

5 Reasons Why a Recovery Audit Is More Important Now Than Ever Before

Plus Strategies to Recover Cash and Increase Working Capital

AP Experiencing Operational and Controls Challenges During the Pandemic

COVID-19 has caused one of the most significant socioeconomic disruptions in modern history.

For businesses whose cash and working capital are being strained, recovery audits can provide hard-dollar recoveries through a careful review of AP transactional data and communication with suppliers. Many times, overpayment errors and statement credits can be hidden for years. Now is the time to recover your lost funds and identify which procure-to-pay control problems caused these losses.

Conditions That Lead to Overpayments and Erosion of Negotiated Savings

01

Prepayment for Critical COVID-19 Goods and Services

COVID-19 created a surge in demand for certain products that protected people and helped them transition to remote work. Some vendors, especially those with limited supply or high demand, have had to be paid in advance or on immediate terms, bypassing typical vendor setup and invoice review procedures.

Examples are personal protective equipment, disinfecting and decontamination products or services, COVID-19 signage, and software licenses (to accommodate a remote workforce).

02

Remote Work Impacts AP Control Processes

Whether outright fraud or innocent error, suppliers can be paid twice or paid incorrectly as accounts payable teams are working outside of their regular workplace and established control procedures. In a remote situation, obtaining invoice approvals and timely review can be difficult, while suppliers under stress may be urgently requesting payment.

Additionally, uncertain economic times may create bad actors within your company, supply base or third parties. They may be looking at the disruption to your normal business practices as an opportunity to defraud your company. A recovery audit will identify potential fraudulent payments for further investigation.

03

Increase in Duplicate Payments Due to AP Overriding Controls to Pay Suppliers

In the normal course of business, invoice payment delays may happen because the accounting system flags an invoice as a duplicate. To push the payment through (possibly because the supplier or internal stakeholder is insistent or impatient), accounts payable may override the flag by appending a character or an extra number to the invoice.

Requests to push a payment through have most likely increased with the purchasing of urgent services and products, invoice approval process changes and delays caused by the rapid switch to remote work, and challenges of processing paper checks. Compounding the situation, financially—or operationally—stressed suppliers need the money more than ever. These conditions can increase overrides of duplicate system controls and result in overpayments.

04

Bypassing Supplier Setup Procedures

Accurate and complete setup of a supplier record is the best first step to ensure accurate payments. But in a crisis, products and services have to be procured quickly, sometimes without a vendor setup at all. Missing supplier information (contact, complete address, phone number, Tax ID) can cause payment issues and even fraud down the line.

For example, say you have to purchase personal protection equipment to meet regulations and ensure the safety of your employees or customers. The supplier is likely experiencing high demand and may ask for pre-payment of an order. If it is a new supplier, you may collect only the information required to make a special payment and complete the vendor set-up later. In that case, errors can happen that lead to duplicates, for example, sending the payment to the incorrect address, contact, or bank account, followed by a subsequent invoice and request for payment from the supplier that results in a duplicate.

05

No Time to Review Contract Terms

You may have a supplier already set up to source categories (computer equipment to equip remote workers, protective materials and equipment) and now you need to buy much larger quantities due to COVID-19. But you probably don't have the time to review the line item detail on the invoice against contract terms because your immediate priority is to source and pay. You may be eligible for credits, rebates, volume discounts or more according to your agreement.

In fact, we've heard of suppliers applying COVID-19 hardship fees to their invoices—and these are being approved by the appropriate contacts because they do not want to disrupt their supply chain with delays.

Three Strategies to Recover Working Capital

Those were the problems. Here are three strategies to recover working capital now and as the situation evolves.

01

Accounts Payable Recovery Audit

A review of AP transactional data can identify two key opportunities for recoveries: hidden statement credits and duplicate payments. 75 percent or more of total overpayments recovered in an AP recovery audit are found in the vendor statement review and the root cause of these overpayments originate outside of accounts payable. The key aspect about a statement review is not just finding credits on a statement, but identifying funds owed to you that are not on a statement through data analysis and supplier conversations.

During times of business disruption, an important component of the AP recovery audit is establishing a rolling window of 60 to 90 days to recover statement credits that come into scope. After your internal process for clearing credits is completed, the rolling window is a careful second-pass that ensures credits do not age off statements and become unrecoverable.

The other side of an AP recovery audit is duplicate payments. Our research has indicated that \$2 million per billion in spend slip through normal ERP (accounting system) controls. This research was based on data before COVID-19 so we anticipate duplicate payments to increase because of the market conditions outlined above.

02

Sales and Use Tax/VAT Recovery Audit

There are over 10,000 tax jurisdictions in the US alone and these rates change frequently based on regulatory authorities. For years, the tax nexus was determined by the physical presence of a company, but now it is often determined by economic presence. This change creates many more tax jurisdictions that are able to collect taxes and thus the opportunity for error increased. The easy part about a sales and use tax audit is that it can be part of a standard AP recovery audit and allow you to recover more funds. The recovered funds will be paid by local and state tax authorities so it doesn't necessarily impact your supplier's working capital.

03

Contract Compliance Recovery Audit

A contract compliance recovery audit is slightly different than the other audits because it will focus on the negotiated terms and pricing for goods or services versus the actual payments made for these goods or services. Overpayments occur because the people approving and paying the invoices are operating separately from the people who negotiated the contracts. And your company loses money. Through a thorough review of supplier contracts and AP transactional data, a contract compliance audit can identify recoveries of overbilling, discounts, rebates and other savings supported by your contract with the supplier.

\$3M

Recovered from 6 suppliers for an energy services company.

\$2M

Payment errors identified and recovered for a large bank.

\$3M

Recovered for a technology client who was paying sales and use tax on the same purchases.

\$1.5M

Recovered for a client that paid tax on non-taxable software.

\$2M+

Recovered in annual rebate claims.

\$10M

Recovered for a global pharmaceutical company.

A Different Approach Taken by apexanalytix

Situations like the pandemic and its aftermath call for a recovery audit that ensures respect for all stakeholders, performs at a high level of efficiency and accuracy, and creates value for clients beyond the engagement. Since our founding in 1988, we have focused on the following three areas of best practices.

Respect: Your Time and Your Suppliers. Our auditors are experienced professionals who have dedicated their careers to recovery audit best practices and respectful, fact-based audits and communication. We have performed thousands of audits, extracting data from virtually every accounting system with our SAP Certified transport,

Oracle predefined integration, and apexanalytix's Secure Open Adapter to connect to any other system. Our advanced technology means minimal involvement from your IT team. During the audit, we research and resolve claims independently, communicating and updating to you only when there is an issue we can't resolve ourselves by using your data and our read-only access to your systems. A high-touch, high-tech approach that contributes to a 98 percent claim completion, or "stick rate" for our claims is one reason we have a 9.4 Net Promoter Score.

Performance. Our shared services center utilizes apexanalytix's database with over 32 million scored suppliers to guide us in how to contact suppliers: which language, time zone, supplier contact and communication method. Our proprietary supplier intelligence, created by applying predictive analytics to historical and current client data, assigns each supplier with a claim-likelihood score so our shared services center can prioritize those suppliers with a high claim-likelihood score. Analytics also identify suppliers with a history of suppressing information that can lead to overpayments. Refined over 30 years, apexanalytix's firststrike software identifies duplicate payments better than any ERP system. 70 clients use it to prevent payments before they are paid and one financial services client prevents over \$20 million in duplicate payments annually. [Read the case study.](#)

Future State. Once the audit concludes, we deliver a comprehensive *Management Assessment Report* that includes a deep-dive analysis of audit findings, benchmarking against companies similar in industry and transaction volume, and recommendations for improvement. We can hold a Corrective Action Workshop to bring together a cross-functional team (accounts payable, sourcing/procurement, information technology and supply chain leaders) to prioritize issues and potential resolutions for maximum ROI across your processes. And finally, firststrike software can be deployed to stop every duplicate payment before it is paid.

Act Now

If you have never performed a recovery audit, or if it has been more than a year since you've reviewed your payment processes, there is not a better time. Business will be different for the foreseeable future and you can make a difference to your company now with no investment. To learn more contact apexanalytix at +1 800-284-4522.



About the Author

Phil Beane is Senior Vice President, Global Field Operations for apexanalytix, where he leads our commercial and retail audit teams and our international operations. He was previously responsible for leading our audit and software implementation support teams in the Americas. Prior to joining apexanalytix, Phil worked with GMAC Insurance, Questcon Technologies and BCE Emergis, where he specialized in quality assurance consulting and management. Phil graduated from the University of North Carolina at Greensboro with a degree in information systems.

apexanalytix revolutionized recovery audit with advanced analytics and the introduction of firststrike overpayment prevention software. Today, apexanalytix leads the world in supplier management innovation with apexportal and smartvm, the most popular supplier onboarding and compliant master data management solution available. With over 250 clients in the Fortune 500 and Global 2000, apexanalytix is dedicated to providing companies and their suppliers the ultimate supplier management experience. To learn more visit www.apexanalytix.com, email apexinfo@apexanalytix.com or call +1 800-284-4522.

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