



State of North Carolina Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

October 25, 2005

MEMORANDUM

TO: Chief Fiscal Officers
University Vice Chancellors
Business Officers

FROM: Robert L. Powell, State Controller
Office of the State Controller

SUBJECT: Overpayment and Recovery Audit for Fiscal Year 2003-2004

As you know, the Office of the State Controller (OSC) was mandated by the General Assembly to contract with a third party to perform an audit and collection process of inadvertent overpayments by State agencies to vendors as a result of pricing errors, neglected rebates and discounts, miscalculated freight charges, unclaimed refunds, erroneously paid excise taxes, and related errors. The third party is to be compensated only from funds recovered as a result of the audit. The OSC has recently completed a competitive bid process to create a new contract for this service. The OSC is pleased to announce that MANN Diversified Services, Incorporated will be conducting an audit of Fiscal Year 2003-2004.

Agencies and Universities are requested to make available their accounts payable documentation for the audit period when requested by Mann Diversified Services. In addition, contracts may be requested by the vendor as they will be conducting contract compliance reviews for potential overpayments.

The OSC will provide the internal control structure for this contract. The procedures for the administration of this contract are attached. The cooperation and support of your staff is important to the success of this project and much appreciated. If you should have any questions about the change in contract, please contact me or Julie Batchelor, Assistant State Controller.

Attachment

RLP/lis
NO. FSD 060004

MAILING ADDRESS
1410 Mail Service Center
Raleigh, NC 27699-1410

Telephone: (919) 981-5454
Fax Number: (919) 981-5567
State Courier: 56-50-10
Website: www.ncosc.net

LOCATION
3512 Bush Street
Raleigh, NC

Overpayment and Recovery Audit Procedures Fiscal Year 2003-2004

To ensure claims are processed timely and efficiently, the following procedures are in effect for the Overpayment and Recovery Audit:

1. Mann Diversified Services, Incorporated (auditor) will send statement letters on OSC letterhead requesting current accounts receivable statements for state vendors.
2. Once a claim has been identified, the auditor will contact the vendor and document the contact information for confirmation and audit trail. The auditor will make any additional information available to the vendor. The agency will be contacted by the auditor to review open credits found during the audit and insure that no activity has taken place within the last 180 days from the payment date or credit memo date. If no activity has occurred the agency must show substantial proof (i.e., dated correspondence to the vendor on the item(s) in question) that there was a diligent effort put forth to work with the vendor in closing the credit. This correspondence must be in the form of an email, facsimile, or letter. If no correspondence is produced, the agency is required to process the claims collection by entering a debit or credit memorandum or authorize the request for a refund. It is the auditor's responsibility to contact the vendor if a refund is applicable.
3. The applicable agency will be required to enter the credit/debit memorandum into its Accounts Payable system within five (5) working days of receipt. This credit is to be recorded to the 211270-Accounts Payable Clearing Account. Once the credit has been processed, the agencies will transfer monies using the North Carolina Accounting System (NCAS) vendor named OSC-CENTRAL ACCTS (CMCS 4174) number 561611588-07, from the liability account to the OSC Recovery Fund.
4. Before any monies are received the agency and the vendor are required to give written authorization (e.g. fax, email) to OSC via the auditor for what the credit is regarding. The refund check must be made payable to the State of North Carolina-Office of the State Controller. These funds will be deposited in the OSC Recovery Fund as required by the legislation for this audit.
5. The OSC will be responsible for following up with agencies that are not processing claims in a timely manner or utilizing their best possible management practices.
6. When claims that are presented to the agency are supported by federal funds, the agency is required to inform the auditor of the federal participation rate and that their collection fee is allowed. In order to ensure proper accountability of these type claims, the entire recovery will be deposited in the OSC Recovery Fund. OSC will submit the contracted percentage of the claim amount to the auditor, and transfer the remaining federal portions of the claims back to the agency to distribute to the grantor agency.
7. The OSC is excluding from the audit purchases of medical services and/or payments, invoices or payments in dispute, payments started in April, 2003 for Department of Correction pilot program with Cadence Utility Accounting Program, and any recoveries from university institutional trust funds. These trust funds are not subject to the recovery of overpayments audit established by the current statute because of the restrictive nature of these funds.

Lisa Stubbs, Management Analyst, will serve as the audit liaison on behalf of the OSC. She can be reached at (919) 981-5429 or lstubbs@ncosc.net.