



# Spend Analysis & Recovery Services (SARS)

Protecting taxpayers' money  
from incorrect payments



Crown  
Commercial  
Service

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# Introduction

Those with the duty of spending money on behalf of taxpayers face the constant challenge of needing to do the same – and often more – for less.

This is not a new challenge, so innovative ways of delivering public services within the context of severe financial pressures are always being sought. In times of economic austerity especially, saving money and finding every spare pound is a necessity.

However, how much time is spent making sure that suppliers to the public sector are only ever paid what they're owed? How much time is spent making sure that processes, which are either directly or indirectly involved in payments to suppliers, are working well and how much time do we, as the public sector, spend on trying to recover money that has been paid to a supplier incorrectly?

## The challenge

On the face of it, the answer must surely be “not enough”. When you look a little deeper though the answer is not that straightforward. Delivering public services for today whilst also thinking about how public services of the future can be delivered differently – or not at all – is a huge challenge. Taking the time to pause and look back at how much any or all of your suppliers were paid in the last 6 years, or even last year alone, is a challenge in itself.

This was a challenge that CCS was determined to help resolve by looking at how others had overcome it. What happens in the private sector is informative, but of particular relevance is what has happened in the US where, at a government level, the problem of incorrect, or improper, payments is being tackled head on.

**This paper takes a look at the US model and explores what learnings can be applied to our own public sector.**



# How the US is tackling incorrect payments

In 2010, President Obama signed the Improper Payments Elimination and Recovery Act (IPERA). Its implementation was aimed at reducing incorrect payments made by US Government departments and agencies by \$50 billion by 2012.

Fast forward to President Trump and his budget of 2018 proposed to reduce “government-wide improper payments by half”. Here’s one example of agreement between two presidents who most people would acknowledge share a lot of differences.

However, it’s clear to see that reducing these types of payments is a good idea so it isn’t all that surprising that the two agree on its importance. In fact, across American politics there was unanimous agreement – the legislation was passed with full support from the Democrats and Republicans in both the House and the Senate.



# Identifying incorrect payments

So what are improper payments?  
Well, according to US legislation, an improper payment occurs when:

- **Federal funds go to the wrong recipient,**
- **the recipient receives the incorrect amount of funds (either an underpayment or overpayment),**
- **documentation is not available during review to discern that a payment was proper, or**
- **the recipient uses Federal funds in an improper manner.**

The scope of the US legislation is broad. Fundamentally it concerns the prevention, identification and recovery of improper payments and covers payments to contractors, citizens and recipients of grants, benefits and loans.

Responsibility for identifying programmes susceptible to improper payments is left down to individual agencies and these programmes have to be reported on annually. Less risky programmes have to be reassessed at least every three years.



# The issue of cost effectiveness

Some have argued that the demands of the legislation are overly burdensome and when you add in a relatively poor recovery rate from payment recapture audits (typically 47 cents from every dollar paid out improperly) you begin to see why cost effectiveness becomes such an important issue.

It is the responsibility of agencies to ascertain whether or not conducting a payment recapture audit would be cost effective but the Office of Management and Budget (OMB) can review this decision. The OMB supports the president and has the power to force an agency to undertake a payment recapture audit if it disagrees with the original justification.

## Getting Payments Right

It's not surprising therefore that the president's focus has switched somewhat onto the prevention of improper payments occurring in the first place – with the implementation of a 'Cross-Agency Priority Goal': Getting Payments Right. Nonetheless this goal still recognises the need for “recovering funds that were paid incorrectly”.

So in the US, where agencies have been legally bound to place a real focus on reducing incorrect payments for the best part of a decade, funds continue to be paid incorrectly.

**In fact, of the roughly \$4 trillion spent by the government in fiscal year 2017, an estimated \$141 billion was, according to the definition above, made up of incorrect payments.**

The UK has no equivalent of IPERA, making any activity of this type in the public sector essentially voluntary but again, most would agree that making the best use of taxpayers' money is something we should be doing.



# Applying the learnings in the UK public sector

Unlike the public sector, the UK private sector recognises the benefits of spend recovery audits and in some cases have internal teams devoted to this type of work.

Companies in industries such as retail, pharma, manufacturing and logistics take advantage of this type of work because they all face issues which increase the risk of incorrect payments being made. They process incredibly high volumes of transactions, have complex systems and high numbers of complicated contracts – all issues that vast swathes of the public sector face too.

## The case for external specialists

The US legislation specifically allows agencies to use external spend recovery specialists. This is for the simple fact that not every organisation has the internal capacity or capability to do this themselves and it's an issue we know exists in the UK public sector as well. There will always be great pockets of best practice where individual contracts or even groups will be monitored very closely but it is difficult to replicate that across an organisation's total supplier spend.

It's clear that our public sector needs support to do this, so on that basis – and by taking on board learnings from the US and our own private sector – CCS has put in place the Spend Analysis and Recovery 2 framework, or SARS2.



# SARS2 – how your organisation can benefit

SARS2 provides access to 19 spend recovery specialists and covers the full remit of UK public sector spend.

Whether you want to look at your organisation's entire spend with suppliers or simply look at a single area such as energy, SARS2 makes this possible. It also enables you to look at and recover any incorrect payments made in the last 6 years.

One of the questions frequently asked is how often should a spend recovery audit take place? Our view is, every year – regardless of whether or not any previous recovery audit found any incorrect payments.

## A no win, no fee basis

What is key is that SARS2 was set up on a contingency fee basis, meaning that you only pay a percentage of any amount of money that is recovered for you. This no win/no fee type structure makes it zero risk for the public sector. So the question is why wouldn't you?

Even if no incorrect payments are found, what you get is an assurance from an independent specialist that the processes you have in place are robust – and that is good news for senior management.

Where incorrect payments are found, then as well as having them recovered, the spend recovery specialist will also provide you with a report detailing how those errors can be prevented in future. This is very important; so much so that the US guidance states that root cause analysis reporting must be provided. As mentioned above, prevention is better than cure.



# Scope of recovery

While recovering incorrect payments is relatively straightforward with a buyer-seller relationship, this is not true for all types of payments.

So it's important to say that the scope of SARS2 focuses on the recovery of incorrect payments to suppliers, rather than the recipients of funds such as benefits or grants.

This has been one of the reasons why, in the US, only 47 cents out of every dollar paid incorrectly is recovered i.e. the legislation covers all payments.

## Grants, benefits and loans

As experienced in the US, the comparably low recovery rate surrounding grants, benefits and loans means, inevitably, the use of payment recovery audits in these instances may fail the cost-effectiveness test.

In these situations, pre-payment efforts to increase data verification and validation are more effective. Thus, according to the PaymentAccuracy.Gov website, research has shown that payment recovery audits are primarily effective for contract payments.

The most frequently asked question is, "How many incorrect payments are usually found?" This is a tricky one to answer because each customer situation will be different. The standard figure is usually between 0.01% and 0.03% of spend. However, that can vary hugely.



# Next steps

If you haven't undertaken a spend recovery audit before, then our advice would be to speak to us.

**Complete this online form**

Call **0345 410 2222**

Email **[info@crownccommercial.gov.uk](mailto:info@crownccommercial.gov.uk)**

Web **[ccsheretohelp.uk/sars](http://ccsheretohelp.uk/sars)**

We have people, completely independent of the SARS2 suppliers, who can answer your questions and give you tips on how you can get the best out of the framework, for example whether a direct award or further competition would be most effective.

If you've undertaken a spend recovery audit before then our advice remains the same – speak to us. We'd love to know about your previous experiences, whether good or bad, and see how they compare with the services that have been set up on SARS2.

## We're here to help

One of CCS's strategic objectives is to maximise commercial benefits for the taxpayer. It's our ambition to see spend recovery audits becoming commonplace in the public sector. With SARS2 we're confident that we can help organisations recover every pound that's been paid to suppliers incorrectly – and save money by preventing these payments in the first place.

