E-book:

A Playbook for **Successful** Recovery Audits

PRGX®

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A Playbook for Successful Recovery Audits

Effective management of the source-to-pay (S2P) cycle is vital to keeping costs in check. It starts with finding suitable suppliers of goods and services, then moves into an intensive phase where contracts are hammered out.

In the past, the cycle would have concluded when invoices were paid. But to keep S2P profitable, businesses need to add an additional step.

Recovery audits are now an essential part of the process. While they might have been seen as witch hunts in the past, businesses have realized they fit naturally into a healthy S2P cycle.

By using technology like big data to improve procurement and accounts-payable efficiency, recovery audits can sensitively root out and rectify errors of overpayment that are almost inevitable in large organizations with a high volume of payment transactions.

At PRGX, we've identified over 300 points of leakage across the S2P continuum, and they can be gathered in three major categories: sourcing and procurement; supplier performance and collaboration; and payment accuracy.

Payment accuracy is particularly tricky. Accounts payable teams face a growing volume of invoices every year, creating significant scope for overpayments caused by unrecognized rebates, duplicate invoices, and other common mistakes.

More than half are down to simple human error: typos, lack of time, inaccurate calculations of taxes, discounts, or rebates.

In other cases, erroneous payments point to a lack of controls that might otherwise catch mistakes when invoices arrive.

When you combine them all, invoicing errors chip away at expected margins and eventually turn into large losses.

That's where recovery audits come in.

This e-book will outline six core factors that contribute to success, and a real world example demonstrating the value a comprehensive recovery audit can deliver.

What Recovery Audits Can Deliver

As the name suggests, 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 is not unheard of for a large company 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.

Realizing those benefits, however, requires partnership.

In a large company, audits can be limited to a single business unit or specific geography. A consultative relationship is key to a successful and non-intrusive recovery audit engagement if long-term benefits to be had from adding controls are going to be realized.

Lost in Transaction

Controlling vendor spend has always been a challenge for finance teams, but the growth of outsourcing and expanding global supply chains have increased the degree of difficulty. What started as a science used solely in retail has become standard practice in many other industries.

While the root cause tends to be human error, poor processes and periods of extreme change – including M&A, new system implementations, software upgrades, IT transformation, and off-shoring initiatives – can also create problems. In times of transition there is significant potential for duplication or corruption of vendor master data and contracts, as systems are either migrated or duplicate data is maintained in multiple systems.

It's a problem that won't go away on its own, or simply be addressed with investments in new or existing technology.

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

All these issues undercut the effectiveness of traditional recovery audits by making it harder to find the root causes of erroneous or inaccurate payments.

These can include:
- **Lack of internal resources.** Internal audit teams don't always exist or have enough time to address the systemic or process issues that cause recurring payment errors.
- **Lengthy audits.** Traditional recovery audits can take a year or longer to complete. This makes it harder to secure buy-in for an audit and also increases the likelihood that crucial documentation could be lost.
- **Short-term thinking.** Many recovery audit firms are focused on recovery and aren't incentivized to help organizations embed process improvements that stop invoice errors from occurring in the first place.

Recovery audits can recoup overpayments and address common mistakes that equate to millions of dollars in lost profit.

But even more importantly, audits can uncover opportunities for process improvement across the full spectrum of S2P, creating an opportunity to adopt best practices across the supplier lifecycle, from contract creation to management and compliance.

With the right vendor and process, recovery audits can help companies stop the leakage instead of chasing each drip.

[1] *Ardent Partners: Beyond Recovery: Unlocking the Full Value of your Contract Compliance Program, 2019*

Achieving Recovery Audit Success

PRGX has worked with hundreds of organizations around the world in its 50 years of existence to recover funds lost due to invoice errors and identify process improvements that stop overpayments from happening in the future. Along the way, we've identified six core factors that set the stage for recovery audit success:

1

Secure sponsorship:

Having a senior internal sponsor for a recovery audit program is critical. Any recovery audit firm has to deliver on its promises. But having an internal champion goes a long way – both in terms of identifying and supporting the opportunities that the auditor can assist with, and also making it easier to expand the scope of analysis, covering multiple geographies, and moving from one division to the next.

2

See the bigger picture:

A collaborative relationship makes it easier to identify particular sensitivities in supplier relationships. It may be that the company is happy to let some claims go if the supplier is supplying critical products like medical supplies and equipment. In other cases, the supplier relationship may be seen as strategic, and essential to the company's future plans, making controls and process improvements more critical than retrospective claims.

3

Approach every claim with sensitivity and patience

Recovery audits eventually mean contacting a supplier and asking for money back – a conversation which, while a best practice, is never going to be welcome. It's essential to keep the business relationship in mind and take the time necessary to secure their buy-in. Provide all the information and back-up they need to justify cutting the check. It's also vital to pick your battles. If you find evidence that could bring a claim into question, be proactive.

4

Engage and be visible:

While working patiently with suppliers is essential, it may also be necessary to engage with them more intensively – mainly when the objective is to tighten-up controls and stop future errors from occurring. If the audit partner is perceived as a faceless entity in a distant office just asking for money, suppliers may drag their heels or feel ill-treated. Holding workshops with suppliers, or in a large company setting, addressing them as a group in a summit type event, can ensure they understand the full context and objectives of an audit – and build respect for your role as the provider.

5

Use technology as an aid, not a solution:

New audit approaches using artificial intelligence (AI) and machine learning can help detect vital information like signatures and product codes across multiple document formats, which can help make recovery audits more efficient and accelerate recoveries for clients. On their own, however, technology solutions can't deliver the nuance, discretion, experience and professionalism needed to manage supplier relationships or identify opportunities to make processes better.

6

Match your audit partner to the size of your business:

Because of their size, numerous business units, legal entities, and geographic footprint, global companies face extensive accounts payable challenges and a longer list of potential areas for improvement. A small recovery audit partner may not be able to bring insights from audit projects undertaken around the world or have the ability to scale when companies decide to extend audits outward from one business unit or country.

Finally – execute brilliantly.
Your recovery audit partner has to take responsibility for the promises it makes. As an internal sponsor, you can't be expected to stick your neck out if you don't have full confidence that your recovery audit partner is delivering.

Common Questions About Recovery Audits

Q) How should a company handle the challenges of a global audit – working across languages, currencies, local customs, and cultures?

PRGX has offices and employees in 30-plus countries. We're familiar with cultural differences and local business norms that could impact how we conduct an audit.

With respect to currencies, PRGX's service is technology-enabled, so requirements like currency conversion for identified claims are automated.

Q) How can recovery audits manage in a post-merger environment where there are multiple ERPs or ERPs are being combined?

Combining ERPs or even just transitioning from one to another post-merger can be very challenging. PRGX's data acquisition process can handle it. We work with all the major ERP systems, and our client data services team routinely works with systems that have been built in-house.

ERPs have relatively standard functions that allow us to obtain invoice and transaction data quickly and with limited or very minimal resources required from the client. Our own data processing then normalizes it, so that when our auditors see the data, they don't necessarily need to know which ERP it came from. In that sense, it all looks the same to them.

Success Story

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The Client:
A large technology company with global operations.

Challenge:
The client used the services of a recovery audit firm for years, but wasn't seeing the level of detail needed to identify process weaknesses and implement steps that could mitigate the risk of invoicing errors happening in the future.

The Approach:
The client asked PRGX to provide a scope of service that included an extensive statement audit to identify recoverable credits, and an accounts payable transaction review. Ultimately, we aimed to secure recoveries while providing the client with an enterprise-wide view of where the opportunities were to close control gaps and to take corrective action.

The results:
PRGX was able to analyze audit results and suggest measures to close gaps in contract compliance, minimizing the risk for overpayments in the future, bringing a deeper level of analysis to the audit process ultimately translated into US$ 17 million in recovered funds.

Why was the engagement so successful?
Crucial to success was increasing the scope of the audit itself, moving from one division to a comprehensive audit of all the client's business units.

The original scope focused on one of the client's general expense divisions, leaving several other business units un-audited, and missing cross entity duplicates and pricing inconsistency.

Expanding the analysis from one unit to another and taking on a broader scope-of-work can be challenging. Still, by taking a partnership approach, PRGX was able to overcome the inherent challenges of an enterprise review.

Because the level of trust and collaboration between PRGX and the client had been established, the client saw that PRGX was there to make things better and to partner with them for long-term improvements.

Success Story

Success factors:

Leveraging insights from the audit results to minimize payment errors in the future

Creating a global recovery audit program that fits the company's international footprint

Increasing audit scope across all business lines and verticals to identify as many recovery opportunities as possible

Coordinating with internal audit practices to maximize recoveries while not overlapping with the client's existing payment processes

Flexibility is vital in any recovery audit engagement. A particular organization may be ready to dive straight in and do a full recovery audit of the entire business. Another might prefer to start in one area and then incrementally increase the scope.

And in some cases, the phased approach may be more manageable, moving sequentially from one division to the next.

In this case, the client's size and multinational footprint were other challenges the program needed to address to be successful. As PRGX is a global enterprise, we were able to deliver the audit in each of the jurisdictions where the company operates.

PRGX has employees in more than 30 countries around the globe. Utilizing our global resources meant we could add US $10 million in recoveries for the Europe, Middle East and Africa (EMEA) region alone.

PRGX Recovery Audit Process

With so many moving parts in your business, it's virtually impossible for every contractual term negotiated upfront to be accurately reflected in the back-end payment process.

PRGX Recovery Audits enable companies to maximize recoveries and gain new insights. We help companies build better processes, discover credits, identify potential duplicates, and secure supplier agreement on recoveries.

The strength of our recovery audit approach is in its depth. We apply deep analytics to identify overpayment errors. We also conduct extensive outreach to your supplier base to obtain supplier statements of account, looking for un-applied or missed credits – finding funds due but not recorded in your accounting systems.

Our team and systems can uncover the most common types of overpayments:

- ✓ **Duplicate payments**
- ✓ **Erroneous payments**
- ✓ **Pricing errors**
- ✓ **Returned product where no credits were provided**
- ✓ **Missed rebates**

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 your team to investigate and identify the root causes, securing the recoveries you're owed and providing insights as they relate to root cause to support efforts 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.

PRGX®

888-799-7976 ♦ marketing@prgx.com ♦ prgx.com
600 Galleria Parkway, #100 Atlanta, GA 30339