

WHEN IT COMES TO VENDOR PAYMENT ERRORS,  
THE BEST DEFENSE IS A GOOD OFFENSE.

INTRODUCING

**firststrike**

REAL-TIME AUDIT  
SOFTWARE.

**Finding Lost Profits in Accounts Payable:  
Duplicate Payments**  
One in a Series of White Papers  
On A/P Error Prevention  
And Real-Time Audit

By Jim Arnold  
President and Chief Technology Officer

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## Finding Lost Profits in Accounts Payable

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The only strategic solution to the recurring loss of hundreds of millions of dollars in overpayments is for companies to leverage technology, just as they have for every other inefficient, purely manual aspect of their operations.

The answer is not better technology in the hands of third-party auditors, nor is it simplistic programs to capture just a portion of errors.

Not only is it *possible* to take all the tools and techniques of the most capable recovery auditor and transfer them into software, it's *proven* in implementations that have already saved companies 500 million dollars in errors.

Jim Arnold, CTO and Innovator of A/P Error Prevention Software

## Overview

The International Accounts Payable Professionals and The Institute of Management & Administration estimate that the average company's duplicate payments reach one-tenth of one percent of its spending. While this may sound negligible at first, a company that spends \$1 billion annually is paying out \$1 million in duplicate payments. APEX Analytix has found a range of \$0.25 to \$3.00 in duplicate payments per each invoice processed, resulting in unnecessary expenses of \$25,000 to \$300,000 for a company that processes 100,000 invoices annually.

The issue of overpayment and duplicate payments rests squarely with the accounts payable department. Many companies go to the expense (both in time and dollars) of auditing their records to discover and recover these lost costs on a regular basis, but are never able to move beyond this process. In this white paper, APEX explains the causes and costs of overpayment, as well as how to eliminate this problem moving forward.

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## The Dreaded Duplicate Payment

Duplicate payments are one of several types of overpayment errors that occur within the accounts payable department. Although the frequency and magnitude is typically far less significant than pricing or compliance errors, this type of overpayment is the most dreaded by accounts payable management. The accounts payable department is the financial steward charged with ensuring that this *will not* happen, and senior management puts the culpability of 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 [Enterprise Resource Planning], vendor-purchased or legacy, has a built-in control to track, flag and eradicate duplicate payments. But none of these off-the-shelf packages is robust enough to prevent more than 70 to 80 percent of duplicate payments on their own because of the possibility of human error. 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 check requests that may not have a defined or matching invoice number and it's easy to see how overpayments can slip through the cracks. Depending upon the platform, the duplicate prevention controls may not cross-reference between departments, 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) virtually 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.*

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## What does it Cost?

The estimates vary widely within the industry as to the incidence of duplicate payments. Statistics from the International Accounts Payable Professionals and the Institute of Management & Administration peg the rate as one-tenth of one percent of spending. This may seem trivial at first glance, but represents \$1 million in lost profits to a company spending \$1 billion annually. The situation may vary widely depending upon a company's proportion of services spent and 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' 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. 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. Consider that these audits are performed on a regular basis and it's obvious that most companies are caught in a cycle of overpayment and partial recovery that results in a hemorrhaging of profits in the long term.

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? So why are more companies not capturing duplicate payments prior to check release?

**It's obvious that most companies are caught in a cycle of overpayment and partial recovery that results in a hemorrhaging of profits in the long term.**

## Build Your Own?

Few companies can commit the necessary resources, expertise and time to create software to comprehensively prevent duplicate payments. One of APEX Analytix' clients attempted to solve this problem with its own resources. The customer's IT staff was charged with developing its own duplicate payment edits over a five-month time period. While the system worked to a certain degree, APEX Analytix subsequent audit uncovered an *incremental* \$3 million that was missed by the algorithms written internally.

Companies attempt to create their own control systems because of the ongoing cost of outside audits. Recovery audit firms do not share their software with their clients because that would mean their clients wouldn't need them anymore. In effect, the recovery audit firms would be shrinking their supply of future revenue.

## A Case Study: Eliminating Duplicate Payments

Following a very successful recovery audit (including nearly \$200,000 in recoveries from a fraudulent vendor), a Director of Accounts Payable requested that APEX Analytix install its audit software, FirstStrike™ to prevent overpayments. To continue its commitment to superior customer service, APEX deployed the application to meet the client's needs. As opposed to off-the-shelf overpayment detection, FirstStrike™ is configured to fit the needs of each company—to integrate with its current systems and to include the processes of each department.

It offers a web-based interface for the original APEX software so a company's staff can access accounts payable and procurement information from any PC in the world through a standard Web browser. Because nothing is installed on the client PCs, APEX takes care of upgrades and new deployments for the company. In addition, the APEX team trains a customer's staff to perform its own internal review and to use the software to its fullest potential to detect and prevent errors. After the installation, the client documented \$5,000 to \$25,000 per week of prevented overpayments, many of them at dollar thresholds below what is practical in a traditional recovery audit. Collection difficulties became a non-issue because overpayments were addressed before the checks were releases to vendors. FirstStrike™ became a tremendous training resource because processors could be mentored at the time of the error as opposed to months or years later. FirstStrike™ has become a critical component of the company's internal control processes.

Apex continues to audit this client, which has now achieved a Six Sigma level of duplicate payment prevention (Six Sigma represents an error ratio of 3.4 defects per million transactions).

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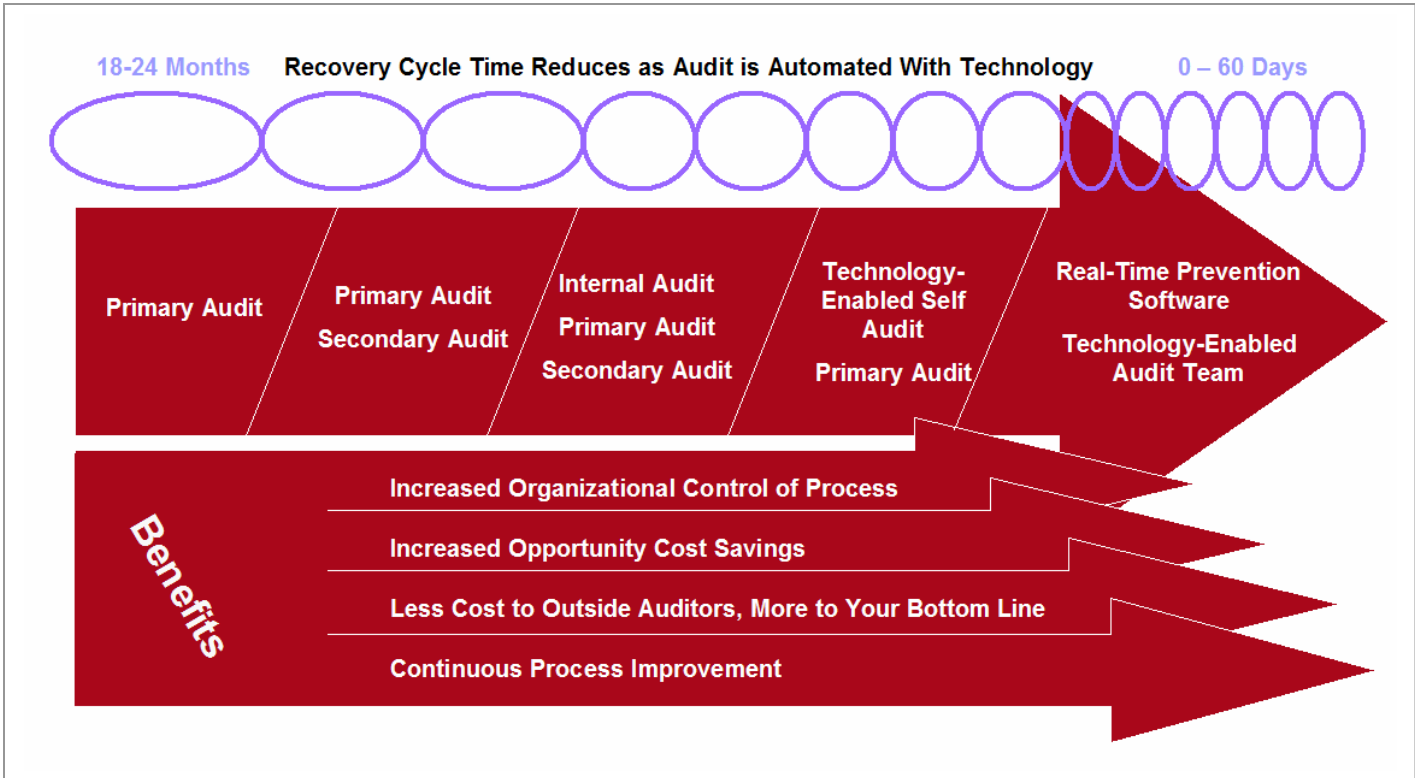
# Beyond Duplicate Payment Prevention

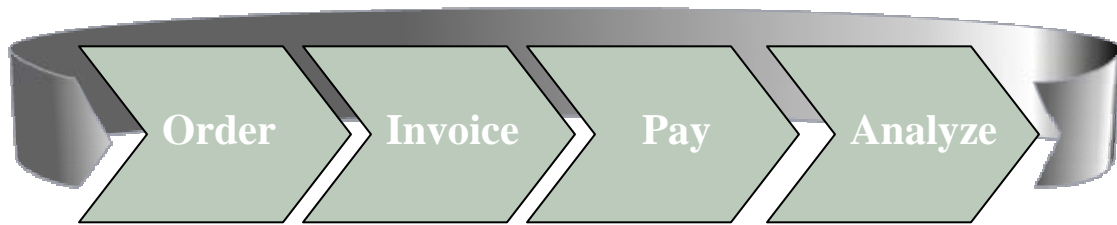
Over the past several years, APEX Analytix has implemented its FirstStrike™ software for many of its largest clients. On follow-up audits, APEX is seeing a success rate of prevention from 95 to 99 percent.

APEX has saved its customers more than \$500 million in overpayments to date. Justifying the initial cost of the solution is supported by duplicate payment prevention; however, the incremental dollar savings generated by other accounts payable efficiencies in many cases dwarfs that of duplicate payments. FirstStrike™ is a software solution designed to promote best practices throughout the Procurement-To-Payment cycle. Individual modules support best practices in Accounts Payable Controls, Accounts Payable Metrics, Vendor Management, Strategic Sourcing and Contract Compliance. The concept of "real-time audit," in our FirstStrike™ Retail software solution naturally extends to cash discounts, pricing errors, sales tax and more.

30 companies on the Fortune 500 have already benefited from the FirstStrike™ solution because of its significant return-on-investment.

**Companies on the Fortune 500 are moving from the reactive strategy of Accounts Payable Recovery audits to the strategic use of powerful real-time prevention tools supported by powerful inquiries and reports that support A/P best practices.**





## Unique Capabilities and Advantages

APEX Analytix FirstStrike™ was the first software to focus on automating the recovery audit process released to the general market. As a result, FirstStrike offers several concrete advantages over technology that seems similar. Specifically:

1. APEX Analytix has the largest market share of packaged recovery audit software, and more referenceable prevention software customers than any company in the industry.
2. FirstStrike™ software is proven and mature, and has been in place 6+ years in client installations.
3. FirstStrike™ is the most comprehensive software on the market, far beyond duplicate payments that most applications are limited to: includes sales tax errors, missed cash discounts, pricing errors, escheatment and paid credit memos. In addition to prevention, the software provides A/P metrics, cash management, vendor analysis, spend analysis, diversity tracking, contract compliance and a breadth of inquiry reports.
4. FirstStrike™ offers more reports than any other packaged A/P error prevention software: produces 85 reports based on A/P best practices.
5. FirstStrike™ works across as many as ten data sources in actual implementations, including legacy systems, ERP systems, purchasing card data and outsourced freight data; offers highly configurable parameters within each error type, up to 50 parameters in a single error type (duplicate payments), and seven unique algorithms refined based on six years of use by customers.
6. FirstStrike™ has been proven in live implementations to capture 98+% of errors automatically.

**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.**

**- Aberdeen Group, 2004**

## Comparison Checklist

The checklist below is provided so you can compare the functions and features of FirstStrike™ with other offerings.

- Is the application designed for accounting personnel who do not have an audit background?
- Does the vendor provide free upgrades to its applications?
- Is data loaded via scheduled feeds on a daily basis from a variety of systems including ERP and legacy applications?
- Is the database scalable to handle years of transactions for true seasonal merchandise analysis?
- Does the application include standard algorithms based on years of audit expertise, which are easily tailored by changing parameters?
- Does the software provide analysis across multiple data sources from different systems?
- Can multiple users access information in the software simultaneously?
- Does the software allow for the creation and tracking of vendor claims and allow vendors to view and respond to claims online?
- Does the software allow your internal audit to extract deal information from buyer emails?
- Is the application web-based or is a separate installation required on each user's pc?
- Does the application provide metrics and reporting for managers and buyers in a dashboard format?
- Does the vendor provide onsite trainers who are available anytime for additional questions?
- Does the vendor provide a helpdesk for resolving questions quickly?