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## The Dreaded Duplicate Payment

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By Jim Arnold

**D**uplicate payments are the most dreaded of overpayment errors within the AP department. After all, the AP department is the financial steward charged with ensuring they don't occur. And, of course, senior management puts the culpability for these errors on the shoulders of the person who signed the invoice, without consideration for the complexity created by thousands of invoices.

### Why Do They Occur?

Almost every payables platform, whether ERP, vendor-purchased, or legacy, has a built-in control to track, flag, and eradicate duplicate payments. But none of these off-the-shelf packages are robust enough to prevent more than 70 to 80 percent of duplicate payments on their own. Human error causes problems that cannot be addressed by these packages.

Typically an invoice entry includes:

- ◆ Vendor number;
- ◆ Invoice number;
- ◆ Invoice date; and
- ◆ Invoice amount.

If any of these fields are entered inconsistently, the system's inherent check for duplicate payment will not be effective. Add to this the simple fact that check requests may not have a defined or matching invoice number and it's easy to see how overpayments can slip through the cracks.

Depending on the platform, the duplicate prevention controls may not cross-reference between departments, thereby missing duplicate entries across organizational boundaries. Finally, having multiple payment systems in place (i.e. ERP, legacy, foreign disbursements, wires, procurement card and outsourced freight) vir-



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tually assures that cross-platform duplicate payments will not be flagged. Unless your company maintains a global, consolidated invoice database, it is impossible to check across all platforms.

### **What Do Duplicates Cost Industry?**

The estimates vary widely within the industry as to the incidence of duplicate payments. Statistics from several experts peg the rate as one-tenth of one percent of spend. This may seem trivial at first glance, but represents \$1 million in lost profits to a company spending \$1 billion annually, a number that comes right off the pre-tax bottom line.

The situation varies widely depending on a variety of factors including:

- ◆ An organization's proportion of services spent
- ◆ Invoices under purchase orders,
- ◆ The number of payment systems in place,
- ◆ The diligence of the authorized signers, Internal edit reports,

- ◆ The likelihood of vendors returning duplicate payments; and

- ◆ Many other factors.

If a company has had a comprehensive recovery audit performed, it may already have a sense of what these errors are costing in lost profits. APEX Analytix's experience indicates a range of \$0.25 to \$3.00 in duplicate payments per invoice processed for most of its customers. For a company processing 100,000 invoices annually, this represents \$25,000-\$300,000 in unnecessary expense. Regardless of which statistics are used, duplicate payments are a significant source of corporate leakage, not to mention a source of embarrassment when discovered by senior management.

### **Why Audits Alone Aren't the Answer**

Most companies choose a reactionary solution to the duplicate payment problem. That is to say that after the fact, they call in a recovery audit firm to find overpayments and help them recover

those funds. For doing this, the recovery firms receive a percentage of the funds recovered, so the companies never truly recover all that they have lost. When you consider that these audits are performed on a regular basis, it's obvious that most companies are caught in a cycle of overpayment and partial recovery resulting in a long-term hemorrhaging of profits.

The obvious solution is to find a way to ensure that duplicate payments are never made. Although certainly not simple, there are tremendous merits to this approach. The resources expended in preventing duplicate payments pales in comparison to the cost, embarrassment, and workload of reclaiming overpayments that have been issued to vendors. If you have a leaky pipe in your

kitchen, do you fix it or just keep replacing the bucket catching the drips? Makes you wonder why more companies aren't capturing duplicate payments prior to check release, doesn't it?

### **Real-Time Prevention with Technology**

Companies on the Fortune 500 are moving from the reactive strategy of AP recovery audits to the strategic use of powerful real-time prevention tools supported by powerful inquiries and reports that support AP best practices. After installing a technology-based tool, one company reported prevented overpayments of \$25,000 per week. Collection difficulties became a non-issue because overpayments were addressed before the checks were released to vendors.

A 2004 report from the Aberdeen Group stated that a key lever for driving compliance and associated expenditure and cash-flow savings is to improve controls and automate processes within the order-to-pay process. This reinforces the fact that technology can play a major role in preventing duplicate payments in real time and saving companies real money—thousands, if not millions in lost profits. **AP N&T**

### **About Jim Arnold and Apex Analytix**

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Since 1988, APEX Analytix has delivered accounts payable recovery audits, advised clients on best practices, and boosted company performance through the implementation of error prevention, real-time audit, and procure-to-pay software, FirstStrike™. He can be reached via

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