Accounts Payable Recovery Audit

THE TOP 5 WAYS TO PREVENT OVERPAYMENTS

Nobody wants to overpay, but it happens. Eliminating all instances of overpayment is possible, but at what price? Most issues arise from five common sources. Address them and you'll make a powerful and cost-effective impact on your organization's accounts payable practice.

#1 Invoice Numbering Flaws

Problem:

The most frequent cause of duplicate payments occurs when the same invoice is posted with two different invoice numbers. The nature of this type of error has evolved over the years but it's still the top offender. In decades past, handwritten invoices or hand processing of them often led to the issues. Today, automated processes – feeder systems, e-invoicing, and spreadsheet uploads – have eliminated many issues, yet today's automated era brings its own challenges. OCR systems can misread handwriting too. And it's still possible to keystroke in errors such as inconsistent entry of leading zeroes and use of characters such as the dash that are neither numbers nor letters. Finally, it's easy for errors to arise across organizations when invoicing can have multiple points of entry.

Focus on:

Standardizing invoice numbering across all input platforms. Dis-allow entry of problematic characters such as prefixes or leading zeroes for manual and OCR entries. Evaluate every new point of entry to ensure conformance with these standards. Establish standards to address vouchers that don't originate with a true supplier. Always keep duplicate payment checking in mind when creating standards for check requests or other non-trade voucher documents. Entry standards should be unique enough that, if followed consistently, a true duplicate would be flagged for that type of transaction.

Once established, periodically re-evaluate as you identify missed duplicates. A recovery audit also can help identify the kinds of historical duplicates that have been missed and provide insights to define the most appropriate standards for your organization.

#2 Duplicates that Slip Through ERP

Problem:

The issue of multiple systems feeding invoices into AP can be a complex one; unless they are continuously verified against ERP records, duplicates can arise. The result can be the exact same invoice number being paid twice under the same supplier number. One common scenario is during e-invoicing enablement.

An invoice may be posted manually and then uploaded to the e-invoicing platform with the same invoice number and if the ERP is not doing a duplicate check on the e-invoicing feed into the ERP, the duplicate will go undetected.

Focus on:

Performing a duplicate check within the feeder system is the first level of protection. The ERP can provide valuable data for verification. All interfaced AP data, including data interfaced from the e-invoicing platform should be checked against the ERP history. It's important to have an appropriate criterion for duplicate flagging to maximize recoveries while minimizing false positives. An exception queue is the best practice to ensure the entire interface is not rejected.

#3 Fuzzy Payment Parameters

Problem:

Consistent duplicate payment controls can prevent most duplicates. However, setting too broad of criteria can generate overwhelming levels of false positives, resulting in reviewer fatigue which leads to errors. And setting criteria too narrowly can allow too many duplicates to slip through.

Focus on:

Find the right balance. Determine the amount of slippage you're willing to accept. The tighter the controls, the more likely you'll catch a duplicate, but you will also incur higher resource costs. This is where recovery firms become valuable. Controls need to be re-evaluated periodically and whenever there is change that could have an impact.

#4 Rejected Credits

Problem:

Credits represent 60% or more of all recovered dollars in recovery audits. The top category, by volume, in an AR statement review come from returned goods.

Using an e-invoicing platform invites two unique scenarios that can result in credits not being processed by AP: In one scenario, problems arise when credits are rejected inside the e-invoicing platform; in the other, credits cannot enter the e-invoicing platform at all. Rebates and credits that originated outside the platform are typically the cause here.

Focus on:

Create a regularly scheduled report on the e-invoicing platform to identify rejected credits. Ensure there is a mechanism for suppliers on your e-invoicing platform to submit credits that do not pertain to specific orders that originated on the platform. Make it simple and user friendly. If it's not easy, suppliers may simply give up and not record credits.

#5 Infrequent AR Reviews

Problem:

An AR review can be labor intensive. As a result, most companies do not do their own statement review – and so do not capture the duplicates and recover overpayments.

Focus on:

Prioritize what matters most. Rather than attempting to review all, perform a targeted AR statement review on a quarterly or semi-annual basis. Focus on select suppliers – those with the largest spend, credits count and credit spend. Consider the nature and importance of the supplier's industry as well as the method of invoice delivery.

Once you have selected the supplier group, hone the focus of the review itself. Limit your review to credits on the AR (not invoices). Limit the number you choose to suit your resources and budget. For the times that you truly require a full AR statement review, rely on a recovery audit firm to perform a full AR statement review efficiently for you.

Learn More

To learn more about avoiding overpayment, watch our on-demand webinar:
The Top 5 Ways to Prevent Overpayments

Interested in learning more about our recovery audit services? Visit **https://www.prgx.com/contact/** to get started and to See What You've Been Missing™.

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