PRGX®

WhitePaper:

How Artificial Intelligence And Machine Learning Are **Transforming** Recovery Audit

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Recovery audits are designed to get back the cash lost to suppliers through overpayments, errors, erroneous payments and non-compliant spend. As good as they are at identifying and recovering spending leakage, it's still worth asking: wouldn't it be better if the money never left at all?

Finance teams have always had to strike a balance between finding spend leakage, protecting supplier relationships, and maintaining efficient processes. With thousands of invoices every month, accounts payable (AP) staff at a large company can't be expected to review everything.

That's why over the past 50 years, recovery audits have become best practice for any organization keen to protect margin. What's changed, however, is the way audits are conducted, the speed at which audit information can be turned into useable data, and the analytical insights that can be gained to support financial objectives.

This white paper will provide an overview of how data and technology are transforming recovery audits and the impact that's having on the wider source-to-pay (S2P) process.

Artificial intelligence (AI), machine learning, and data analytics are improving the speed, thoroughness and effectiveness of audits. Let's look at how these technologies are shifting recovery audits from retrospective to preventative.

Addressing S2P In A Digital World

A recovery audit is a post-payment review that looks to recoup funds lost due to overpayments and under-deductions. By conducting a comprehensive review of vendor payments, companies aim to stem the steady drip of losses from invoice processing and other disbursement errors. It is not unheard of for a large company to recover millions of dollars in lost profit.

Advances in technology are enabling businesses to take it a step further – to use what they learn and uncover issues in accounts payable and other finance processes that let overpayments slip through. When those are addressed, sustainable long-term controls can be added that stop losses before they happen.

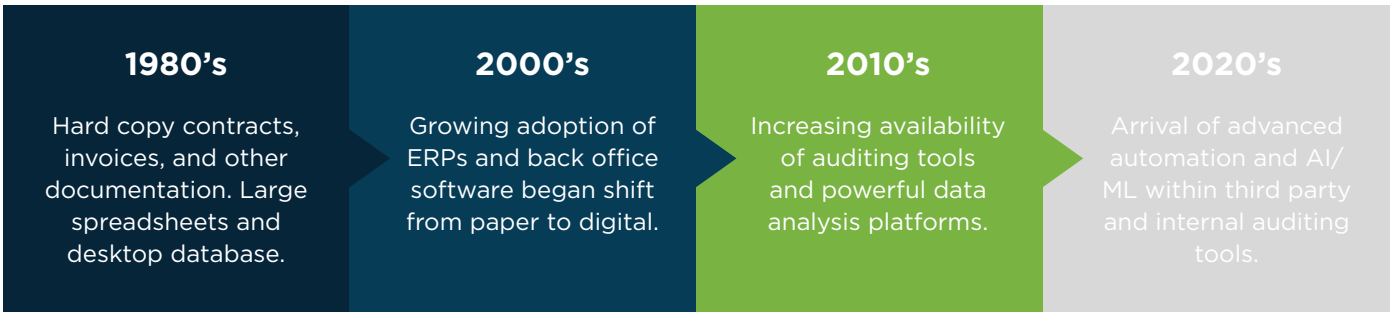
If businesses are in a regular cycle of recovery audits, they might not see the point of re-thinking their approach. What they'd be missing, however, is the time and money that could be saved by switching from a retrospective to proactive mindset.

In the past, recovery audits needed a lot of face time from accounts payable personnel, who had to be available for questions and ad hoc troubleshooting.

Completing an audit could take up to six months, with regular liaison between the vendor and the accounts payable team needed throughout the process.

Data-driven audits, and the application of advanced technologies like big data, are helping make that requirement a thing of the past.

The evolution of recovery audit is marked by the exponential increase in structured and unstructured data.



Making Recovery Audits More Valuable

Finance teams are getting better at streamlining accounts payable processes and ensuring that backwards-looking analysis isn't limiting their ability to protect margin. It's now possible to find the conditions that let errors and non-compliant spend slip through quickly, and establish new controls to address them – stopping erroneous payments before they happen.

Securing those data benefits increasingly means turning to artificial intelligence and machine learning.

Adding these tools to recovery audits can enrich the process by identifying exceptions and validating them using all the internal and external data sources that offer information about merchants, prices, environmental data, and regulations.

To really be effective, however, AI-powered solutions must draw from learnings and information acquired over decades of recovery analysis and real-world engagement. That historical information will add important context to data held on contracts and payments systems, enabling better risk assessment.

What Data Can Help Companies Uncover

Data-driven recovery audits start by considering all the S2P data sources a company has access to, and how data will be extracted from them. Once the relevant data is collected and consolidated, it can be analyzed to uncover:

- ✓ Funding shortages for specific promotions
- ✓ Incorrect application of payment terms
- ✓ Incorrect pricing
- ✓ Missing rebates and discounts
- ✓ Duplicate payments
- ✓ And more

With AI in the mix, recovery audit analysis tools can rapidly apply logic that would have lived in the heads of senior auditors or been hidden in spreadsheet macros. Now, those decades of experience and expertise can be translated into algorithms that apply it on-demand.

Benefits Of Better Data Utilization

+ Enabling a broader view

Critical information that can help identify overpayments exists in vendor databases and payments systems, but it can also be found in other business systems.

By considering relevant data from across the enterprise like email, collaboration platforms, and CRM, transaction data can be enriched by unexpected information about vendors, prices, and contract terms.

Perhaps there are emails or messages in a Slack channel where additional terms or clarifications were agreed between the supplier and procurement. Being able to capture and analyze all this information enables refined assessment of potential overpayments.

+ Manage unstructured data

Unstructured file types like email attachments, images, and PDFs can hide (or make it time-consuming to access) loads of essential information. Physically opening contracts, invoices, images and receipts to verify each transaction isn't scalable.

A recovery audit solution that applies machine learning can understand and extract key data points like dates, amounts, terms, and spend categories from unstructured documents, regardless of format and irrespective of language and country.

Payment terms and pricing schedules can be captured without having to manually read a 60-page document and re-type details into another system. Having an AI-driven engine to capture, order, and contextualize unstructured data saves time and provides an even deeper well of data for analysis.

Benefits Of Better Data Utilization

+ Address leakage where it lives

To head off erroneous, fraudulent, or non-compliant payments, companies need a way to assess risk from all the information gathered during the recovery audit process.

An effective solution uses a methodology to measure risk based on intelligence gathered from previous audit experience, which can adapt and learn from new inputs.

This enables faster assessment of exceptions to work out if they constitute an overpayment or not and work backwards to understand the source of the exception – e.g. the process weakness that allowed an erroneous payment to occur.

+ Make claims management simpler

The ability to find, assess, and provide backup for claims can also facilitate payment back from the supplier.

Being able to send a claim online for review and approval leads to faster issue resolution and minimizes the possibility of 'vendor abrasion' – aggravating otherwise solid supplier relationships with claims that turn out to be false-positives. The result is faster time to recovery.

+ Stop overpayments before they happen

There's now an opportunity to start identifying sources of leakage earlier. Traditional recovery audits discover errors three months to a year after the fact. But with systems in place to determine the risk areas for leakage, there's an opportunity to catch overpayments earlier: directly after a transaction, while its underway, or even before it occurs.

Finance teams can quickly see which vendors or contracts generate the most issues. Thresholds can be set by transaction volume or invoice amount to trigger analysis automatically. With a shared portal for claims, vendors can see claims activity in real-time, which makes the experience more seamless and easier to validate. That reduces the likelihood that claims will encounter resistance or foot-dragging.

Stop The Leaks Instead Of Catching The Drips

The sheer volume of invoices large companies face every month means errors and erroneous payments are almost unavoidable. It's a known issue, and every finance team must have measures in place to reduce leakage and loss.

Research from Ardent Partners[1] shows that, despite the growth of intelligent payment and contract management systems, non-compliant spend adds an additional cost of between 12 percent and 18 percent for the average enterprise.

But validating supplier invoices against contract terms remains a real struggle. Maintaining ready access to all contracts and ensuring the most current version is on-hand can be a challenge.

The growth of outsourcing and extensive global supply chains means the number of suppliers and contractors companies deal with is growing every year.

Even if processes have been optimized, accounts payable teams often work without 100 percent certainty that invoices reflect the pricing, discounts, and payment terms agreed when the contract was signed or last updated.

Without data, and AI-driven tools to apply it – they're unlikely to catch leakage caused by duplicate spend, maverick spend, manual errors, duplicate supplier records, inflated or incorrect pricing, un-credited returns and refunds, and or missing discounts.

Advanced Analytics

AI-powered S2P also helps proactively identify process problems, making better use of auditors' time, preventing headaches down the line, and saving money. The practical applications are numerous, but here are two common scenarios.

Use Case 1: Improve Working Capital and DPO

With data from contracts, invoices, payments, vendors, and dates consolidated in one place, AI-driven recovery audit can lead to better management of working capital and days payable outstanding (DPO). By comparing current DPO to the actual payment timelines agreed in contracts, the gap between the two, and its impact on working capital can be calculated.

If a company's current DPO is 15 days, but it should be 30 days, the 15-day difference amounts to a cumulative 'loan' to vendors adding up to millions of dollars – interest-free.

[1] *Ardent Partners: http://ardentpartners.com/2020/ArdentPartners-AP-MTM2020-FINAL.pdf*

Use Case 2: Optimize Spend and Strengthen Compliance

Adding spend categories and product information data makes it possible to create a dashboard visualization that shows where most spend is occurring. Linking requisitions to POs, contracts and payments also improves compliance by clarifying how one action led to another.

Vendor relationships can also be analyzed more closely to determine which ones are delivering most value, or where there might be opportunities to consolidate suppliers.

Align Recovery Audit With Modern Finance Practices

Today's finance teams are being asked to deliver business insights rather than simply count the beans. CFOs are increasingly expected to help guide board-level decisions, and as such their functional teams must deliver more too – more value in terms of protecting margin, and more in terms of uncovering risks and adding intelligence that makes the business run more efficiently.

To do that, accounts payable teams must adapt themselves to new technology tools that leverage data to improve back-office processes, streamline operations, and accommodate the changing needs of the business.

Making recovery audits data-led aligns perfectly with the increasingly digital practices of the modern office of finance. Artificial intelligence and machine learning can detect vital information across multiple document formats, which can help make recovery audits more efficient and accelerate recoveries for clients.

On its own, however, technology can't deliver the nuance, discretion, experience and professionalism needed to manage supplier relationships or identify opportunities to make processes better.

PRGX AI-Driven Recovery Audit

PRGX Recovery Audits enable companies to maximize recoveries and supplier insights. Through decades of experience and robust new technology solutions, we help large organizations automate key audit processes, including supplier solicitation, collecting accounts receivable data, discovering credits, identifying potential duplicates, and getting supplier agreement on recoveries.

Our Panoptic and Epiphany platforms leverage AI to help identify overpayment errors and the process weaknesses that aggravate them. We also conduct extensive outreach to the supplier base to obtain supplier statements of account, looking for un-applied or missed credits, erroneous overpayments, unallocated or mis posted cash – finding funds due but not recorded in accounting systems. We routinely manage global processes, offer multi-language and currency capabilities, have experience in all major ERP systems, and are experts in various evaluated receipt settlement transaction processing environments.

We work closely with clients to investigate and identify root causes, securing the recoveries owed and providing insights and process improvements to stop them from happening again.

About PRGX

PRGX helps companies spot value in their source-to-pay processes that traditional approaches simply can't. Having identified more than 300 common points of leakage, we help companies dig deeper and act faster to get more out of their recovery audits.

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

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

For more information, please visit www.prgx.com.

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