depending on the specific grant related to those federal funds, an invoice for audit recovery fees may not be allowable. Payments to the recovery auditors from the federal share of recovered funds shall be solely from the federal portion as allowed by the federal agency.*
3. After the two steps above are recorded, the agency will be left with a *net cash recovery* in Fund 38K80000: revenue amount recovered less recovery invoice paid (unless federal and audit recovery fees are not allowed). At this time, a cash transfer journal entry will be recorded to transfer the recovered cash out of agency Fund 38K80000. Depending upon what fund the original invoice(s) paid by the agency were recorded against, the cash will either be retained by the agency and transferred to that agency fund or remitted back to the State to Business Area F010 – General Reserve Fund.

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The following provides a general guideline for each fund type where the original invoice(s) could have been paid out of:

- **General Fund (1001XXXX)**– if the original invoice(s) was recorded against the General Fund (1001\*), the net recovered cash would be remitted back to the General Fund by transferring the remaining cash in Fund 38K80000 to **Business Area F010 – General Reserve Fund**

Example: DR 6200010000 (FROM) Agency XXXX Fund 38K8XXXX  
CR 6100010000 (TO) F010 General Reserve Fund Fund 38K80000

- **Other Funds (3XXXXXXX or 4XXXXXXX)** – generally, if the fund is designated for a specific purpose / function and/or falls under any type of federal or State regulation, the agency would retain the cash from the net recovery.

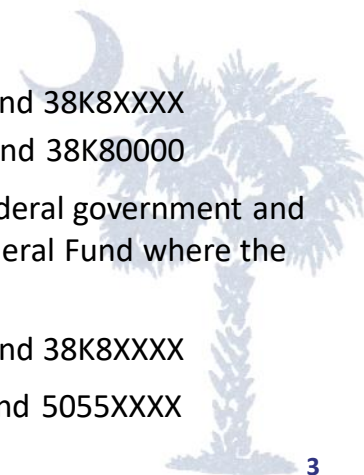
Example: DR 6200010000 (FROM) Agency XXXX Fund 38K8XXXX  
CR 6100010000 (TO) Agency XXXX Fund 4XXXXXXX

If the fund does not meet the criteria above, then the cash from the net recovery would be remitted back to the State via a cash transfer to **Business Area F010 – General Reserve Fund**.

Example: DR 6200010000 (FROM) Agency XXXX Fund 38K8XXXX  
CR 6100010000 (TO) Agency F010 Fund 38K80000

- **Federal Funds (5XXXXXXX)** – refunds related to Federal Funds remain the property of the Federal government and may not be used for any other purpose. The net recovery would be remitted back to the Federal Fund where the original invoice had been recorded.

Example: DR 6200010000 (FROM) Agency XXXX Fund 38K8XXXX  
CR 6100010000 (TO) Agency XXXX Fund 5055XXXX



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## SUMMARY:

Once all entries have been recorded, fund 38K80000 should show the following balances:

- Revenue – should equal the gross amount recovered (no reductions in revenue should be recorded)
- Expense – should equal the total recovery fees paid to the recovery audit vendor
- Cash – total should be zero

## Example:

For a \$1,000 recovery in a Restricted Fund with a specific purpose and a 20% recovery fee of \$200 paid:

Deposit recorded in 38K80000 (revenue)	\$1,000
Recovery audit fee invoice recorded in 38K80000 (expense)	<u>(\$ 200)</u>
Net cash recovery in 38K80000	\$ 800
Cash transfer from 38K80000 to 4* Fund	<u>(\$ 800)</u>
Cash Balance in 38K80000	- \$0 -

If the above recovery had been found on an invoice originally paid out of the General Fund, then all entries would be the same except the cash transfer at the end would be to Business Area F010 Fund 38K80000



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## Journal Entry Examples for Transferring the Net Recovery Out of Agency Fund 38K80000

*Example #1: Agency retains the recovery and records a cash transfer to a 4XXXXXXX fund:*

Basic Data		Details	
Document Date	04/19/2019	Currency	USD
Posting Date	04/19/2019	Period	10
Reference	RECOVERY AUDIT		
Doc.Header Text	Recovery Audit Transfer		
Document type	SU	Adjustment document	
Cross-CCode No.			
Company Code	SC01	State of South Carolina Columbia, SC	

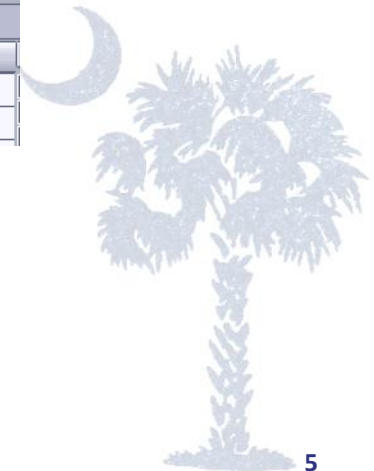
  

Amount Information	
Total Dr.	1,000.00 USD
Total Cr.	1,000.00 USD
CC	<input checked="" type="checkbox"/>

2 Items ( No entry variant selected )

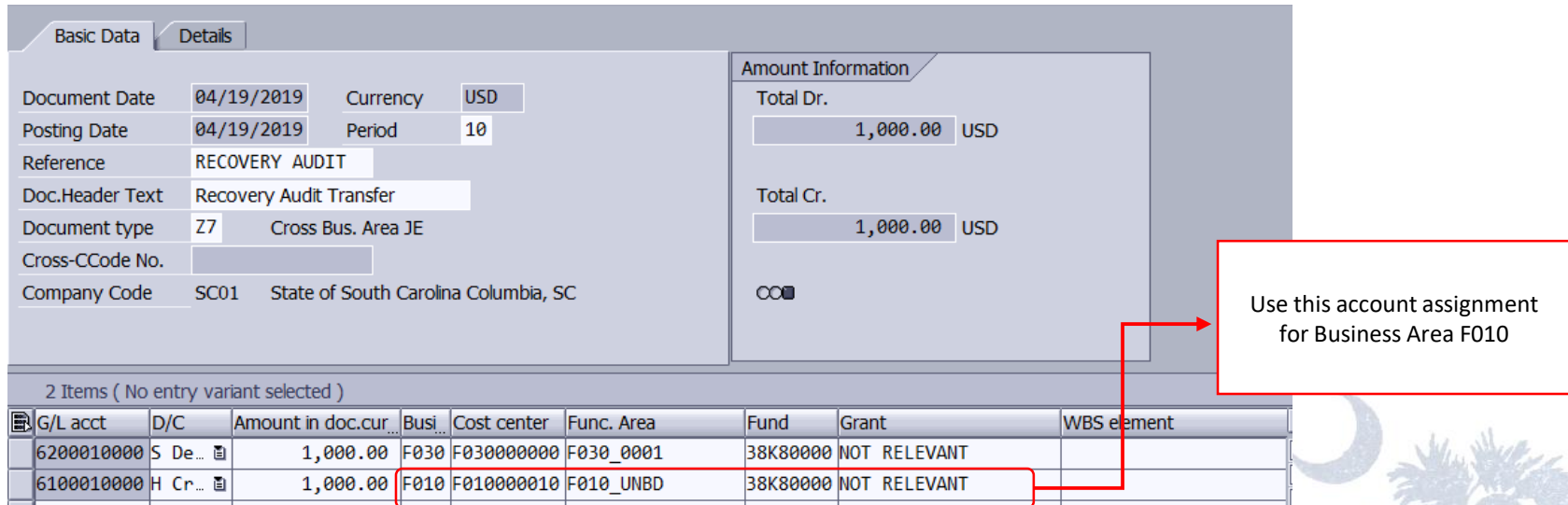
G/L acct	D/C	Amount in doc.cur...	Busi...	Cost center	Func. Area	Fund	Grant	WBS element
6200010000	S De...	1,000.00	F030	F030000000	F030_0001	38K80000	NOT RELEVANT	
6100010000	H Cr...	1,000.00	F030	F030000000	F030_0001	49730000	NOT RELEVANT	



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## Journal Entry Examples for Transferring the Net Recovery Out of Agency Fund 38K80000

*Example #2: Agency remits the recovery back to the State in Business Area F010 fund 38K80000*



The screenshot displays the SAP Journal Entry Form. The 'Basic Data' tab is active, showing document details for a recovery audit transfer on 04/19/2019. The 'Amount Information' section shows a total debit and credit of 1,000.00 USD. A table below lists two items, with the second item (6100010000) highlighted in red. A red box highlights the account assignment 'F010 F010000010 F010\_UNBD' in the table, and a red arrow points from this box to a callout box that reads 'Use this account assignment for Business Area F010'.

G/L acct	D/C	Amount in doc.cur	Busi...	Cost center	Func. Area	Fund	Grant	WBS element
6200010000	S De...	1,000.00	F030	F030000000	F030_0001	38K80000	NOT RELEVANT	
6100010000	H Cr...	1,000.00	F010	F010000010	F010_UNBD	38K80000	NOT RELEVANT	

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## Accounting for the Recovery If Received as a Vendor Credit Rather than a Check

The vendor credit would be entered into the system like normal and would be applied against current/future invoices. In order to account for that credit in the recovery audit fund a journal entry needs to then be recorded.

**Example:** \$1,000 vendor credit is issued and applied to outstanding vendor balance. The original invoice had been coded to G/L 5030010000 – OFFICE SUPPLIES with fund 10010000.

➤ Journal entry to account for that recovery in the recovery audit fund:

DR	5030010000 – OFFICE SUPPLIES (offsets credit memo)	Fund 10010000
CR	4530210000 – REFUND FROM RECOVERY AUDIT	Fund 38K80000

➤ The journal entry to remit that **net recovery**\* would be recorded once the recovery audit vendor is paid their fee\*\* (in this case the recovery goes back to the State since it was originally paid out of 10010000):

DR	6200010000 – TRANSFER OUT Business Area XXXX	Fund 38K80000
CR	6100010000 – TRANSFER IN Business Area F010	Fund 38K80000

\* Net recovery = recovered amount less fee paid to the recovery audit vendor

\*\* The invoice should be coded to G/L 5021580000 – RECOVERY AUDIT SERVICES to fund 38K80000



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**Fiscal Year 2018-2019 Appropriations Bill H. 4950 Part IB 117.88.** (GP: Recovery Audits)

The State Fiscal Accountability Authority shall contract with one or more firms to conduct recovery audits of payments made by all state agencies to vendors for goods and services. The audits must be designed to detect, document, and recover overpayments and erroneous payments to the vendors and to recommend improved financial and operational practices and procedures. A state agency shall pay, from recovered monies received, the recovery audit firm responsible for obtaining for the agency a reimbursement or payment from a vendor a negotiated fee not to exceed twenty percent of the funds recovered by that firm.

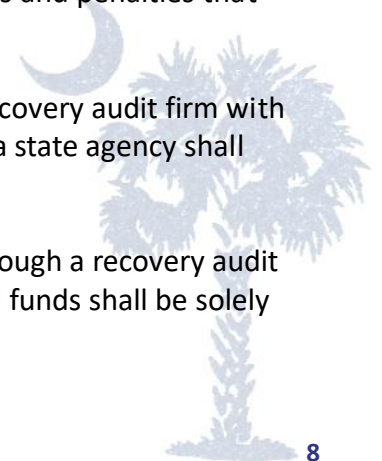
Unless otherwise restricted by law, funds recovered, less the cost of recovery, shall be remitted to a special fund subject to appropriation by the General Assembly. Agencies may recover costs that are documented to be directly related to implementation of this provision.

Recovery audits apply only to payments made more than one hundred eighty days prior to the date the audit is initiated and shall cover at least three complete fiscal years.

All information provided under a contract must be treated as confidential by the recovery audit firm. A violation of this provision shall result in the forfeiture by the firm of all compensation under the contract and to the same sanctions and penalties that would apply to that disclosure.

Each state agency shall participate in this recovery audit program and shall cooperate and provide the recovery audit firm with all information necessary for the audit in a timely manner. All vendors that provide goods or services to a state agency shall cooperate with the recovery audit firm in its audit.

A state agency shall expend or return to the federal government any federal money that is recovered through a recovery audit conducted under this provision. Payments to the recovery audit firm from the federal share of recovered funds shall be solely from the federal portion as allowed by the federal agency.





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## **Fiscal Year 2018-2019 Appropriations Bill H. 4950 Part IB 117.88 Cont.**

In addition to performing the recovery audits, the recovery audit firm may conduct an analysis of contracts and pricing structures, as determined and directed by the Executive Director of the State Fiscal Accountability Authority or her or his designee, to identify and recommend future cost-savings and improved state agency financial operations going forward. A state agency shall pay the recovery audit firm responsible for obtaining the agency actual cost-savings a fee as authorized by the contract with the recovery audit firm.

The recovery audit firm shall provide reports to the State Fiscal Accountability Authority detailing its findings, the causes for the overpayments and erroneous payments, future cost-savings opportunities and its recommendations for strengthening state operations and/or state contracts to prevent improper payments in the future.

For purposes of this proviso, the term vendor or vendors includes, but is not limited to, sellers, suppliers, service providers, other providers, contractors and third party administrators; the term overpayments and erroneous payments includes, but is not limited to, overpayments, duplicate payments, erroneous payments, and rebates, discounts and credits not received; and the term state agency or state agencies includes all state agencies, boards, commissions, institutions and institutions of higher education.

The State Fiscal Accountability Authority shall provide copies, including electronic form copies, of final reports received from a firm under contract to: the Governor; the Chairman of the Senate Finance Committee; the Chairman of the House Ways and Means Committee; and the state auditors office. Not later than January first of each year, the board shall issue a report to the General Assembly summarizing the contents of all reports received under this provision during the prior fiscal year.

