



higher amounts of corruption, the report says.

Among 10 industrial sectors, mining companies cited the highest incidence of corrupt practices: 47% of respondents say these practices are prevalent in this sector. Oil, gas and electricity companies reported the lowest prevalence of corrupt practices, although 30% of respondents in this sector had encountered an incident of corruption.

*For details about Canada's anti-corruption legislation, see [www.justice.gc.ca/eng/dept-min/pub/cfpoa-lcape/index.html](http://www.justice.gc.ca/eng/dept-min/pub/cfpoa-lcape/index.html).*

### What to look for in continuous monitoring software

**B**y continuously reviewing invoices, disbursements and changes to your vendor master file, your accounts-payable monitoring software can uncover duplicate payments, errors and fraud before cash goes out the door. Look for a software solution that:

- communicates seamlessly with any ERP platform or home-grown legacy system;
- provides a single, consolidated view of your operations;
- reviews all your data routinely, not just a sample;
- analyzes a wide range of vendor and invoice attributes right out of the box, without costly software development;
- monitors employee data against vendor and payment information to spot internal collusion;
- provides actionable results, with reports that rank potential risks and give you the information you need to intervene.

## EYE ON PAYMENTS

With proper management, a company's accounts payable organization can add value.

by Jim Arnold & Andy Crago

**A**CCOUNTS-PAYABLE TEAMS are often the unsung heroes of an organization, despite the fact that they often manage a company's largest annual cash outlay. But there's a reason why they don't get the visibility they might deserve. Most simply aren't strategic contributors. Instead they are production-oriented, focused solely on how to pay the most invoices for the least cost.

So how does an accounts-payable organization leverage its bread-and-butter process – making payments to suppliers – to move up the value chain? It's an evolutionary process with three distinct phases.

**Stage 1: Recovery:** Most large accounts-payable teams conduct some form of audit to recover dollars that are erroneously paid to vendors. Errors can result from duplicate payments (sometimes made out of two different systems), incorrect sales tax payments, cash discounts to which the company is entitled but hasn't taken, and a variety of manual keying or system errors.

Unfortunately, most companies are firmly entrenched in Stage 1 of their audit recovery process. They focus on recovery, relying on auditors, often on an outsourced basis. The audits often occur long after the money has been disbursed. They typically involve the manual review of boxes of invoices and statements (or in the best case, electronic files or .pdfs) and are far from thorough. Because manual-recovery audits use a contingency-fee pricing model, auditors often focus primarily on the highest-value disbursements which return higher fees for the effort than lower-value transactions.

There is no doubt your company's profitability will take a significant hit if you focus only on recovery. In the first one to two years after an accounts payable mistake is made, a business recovers only 65% of the dollars lost. The percentage continues to drop as time goes by.

**Stage 2: Prevention:** Increasingly companies are adopting a prevention

model as an alternative to audit recovery. A staff member within the organization monitors the disbursement process using a series of software algorithms to review transactions for potential overpayment errors. When you evolve and adopt a focus on prevention, you correct mistakes before dollars go out the door. The key at this stage is to identify and shore up process weaknesses and to find automated tools to help you get the job done.

Most accounts-payable organizations still rely on manual monitoring, but the most progressive and prevention-focused are automated. Automation provides a continuous and cost-effective way to detect duplicate payments, sales-tax errors, missed discounts, fraudulent vendors and other costly errors.

If your company has moved to an enterprise resource planning (ERP) platform, you may think that's enough. But ERP systems simply aren't configured to provide the level of monitoring that accounts-payable organizations need. For example, if a company code,

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vendor, invoice number, date or amount is entered inconsistently or in error, an ERP system won't identify duplicate payments. ERP platforms also aren't configured to find fraudulent vendors and employee collusion, which can be costly problems if left undetected. Software designed specifically for accounts payable incorporates the sophisticated analysis algorithms needed to catch problems before payments are made, affecting profits and available working capital.

**Stage 3: Continuous Improvement:** Highly regarded accounts-payable organizations focus on continuous improvement through the adoption of best practices. Not only can they process transactions at the lowest possible cost, but they can also add value to their business. They've automated their operations and have ready access to information that can help them do more. Here are three strategic areas where the best of the best excel:

- **Cash management:** The objective is to hold cash as long as possible, while still complying with contracts and paying vendors on time.

It can be difficult to analyze and improve cash flow when you look at data only on a consolidated basis. Cash-flow patterns can change throughout the year, and there can be a wide variation in the way payments are made to individual vendors. Instead, look at individual high-volume vendors to analyze your payment interval for each.

One large corporation spending about \$250 million a year on healthcare discovered it was paying vendors in less than 10 days, though there were no payment terms requiring it to do so. When it started to make payments according to the terms, the company held onto its cash for another 30 days while still meeting vendor expectations.

Cash discounts negotiated for early payment also hold great potential for improving your company's bottom line. Of 50 large global companies, for example, the firm with the highest ranking captured \$5.9 million in cash discounts for each billion in annual spending.

- **Pricing compliance:** If a supplier bills incorrectly, how will you catch it? Do you also have procedures to monitor for errors made internally?

Mistakes happen to the best of us. One company routinely purchases a commodity priced at .75 per cubic foot.

But a buyer recently missed a decimal point when entering the contract terms and typed 75 instead. The accounts payable team then issued a \$115,000 check, 100 times the amount due.

Similar overpayments can happen when a unit of measure is entered incorrectly or when there is a lag in entering new prices in your pricing catalogue.

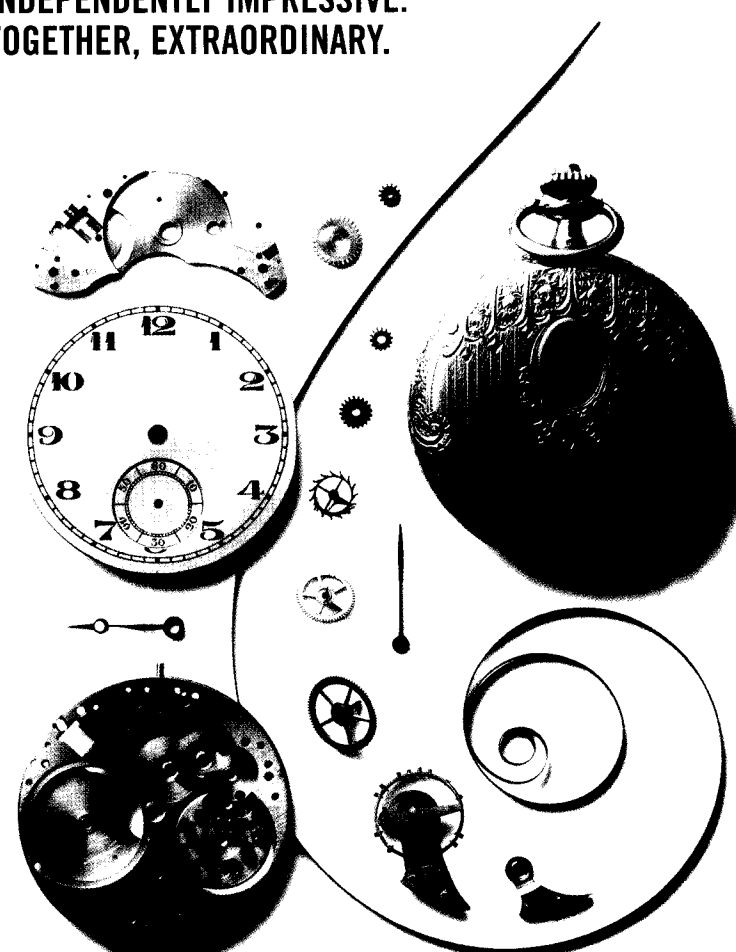
- **Strategic sourcing:** A typical corpo-

ration buys 300 to 500 unique commodities and has multiple sources of supply for each. While it can be risky to limit your operations to a single vendor, it also can substantially increase your costs to procure goods or services without the leverage of a spend-management strategy.

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## FRAUD IN THE SUPPLY CHAIN

A report highlights the growing danger of supply chain fraud to businesses worldwide.

by Gordon Alexander

nization and each local office negotiates for cleaning services, trash pickup and security guards. You're probably not getting the low rates available if you'd negotiated a global or country-wide contract. An accounts-payable team can become a true value-added partner by providing a vendor-based spending analysis to your purchasing department, providing them with the information needed to drive strategic sourcing decisions.

If you want to encourage your organization to move beyond recovery and prevention to improve continuously and become more strategic, the key is to have the right mix of people, processes and tools.

**People:** Take a long, candid look at your staff. Evaluate how their skills stack up against those required to take you to the next level. Make the skills you're missing the focus of your hiring efforts.

**Processes:** Develop a roadmap for moving from cumbersome and error-prone manual processes to new, automated systems. Strive for process efficiencies and concentrate on benchmarking and continuous improvement.

**Tools:** Select world-class tools to support your people and processes, from the latest in workflow technology to continuous monitoring software. You'll move beyond the limits of your legacy systems and will be able to establish a world-class delivery platform.

If you want to evolve your accounts payable operations successfully – your people, processes and tools – remember to begin with the end in mind. Select your targets, put metrics in place to measure success and implement a strategy to get you there. Then all you need is the focus and passion to make it happen.

*Jim Arnold is president of APEX Analytix. Andy Crago is former director of accounts payable for The Walt Disney Company and now works as an independent consultant.*

**L**ARGE COMPANIES have increasingly become extended enterprises as they have globalized, outsourced, re-engineered their business processes, brought business partners and vendors closer and specialized their functions.

This makes them more complex and leaves them vulnerable to an array of frauds ranging from simple theft to the misrepresentation of inventory to fool investors to counterfeiting, grey market diversion and piracy.

"Fraud thrives on complexity, and companies are facing fraud from the very beginning, on every single factor: raw materials, production, and delivery," says Richard Abbey, a managing director at Kroll, the risk consulting company. "Today's supply chains are a multifaceted, complex web of relationships and processes that often spans a number of continents as companies become larger and more global in scope."

One sector that has suffered significant problems, with potentially dire consequences, is the pharmaceutical industry. Its increasingly complex patterns of production, distribution and sales make it vulnerable. According to the U.S. Food and Drug Administration, the volume of fraudulent drugs in the supply chain increased fivefold between 2001 and 2007, with fraudulent e-pharmacies raking in as much as \$6 billion a year.

The World Health Organization estimates that roughly 10% of drugs on the market worldwide are counterfeit. In developing countries, as many as 25% may be counterfeit.

While companies work to secure their supply chains, thieves are working just as hard to exploit the vulnerabilities. Cargo theft, for instance, is estimated to be a US\$12-billion problem in the U.S. alone, according to the International Cargo Security Council. Unfortunately, the thieves preying on companies aren't always on the outside. Internal theft throughout the supply chain is a major risk as well.

Through its experience investigating internal fraud issues in the supply chain, particularly in logistics and transportation, Kroll has identified the following red flags:

- **abnormal selection of vendors:** When a single individual selects service providers, related, controllable or illicit players can be chosen.
- **payments outside the normal accounts system:** Be warned if payments are hand-delivered, approved manually or not accompanied by proof of delivery;
- **unusual payment patterns:** Watch for an increase in payments to one vendor, a high number of transactions under audit thresholds or multiple invoices on the same day;
- **rates out of line with company's standing in market:** A carrier that distributes part of its revenues in kickbacks or illicit payments may charge more;
- **unexplained lifestyle improvement:** Luxury cars, trips or vacations with suppliers, and purchases of real estate may all point to a problem;
- **complaints or tips:** Corrupt staff members try to get rid of non-conformers, exclude them from the in crowd and marginalize complaints from co-workers.

"When red flags have surfaced, we've found fraud in some cases and incompetence in others," says another Kroll managing director, Mark Sullivan. "In every case, clients were paying millions (5% to 25%) more than they should have for services rendered."

*To obtain a copy of the Global Fraud Report (April 2008), contact [fraud@kroll.com](mailto:fraud@kroll.com).*