

COVID-19: 8 Contract Compliance Recovery Opportunities

How to protect your company and improve working capital



Market Conditions Have Changed

The potential issues related to compliance of your vendor contracts have grown exponentially because of the COVID-19 pandemic and the resulting changes in business, operational and procurement practices. Almost every organization may be due recoveries that will improve their working capital.

In the normal course of business, recoveries are found for a variety of reasons—from unauthorized billings, pricing errors, volume discounts and more—and COVID-19 is exacerbating the potential for these errors. How can you protect your company? Here are eight areas that are opportunities for contract compliance recovery audits and can help your company’s bottom line.

Opportunities for Contract Compliance Recovery Audits

Market Conditions	Categories	Recovery Opportunities
<p>Rapid Procurement from New Suppliers</p> <p>A global demand for personal protection equipment (PPE) created a rapid increase in new suppliers and new category purchases from current suppliers. Additionally, accounting systems are not set up to adjust pricing changes based on contract terms that would apply with a significant increase in purchases.</p>	<p>High-Demand COVID-19 Related Products</p> <ul style="list-style-type: none"> • Acrylic shields • Specialty signage • Disinfecting equipment • Gloves • Face masks 	<ul style="list-style-type: none"> • Incorrect classification, markup or quantity • Marked up freight and tax • Unapplied volume discounts • Tier pricing breaks • Short ship • New item
<p>Quick Shift to a Remote Workforce</p> <p>The sudden requirement for virtual meetings meant an increase in SaaS seats for video conferencing and remote work productivity solutions.</p>	<p>SaaS Seats</p> <ul style="list-style-type: none"> • Video conferencing • Collaboration and project management software 	<ul style="list-style-type: none"> • Refunds of overpayments on seat calculation errors • Tier discounts • Billing overages • Earned rebates or credits

Opportunities for Contract Compliance Recovery Audits (cont.)

Market Conditions	Categories	Recovery Opportunities
<p>Retail and Hospitality Closures</p> <p>Stay-at-home orders essentially closed entire retail and hospitality chains that have substantially reduced the usage of, or are no longer using, store and site-level systems.</p>	<p>Store and Site-Level Systems</p> <ul style="list-style-type: none"> • Point-of-sale systems • Retail management • Purchasing, shipping and customer management • Accounting and operational software (warehouse management, inventory, manufacturing and distribution) 	<ul style="list-style-type: none"> • Recoveries on monthly billings for systems and software not being used • Provisions for rebates or credits for unused seats during closures
<p>Facility Closures</p> <p>Work-from-home policies resulted in empty offices and a reduced need for operational expenses.</p>	<p>Automatically Recurring Charges</p> <ul style="list-style-type: none"> • Facility and common area maintenance charges • Staff benefits (e.g., health club memberships) • Utilities and maintenance 	<ul style="list-style-type: none"> • Recoveries for amounts in excess of actual costs to facility • Credits for cancelled services and closures of supplier facilities
<p>Dramatic Changes in Labor Needs</p> <p>Industries that could not institute remote working environments, such as manufacturing, online sales fulfillment centers and construction, had to comply with social distancing rules which most likely resulted in workforce reductions or site closures.</p>	<p>Contract Labor and Staff Augmentation Contracts</p> <ul style="list-style-type: none"> • Construction contracts • Building maintenance • Landscaping • Temporary staff • Cost-plus agreements 	<ul style="list-style-type: none"> • Recoveries on cost-plus contracts: <ul style="list-style-type: none"> – Direct costs: labor, including workers comp, state unemployment, COLA, materials, supplies, equipment and consultants – Recovery of overhead costs: office rent, insurance, office supply, communication expenses, vehicles, mileage and fuel – Fee or profit components of cost-plus contracts • Credit on cancelled contracts, supplier under-performance or under-delivery

Opportunities for Contract Compliance Recovery Audits (cont.)

Market Conditions	Categories	Recovery Opportunities
<p>Transition to Virtual and Online Operations and Commerce</p> <p>SaaS services heavily rely on distributed server farms that are seeing a huge demand increase that may shift the pricing structure and the required service level agreements.</p>	<p>Hosting Services</p> <ul style="list-style-type: none"> • Web hosting services • Cloud computing providers • Online shopping platforms and solutions 	<ul style="list-style-type: none"> • Pricing agreements: missed discounts, tier pricing breaks, rebates for expanding service • Credits and refunds for noncompliance with service level agreements and warranties
<p>Disruption of Supply Chain</p> <p>The rush to stock up on goods created a disruption in the supply chain and a priority was given to essential items. This created delayed deliveries, incomplete shipments and potential noncompliance with service-level agreements.</p>	<p>Freight and Logistics</p> <ul style="list-style-type: none"> • Local, regional and international mail and expedited services • Operational shipping: trucking, rail and air • International shipping 	<ul style="list-style-type: none"> • Noncompliance with service level agreements • Credits for fuel due to reduction in fuel cost. • Recovery of overbilling due to incomplete, late or damaged shipments
<p>Supplier Performance Issues</p> <p>The supply chain disruption could have impacted key performance indicators (KPI) or service level agreements (SLA) that factor in the pricing of a good or service or service credits.</p>	<p>KPI and SLA Compliance</p> <ul style="list-style-type: none"> • All procurement categories with KPI and SLA clauses in contracts 	<ul style="list-style-type: none"> • Credits or leverage for future negotiations

Why Is Contract Noncompliance So Prevalent?

The circumstances around the COVID-19 pandemic have amplified some of the issues that cause contract noncompliance under normal business conditions. Some of these fundamental causes of noncompliance range from strategic problems like the lack of a central system for contracts, to the tactical, such as an approver not noticing an unauthorized charge or incorrect billing rate.

Typical barriers to compliance include:

- The lack of a centralized contract repository
- Complex contract language that can be easily misinterpreted
- Fragmented manual processes that impede information sharing, including billing process, or time management systems
- Fluctuations in exchange rates
- Incentive programs, volume discounts, and penalty clauses that require careful monitoring
- Business silos within organizations prevent full visibility of terms.

You have spent time and resources to ensure a solid contractual basis for your purchases. This is a good time to complete the business exercise that will give you insight and recover working capital to which you are entitled by agreement.

To Find Out More

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



About the Author

Marlon Azada, Senior Contract Compliance Auditor with apexanalytix, has specialized in cost recovery, contract compliance, process improvement and contract administration for the past 10 years and has held various leadership positions in accounting and auditing over the past 26 years. Marlon has extensive experience assisting clients execute their audit plans related to vendor compliance audits, implementing contract administration and contractor oversight services, and identifying process improvement opportunities using leading practices. He has prepared reports for and has presented results to executive management of both customers and auditees, where he has a proven track record to build, manage and foster a team-oriented collaborative environment. Marlon is a Certified Public Accountant with a Masters and a Bachelors degrees in Accounting from University of Denver.

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.

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