

E-book:

Why Recovery Audit Remains **Essential** in 2020

PRGX[®]

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Why Recovery Audit Remains Essential in 2020

First, the good news. Working from home is working for many.

The trend of letting teams operate remotely was already underway before the pandemic struck. Now that it's running full-throttle, businesses are adapting.

But here's the bad news. The chaos caused by changing so much so quickly has also raised the risk of invoice errors, missed credits and overpayments – just as companies are trying to maximize cash flow to manage through the disruption.

A lot changed in rapid sequence. In a matter of days, finance teams had to embrace collaboration tools, document sharing platforms, and virtual meeting technologies so they could get things done when offices were shut, and face-to-face interaction wasn't feasible.

The tech environment may have changed from an ergonomic chair at a large desk with multiple screens, to a smartphone and laptop on a kitchen table.

The last six months have been an object lesson in how unforeseen events can impact entire business models. Awareness of hidden and unexpected risks has become painfully acute.

Up-ending operations exposed issues and inefficiencies that businesses hadn't had an opportunity to plan for. The altered reality of a pandemic has been a huge wake-up call.

Why Recovery Audit Remains Essential in 2020

Now that the dust has settled, finance departments around the globe are digging in to make changes and close gaps based on what they have learned. It's happening step-by-step across "Source-to-Pay" with a hard look at their process and controls, from purchase order to goods receipt, invoice receipt and payment.

First identify the risks, then look at what can be streamlined, revised or eliminated.

Transformation projects that were put on hold amid the uncertainties of lockdown have been dusted off.

Recovery audits are back on the table. The priority now is to improve cash flow quickly and increase margin, without loading larger workloads onto staff. The improved cash flow audits provide can be significant, so they are getting more attention and support from upper management and becoming accepted best practice.

Why Recovery Audits Still Matter Post-Covid-19

Even before COVID-19, accounts payable teams faced a growing volume of invoices getting bigger every year, creating significant scope for overpayments caused by unrecognized rebates, duplicate invoices, and other common mistakes.

Many erroneous payments can be explained by simple human error: typos, lack of time, inaccurate calculations of taxes, discounts or rebates. In other cases, they point to a lack of controls that might otherwise catch mistakes when invoices arrive.

Whatever their cause, the cumulative impact of invoicing errors erodes margin and eventually turns into massive losses.

That's where recovery audits come in.

A recovery audit is a post-payment review that looks to get back funds lost due to overpayments and under-deductions. By conducting a comprehensive review of vendor payments, companies can recoup the steady drip of losses from invoice processing and other disbursement errors.

It's common for large companies to recover millions of dollars in lost profit. Audits also uncover unique insights and bring issues in accounts payable and other finance processes to the surface. When those are addressed, sustainable long-term improvements can be put in place – stopping losses before they happen.

Tips For Using Audits Effectively Now

Coming out of a nationwide quarantine, more companies are tracking recovery audit claim output as a metric for measuring process effectiveness and ensuring that their controls are up to the challenge.

As new claims from the period around the start of the coronavirus outbreak begin to accumulate, finance teams can analyze them for recent trends – and potentially uncover gaps in efficiency or opportunities for ‘leakage’ caused by overpayments and un-realized credits.

Recovery Audit Techniques

There are other ways businesses can get more from their audits post-COVID-19:

Expand the scope

Consider extending the recovery audit remit to include a new region or business unit for analysis.

Implement rolling audits

Feed data to your recovery audit provider regularly. Ideally audits will happen 90-days behind transactions.

Add audit escheatment

Review all stale checks to decrease liability and free-up cash.

Take a hard look at transactions completed during the transition

Now is the time to ensure that systemic errors caused by the sudden shift to remote working are not occurring.

This last bit of advice is especially important. The initial work-from-home transition was abrupt. Teams were scrambling to get their home office

and VPNs set up, re-arranging child-care, trying to figure out new processes. Some things will have slipped through the cracks.

Now that businesses are over 90 days out from the initial work-from-home switch, it makes sense to audit the transactions from that period, identifying errors and correcting them.

Common Errors

Now that we've settled into our new work environment, it is time to review errors that may have occurred during the transition. The closing of office environments was disruptive and, in some cases, sudden.

Were notes forgotten on someone's desk? Were credit memos left unentered? Did errors occur simply due to stress and distraction? A recovery audit will help to answer those questions and close gaps that may have been created.

Errors we expect to uncover:

Overpayments or duplicate payments

Specific to COVID-19 such as large PPE purchases and equipment needed to set employees up to work from home. In the rush to procure needed supplies, we suspect duplicate vendors were created, and duplicate purchase orders issued. Taxes paid in error or at the wrong rates is another expected find.

Missed quantity discounts

For purchases like laptops, monitors, keyboards, printers, or anything else needed to quickly set up a home office. The same will be true for cleaning supplies and PPE. Most companies have contracts that contain supplier discounts, but in the scramble to procure goods discounts might have been missed.

Lost credits for returns.

For many of our clients, unprocessed returns are the largest area of recovery in normal times, so it stands to reason there will be an increase.

Where To Start

If your business is new to recovery audits, a vendor statement audit is a great place to start.

By efficiently soliciting statements of account from your vendors, an experienced recovery auditor can identify open credits, find out why they occurred, and increase cash flow.

Credits can arise from duplicate payments, improper vendor payments, or overpayments due to pricing errors, tax or shipping paid incorrectly or in error, as well as unprocessed or incorrectly processed returns.

In the current environment, all these issues likely have spiked.

Don't Wait

Auditing close to the transaction is a vital success factor in recovery audit, as your ability to identify payment errors and credits owed – then successfully claim them back – diminishes over time.

In the case of credits owed, the sooner you can find them, the more likely you are to realize the value by either applying the credit to an open invoice or getting a check back from the supplier.

When credits age, they tend to get blended back into a vendor's balance sheet, written off or applied to invalid invoices. For every year your credits age, the likelihood of realizing the economic value drops off dramatically.

The most successful audits happen when new feeds of data are sent to the recovery audit firm on a regular basis. This enables the audit firm to catch errors early and increases the likelihood of recovering the money due.

2020 has seen a level of change and uncertainty at a sustained level that most of us have never experienced. It is unrealistic to believe processing and payment errors, representing millions of dollars, have not occurred as a result. To stay efficient in uncertain times, it is essential to address this as quickly as possible.

Making Time When There Is None

For over a decade, employees have been working at full capacity. During the 2008 recession, businesses shifted quickly from trying to maintain headcount to extensive layoffs as a matter of survival. That left many people doing the work one and a half or two people would have handled before. Recovery was slow and gradual, meaning what may have been intended as a temporary measure simply became normal. In most cases, the old positions did not come back, and finance and procurement teams have been trying to keep their heads above water ever since.

When the first wave of the pandemic hit, there was no excess bandwidth. Ironically, the recovery audit some think they do not have time for will save companies many more hours on the back end than it will require to implement. Recovery audits help detect and close processing gaps, suggest more efficient S2P processes, and identify applicable best practices.

The good news is PRGX's audit methodology is perfectly suited to help companies with limited bandwidth. Years ago, PRGX made fundamental shifts in the way we performed audits.

We knew the best way to effectively partner with our clients was to ask for as little of their time as possible. Our technology and methodology improvements allow us to perform recovery audits efficiently and effectively for our clients, which helps tremendously in the current work environment.

Making Time When There Is None

What did we do to improve the customer experience?

- We built shared services audit centers so our auditors can work off-site. The infrastructure for these centers made the work-from-home switch seamless.
- We created secure method to obtain remote, read-only access to our clients' ERP system and documents which allows us to validate and document recoveries from anywhere.
- We hired well-trained auditors that were long-tenured in the industry which means we hit the ground running when we begin an engagement.
- We developed industry-leading technology that expedites:

▶ processing client data

▶ reviewing accounts payable data

▶ soliciting vendor statements

▶ reporting of results
and insights to our clients

For over 50 years, we have proven our work materially improves the bottom line of our clients. We have made great strides to ensure that with only a little effort, our clients can start realizing the monetary value within a month of our audit. There is every reason to begin a recovery audit this quarter.

Conclusion

At PRGX, we often speak of our ability to reach wider, dig deeper and act faster. Post COVID-19, we are as committed as ever.

All of us are making daily decisions in our personal and professional lives about what is essential. Recovery audit must make that list. Almost every Fortune 500 company relies on recovery audits as standard practice.

For businesses that have yet to embrace them, time is of the essence.

Recovery audits must remain a priority. Do not cancel. Do not delay. Integrate them into your monthly or quarterly financial processes and let us help you maximize the value of your recovery audit.

About PRGX

PRGX helps companies spot value in their source-to-pay processes that other sophisticated solutions didn't get to before. Having identified more than 300 common points of leakage, we help companies reach wider, dig deeper, and act faster to get more value out of their source-to-pay data.

We pioneered this industry 50 years ago, and today we help clients in more than 30 countries take back \$1.2 billion in annual cash flow.

It's why 75% of top global retailers and a third of the largest companies in the Fortune 500 rely on us.

For additional information on PRGX, please visit www.prgx.com.
