

# Recovery Audit Findings: Financial Services Industry

Common reasons for lost funds and how to recover them

## Industry Security Requirements Lead to Greater Opportunities for Lost Funds

A core aspect of every financial services firm is strict security and compliance requirements due to regulation. So every process—from customer service to back-end accounting—has security built into it and, ironically, some security measures create risk. For instance, one line of business (LOB) might create its own invoice submission method to ensure that their LOB is compliant. But now multiple invoice methods to the AP team create risk of overpayments and hidden credits.

Though ERP payment platforms have come a long way, they don't offer perfect protection. In the case of duplicate payments, for example, they only catch precise matches. If there is an inconsistent data entry, typo or misplaced decimal, the duplicate payment simply won't be caught. The opportunity for errors increase during times of transition, including M&A, new technology rollouts, reorganizations, offshore moves, hiring spurts or layoffs.

With this in mind, apexanalytix reviewed our recovery audits with financial services firms and compiled examples of common errors within this industry. Most are global giants who outperform their peers, but they still fall victim to costly payment errors.

### How Losses Happen

- 1. Same invoice, different number.** When a vendor for a major financial services firm had trouble entering an invoice through the company's online payment platform, they simply entered it again under a new invoice number. Both invoices were paid—each for \$288,103.
- 2. Paid credit memos.** Auditors helped a large global bank and its subsidiary recover more than \$1 million in payment errors that escaped internal controls in a single year. Among the most common: credit memos were routinely paid as if they were invoices.
- 3. Mistaken identity.** Another bank made seven payments to the wrong vendor that totaled \$528,132.
- 4. Coding errors.** Inconsistent invoice coding caused one firm to issue \$188,000 in duplicate payments that weren't caught by its ERP. Another firm found that 92 percent of all duplicate payments that auditors uncovered could be traced to coding errors.

**\$1M+**

*Payment errors recovered for a large bank.*

**\$288K+**

*Duplicate payment made for just one invoice.*

**92%**

*Percentage of duplicate payments at one firm that could be traced to coding errors.*

5. **Manual remittance adjustments.** A firm missed a \$175,000 vendor credit that was manually adjusted on the face of the invoice by the approving manager. It also missed another credit for \$116,097 that was included on an invoice remittance advice.
6. **Multiple related entries in a vendor master.** A payables team made costly duplicate payments by coding invoices to correspond with multiple listings of the same vendor in the vendor master file. The entries were the result of multiple remittance addresses for different divisions of the same company.
7. **Cancelled contracts.** An investment firm failed to claim a credit of nearly \$80,000 for a cancelled services contract.

While none of these losses are “make or break” amounts, consider what happens if they happen repeatedly, week after week, year over year. Millions will be lost.

## How to Recover Lost funds

Recovery audits are an important process to identify payment errors, recover the money and, ultimately, fix the control gaps to prevent future errors. Here are three types of recovery audits that are critical to protecting your company’s bottom line.

### 01

#### Accounts Payable Recovery Audit

A review of AP transactional data can identify two key opportunities for recoveries: hidden statement credits and duplicate payments.

Based on years of experience, experts at apexanalytix have found that on average 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. In addition to the examples above, statement credits can be price discrepancies; cancelled invoice, contract or service; discounts not taken; or prepayment exceeded actual cost.

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. Finding these hidden credits is where an AP recovery audit will make a difference.

#### Questions that need to be asked of suppliers to help identify these hidden credits:

- Are returned checks posted on a statement or a suspense account?
- Do you write off credits that have been in a suspense account or statement for over 18 months?
- Why were there no rebate credits during one quarter, but multiple rebate credits during other quarters?

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 controls. The reason why this happens is because normal ERP controls require an exact match on six fields: company code, vendor, currency, gross invoice amount, reference document number (i.e., invoice number) and invoice date.

If a supplier submitted an invoice via mail on Monday and resubmitted on Tuesday via email to make sure they were covering their bases, there would be a duplicate payment that would not be caught by normal ERP controls.

## \$2M

*\$2 million per billion in spend slip through normal ERP controls.*

## 75%+

*Average percentage of overpayments recovered in an AP recovery audit found in a vendor statement review.*

## 02

### Sales & 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. To complicate this even more, a recent legal case changed how online purchases are taxed by changing the tax nexus—which determines the tax jurisdiction. For years, the tax nexus was determined by the physical presence of a company, but now it is determined by where the business is transacted. In short, there are a lot more tax jurisdictions that are able to collect taxes and this increases the opportunity for error.

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. To include this additional audit, your recovery audit partner will utilize the AP transactional data plus three additional tax data points: tax jurisdiction, vendor paid tax and self-assessed tax.

## 03

### Contract Compliance Recovery Audit

A contract compliance recovery audit is slightly different than the other audits because it will focus on the goods or services pricing that was negotiated and the pricing that was actually paid. Many times the actual negotiated prices are not applied to the invoices because the people who are approving the invoices may not have been the people who negotiated the prices. And your company loses money.

Through a thorough review of supplier contracts and AP transactional data, a contract compliance audit can identify which suppliers are overbilling for goods or services and recover those funds.

### Benefits of a Recovery Audit

Recovery audits should be an important tool in your profit-protection arsenal. Here are four examples of the important benefits recovery audits deliver beyond recovered funds.



**Self-fund strategic projects.** Many companies utilize these recovered losses and invest in technology that will prevent future losses or improve another component of their procure-to-pay operations: supplier management portals, spend analysis or risk management.



**Prevent recurring losses.** Auditors identify underlying issues so you can focus on preventing future losses. You can enhance current processes, controls or training—understanding where to focus first for the best return on investment.



**Expand your audit horizons.** Skilled recovery auditors equipped with the right technology can easily explore new audit areas you may not have examined in the past—from tax compliance in multiple countries, retail merchandise or unclaimed property.



**Eliminate frustrations.** Many times, a recovery audit can identify credits that have been on a supplier's books for a long time and the supplier was actively trying to have these credits applied to their invoices. This could happen because they don't know how to apply a credit through the e-invoicing solution, their main contact changed jobs or their email simply slipped through the cracks. Ultimately, the supplier wants to have their books up-to-date and accurate with no unapplied credits.

## Act Now to Begin Recovering Funds

Protect your bottom line from payment errors and other hidden procure-to-pay risks with a comprehensive recovery audit strategy. Recapture overpayments, identify and resolve process issues, and establish a baseline for continuous improvement.

## To Find Out More

If you want to know more about apexrecovery audit services and how they can benefit your organization and bottom line, contact apexanalytix at +1 800-284-4522.

# firststrike.

## Catch overpayments that slip through normal ERP controls.

Identify and prevent overpayments in real-time with the same software apexanalytix uses to perform recovery audits. With firststrike, you can eliminate overpayments from ever going out the door.

One of the world's largest financial services firms prevented more than \$20 million in duplicate payments in a single year.

[Read our case study to learn more.](#)



## 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](http://www.apexanalytix.com), email [apexinfo@apexanalytix.com](mailto:apexinfo@apexanalytix.com) or call +1 800-284-4522.

**apexanalytix**  
Ultimate supplier management™

### Americas Headquarters

1501 Highwoods Blvd., Suite 200  
Greensboro, NC 27410-2047  
+1 800-284-4522

### EMEA Headquarters

Exchange House, 494 Midsummer Blvd.  
Milton Keynes, MK9 2EA  
United Kingdom

### APAC Headquarters

Suites 2701-3, 27/F, AXA Tower, Landmark East  
100 How Ming St., Kwun Tong, Kowloon  
Hong Kong