Time for a Reality Check

Will your ERP Platform Prevent Duplicate Payments and Fraud?

Detect. Prevent. Improve. With Technology and Audit Solutions
If your company is like most, you have an Enterprise Resource Planning (ERP) platform to streamline how information flows through your operations. You are able to integrate various departments and share information across the breadth of your organization.

Since ERP systems span a variety of functions, most vendors selling the software offer a range of complementary modules tailored to various departments - including accounts payable and other finance functions. There is no doubt that adoption of these add-on modules is widespread today, as evidenced by research conducted by the Aberdeen Group in the manufacturing sector. A full 93% of the companies in the survey added finance-related modules when they moved to ERP.

But as adoption rates have soared, so has the discontent. A recent global survey conducted by gtnews.com, an online treasury and finance network, documented a wide gap between the expectations of ERP performance in the finance arena and the reality of what ERP systems can and can't do. In fact, the survey found that the majority of respondents working in corporate finance rated ERP performance to be “unsatisfactory” to “poor.”

Experience has proved that there is a very real tradeoff between ERP add-ons and best-in-class solutions designed for the precise needs of a particular function. And nowhere is that tradeoff more apparent than in the accounts payable arena.

For most of us, accounts payable will represent our single largest source of disbursements and will likewise represent the greatest area of potential risk to our business. Duplicate payments, fraudulent vendors and unethical employees can each have a significant impact on our bottom line. In fact, the Association of Certified Fraud Examiners estimates that fraud alone is costing U.S. businesses an estimated five percent of annual revenues.¹

Think the accounts payable module for your ERP system will take care of duplicate payments and fraud? Think again. It’s time for a reality check.

A global entertainment company with a single instance of ERP identified $14 million in duplicate payments in a single year that escaped ERP controls. And they certainly are not alone. There are dozens of compelling examples from a variety of industry sectors - from the automotive company that discovered its ERP platform had missed $8 million in duplicate payments to the manufacturing firm that found $4.4 million.

¹ Report to the Nation. 2006. Association of Certified Fraud Examiners.
Since implementing an ERP platform requires a major commitment of time and company resources, it is tempting to believe that once it is in place, all your problems will be solved. For the sake of your bottom line it is imperative that you deal with the reality of what ERP systems can and can’t do.

This whitepaper will take a close look at how duplicate payments, overpayments and fraud escape ERP controls and what you can do to shore up your operations.

**Reality #1: ERP accounts payable modules are no match for fraud detection.**

Just because you can’t see fraud, that doesn’t mean it isn’t there eroding at the very foundation of your business. It can be a big, ugly problem that can lead to negative publicity and can impact shareholder value.

Fraudulent vendors and even your own employees typically know enough about internal controls to easily evade detection. Here’s just one example: *An accounts payable employee for a Fortune 50 company set out to bilk her employer and knew that an invoice for $10,000 or more would require a second signature to authorize payment. So she set up a fraudulent firm and paid out $9,999 each week, skating just under the official limit. She was on track to net quite a tidy sum before she was detected.*

It is a given that most of us don’t have the time or resources to train our people to be skilled fraud investigators. So you either have to blindly hope that you don’t have a problem or count on automated systems to help you flag such potential issues.

But the kinds of comprehensive fraud detection capabilities you need simply aren’t available in the ERP modules offered today for accounts payable. By comparison, best-in-class fraud detection software will offer a broad range of capabilities to help you uncover fraudulent activity and bring it to a halt before dollars fly out the door. Unlike a typical ERP solution, these systems scan for a wide range of potential flags for fraud, including:

- **Initials used in company names** that can make it hard for you to track down unscrupulous vendors.
– **Post office box addresses** that can indicate an attempt to obscure a physical address or to divert funds.
– **High-risk zip codes and countries** that are statistically correlated with fraud.
– **Consecutive invoice numbering** that makes it unlikely a vendor is providing goods or services to other customers.
– **Small first invoice amounts** that could signal a vendor wants to get established in your master vendor list and is testing your internal controls before submitting larger invoices for payment.
– **Unusual spending increases** that are outside the norm for other vendors in the same category.
– **Matching employee data to vendor data** to identify conflicts of interest.

Best-in-class solutions also mine for potential fraud by using Benford’s Law of Anomalies, an audit technique based on the statistically expected distribution of the first numbers in an invoice amount. Finding variances from the expected pattern can help to uncover fraudulent activity.

It is possible that MANY of your legitimate vendors may match one or more of the potential attributes for fraud at any given point in time. As a result, the most effective fraud detection software will develop cumulative risk scores and rank order potential problems. You’ll be able to easily investigate vendors who represent the greatest potential risk to your business – without having to spend time on those that don’t. Such capabilities are well beyond what any ERP solution can provide.
No matter how great your accounts payable technology, it requires human intervention. And human beings make mistakes.

Any ERP system worth its salt is able to flag a duplicate payment if the vendor number, invoice number, invoice date and amount all match precisely. If there is a simple typo or if any of the pertinent fields are entered inconsistently, the system's inherent controls are circumvented and there won't be a match. While creating comprehensive processes and training your staff in how to handle variations can help, it is important to acknowledge that mistakes will be made in even the most tightly run accounts payable shops.

Let's look at some of the common “human factor” problems that can escape ERP controls and result in duplicate payments:

- **Multiple related vendors in your master file.** It is easy to wind up with multiple variations of a vendor name and multiple addresses for a given vendor in your database, especially if you work with different divisions of a single firm. Unless the right variation of the name is selected for a given invoice, duplicates can occur. *A recent audit of a technology company showed that more than a third of all the duplicate payments made were attributable to multiple related vendor names.*

- **Inconsistent invoice amounts.** A simple typo or a decision to manually exclude freight charges, sales tax or other additional charges will reduce the likelihood of a duplicate payment being caught by ERP controls.

- **Inconsistent invoice numbers.** If there is any variation in how an invoice number is coded, there won't be an exact match and duplicate payments can occur. These differences can be the result of a typo or a decision to include/exclude leading zeros, trailing zeros, dashes or letters. In addition, check requests or consultants’ bills may lack invoice numbers entirely. Vendors themselves can unintentionally trigger a duplicate payment by issuing a revised invoice with a “Rev,” “C” or some other designation appended to the number to indicate a change has been made. If the earlier invoice has been entered for payment, no match will be made when the revision is keyed.

- **Incorrect vendor codes.** Duplicate payments will escape ERP controls if an incorrect vendor number is applied to an invoice, typically as the result of a typing error. *A recent corporate audit turned up two simple coding errors that accounted for an overpayment of close to $300,000.*
– **Potential duplicate overrides.** If your accounts payable operations are as busy as most, there are tremendous time pressures and a push to get work done. So it’s no surprise that staffers will sometimes override ERP system alerts. That’s particularly true in a production-like environment where employees are rewarded for the volume of work they process, and have little extra time to stop and research each potential duplicate payment.

– **Inconsistent invoice dates.** A simple typo in an invoice date or a new date applied by the vendor when an invoice is reissued can result in duplicates that escape ERP controls.

– **Issues originating outside of accounts payable.** Other “human factors” mistakes can originate outside the accounts payable arena. For example, your procurement team might generate a regular purchase order and a blanket purchase order for the same invoice or make a mistake in the currency to be used for payment. Vendors themselves might miss discounts due to you or might miscalculate taxes. Don’t count on your ERP platform to catch these kinds of errors.

**Reality #3: Multiple Instances of ERP will compound your problems.**

As many companies expand to serve the global market, it is a fact of life that many operate with multiple ERP platforms – whether from the same or multiple vendors. And they are often interspersed with a mix of disparate, home-grown systems. Even a company with a single instance of ERP can inherit new payment platforms during a merger or acquisition.

While even a single ERP platform is fraught with potential issues when it comes to detecting duplicates, overpayments and fraud, those problems can be significantly compounded when you have multiple payment platforms. Unless your systems are integrated into a seamless whole and able to “talk” to each other, there is no way for one system to see into another system to catch a duplicate payment. As a result, it becomes easy for an invoice to be paid through two different payment platforms.

*One large financial services company found that more than 25% of its duplicate payments were the result of the same invoice being paid on multiple payment systems.*
Times of transition can be perilous when it comes to duplicates and overpayments. Perhaps you are reorganizing your financial operations, eliminating a legacy system or systems and moving to a single instance of ERP. Confusion can crop up about where invoices will be paid and things will slip through the cracks.

After a merger, one of the nation's largest banks decided to eliminate a legacy system and move to a single instance of SAP. During the transition, invoices were paid on both the old system and the new, resulting in hundreds of thousands of dollars in duplicate payments that were uncovered during a post-transition audit.

A global entertainment company setting up a shared services organization and moving to a single instance of ERP had the same experience. More than 250 duplicates totaling more than $1 million in lost revenues were discovered as payments were made both at the division level and by the new shared services team.

Reality #5: ERP controls can slow your operations.

ERP solutions are best suited for routine, predictable tasks, and that's where they operate most efficiently. But when it comes to detecting duplicate payments, the automated controls ERP systems offer can actually slow your operations and impact productivity.

If you set system parameters to flag too many areas of potential duplication, virtually each and every entry will result in an alert. And when that happens, chances are the alerts will be overridden by members of your data entry team. If instead you select too few parameters to scan, thousands of potential duplicate payments might escape detection.

Some companies choose to work around the dilemma by generating reports after the fact, rather than slowing data entry. But the same principle applies. If your report is constructed too narrowly, you could miss thousands of dollars in duplicate payments and impact your bottom line. But if you cast your net too widely, your ERP system may produce a report a foot high. Since ERP systems don't prioritize likely problems, you won't have easily actionable results that will let you intercept a
duplicate check before it makes its way out the door. You’ll have to dig through the data to decide what to do.

If your accounts payable team is like most, you don’t have the staff to review mountains of paper and decide what warrants investigation. Doing so would simply grind your operations to a halt.

**Reality #6: Once the check is out the door, the odds of a full recovery are slim.**

If you adopt the philosophy that you’ll wait and let an audit recovery firm find and address any problems, be forewarned that this could be a less than perfect solution. Since you’ll typically be working a year or more in arrears, you most likely will end up with disgruntled vendors and may find the majority of lost dollars are never recovered.

Why? Vendors go out of business, they are acquired and they merge with other firms. Some will have reconciled their books and refuse to pay. Fraudulent vendors may have obscured their identity and location, making it tough to track them down. In the case of fraud, even if you locate the offender you may find the cost of prosecution outweighs the size of the loss - or that the potential damage to your company’s brand is too great to warrant the publicity.

There is no doubt that a better approach is to catch issues BEFORE valuable company resources fly out the door.

**Reality #7: FirstStrike™ prevention software can enhance your ERP investment.**

APEX Analytix’s FirstStrike™ prevention software can help you shore up your ERP investment. Whether you implement our software on your own server or we host it for you, you’ll have access to a comprehensive range of capabilities for detecting fraud and preventing duplicates and other overpayments *in advance*, rather than in arrears.
Since our software is designed by accounts payable experts for accounts payable experts, you'll have a solution that affordably addresses the real-world issues you encounter each day. And it does so without slowing you or your systems, or adding new administrative burdens. In addition, no software integration is involved. You should be able to use the FirstStrike application right “out of the box.”

With FirstStrike, it doesn't matter if you have a new ERP application from a leading vendor or a home-grown variety developed by your own team based on proprietary legacy software. It also doesn't matter if you have one consolidated instance of ERP or six disparate payment systems. The process is the same. Each evening FirstStrike reviews a delimited data file from each payment platform. As long as you can produce the file - the same type of flat file you provide to an audit recovery team - our software can process it and provide a single, enterprise-wide view of your operations.

**How FirstStrike shores up your ERP platform**

There are several criteria that distinguish FirstStrike from the controls available on your ERP platform and help us deliver significant bottom-line value to your organization.

- **We use a broader and deeper range of criteria to mine for potential duplicates.** If you think that can't make a difference, think again. In a head to head comparison with the ERP platform used by a major telecommunications provider, the company’s ERP solution found $3.8 million in duplicates, while FirstStrike found $6.9 million - almost double.

- **FirstStrike doesn't conduct a “flat match” of duplicate criteria,** but instead uses sophisticated logic that takes into account many accounts payable subtleties. For example, if you have lease payments or other legitimate recurring invoices for identical amounts, we can assure they don’t show up as potential duplicates – saving you effort and freeing you to focus on real problems. That means you’ll get far fewer “false positives” and will be able to identify and deal with problems that previously would have escaped detection.

- **You won't have to clean up your vendor database to benefit from FirstStrike.** Our system will accommodate variations in vendor names, eliminate false positives and provide you with the data you need to easily clean up the underlying data at any point you choose.
In addition to duplicates, FirstStrike scans for paid credit memos, missed cash discounts, pricing problems, errors in sales and use taxes, currency issues, compliance with contract terms and even looks for whether purchase orders are set up with the wrong units of measure.

FirstStrike also scans for potential fraud, using more than 40+ proven industry controls.

The results FirstStrike provides will prioritize your risk. You’ll be able to walk into the office each morning and look at a single, concise report that ranks potential issues and provides all the information you need to intervene before your checks hit the mail.

Our optional FirstStrike Freight Compliance service not only monitors your freight bills, but determines whether your vendors have complied with your routing instructions and have selected the right carrier to move your deliveries.

You can easily use FirstStrike to produce a wide range of reports and analyses that can help you manage your operations. One client used our software to run more than 40 key reports on a daily basis resulting in 40,000 reports in a single year to track everything from cash flow to vendor credit balances - replacing expensive and inflexible mainframe reporting systems.

**Proven results that deliver value to your bottom line**

To date FirstStrike software has helped some of the world’s largest and best respected companies prevent more than $1.5 billion in duplicate payments.

One client specializing in sourcing realized a cumulative savings of $80 million over four years after implementing FirstStrike. The company’s finance team took advantage of the software’s broad-based support for accounts payable, auditing, corporate tax and procurement and was able to proactively prevent overpayments, continuously monitor for vendor fraud and generate real-time, cross-platform reports.
Reality #8: The power is in the partnership.

Technology is only the beginning. As powerful as our FirstStrike software is, it is simply the launching pad for a broader and deeper relationship that can equip you with new processes and best practices and can take your operations to a new level. The APEX Analytix team not only helps you eliminate duplicate payments, overpayments and fraud, but also helps you align your operations with your company's business objectives, improve your cash flow, build more positive relationships with your vendors, recover lost funds and document the return on your investment.

Here are a few of the ways we partner with our clients:

**Maximizing recoveries and profits.**

First and foremost, we help you make a clean start, with highly skilled teams of auditors and subject matter experts who can step in to help you recover lost profits. We also use what we learn to help you fine-tune both your processes and controls. Together our auditors have more than 400 years of experience in audit recovery, and each is skilled in working with high-profile, Fortune 500 clients.

**Providing training and support.**

We don’t deliver new technology to you and then walk out the door. Instead we offer comprehensive training and support for both you and your team. That includes helping you set up your FirstStrike application so that it aligns with your business objectives and maximizes your results.

**Analyzing your spend to maximize your purchasing power.**

Typical APEX Analytix clients are spending $1 billion to $200 billion annually with as many as 400,000 vendors. Our innovative approach to analyzing vendor expenditures can help companies realize tens of millions of dollars in savings. We isolate redundant categories of vendors, help you solicit new bids and leverage your purchasing power, with typical cost reductions ranging from 2% to 5% of your spend.
Sharing best practices and benchmarking.

After nearly two decades of collaboration with accounts payable, shared services and purchasing leaders from Fortune 500 companies, we have identified approximately 60 best practice areas that can significantly impact your efficiency, your profitability and make your company more competitive in the marketplace.

To help you benchmark your operations against your peers, we offer a free, twice-a-year Top Gun Benchmark Survey of Accounts Payable Best Practices. The 90-plus participants in our last Top Gun survey rank among the best-managed organizations in the world. On average, each processes 3.4 million invoices annually and makes $10.3 billion in disbursements each year. Participants receive an evaluation of how they stack up against their peer group on a wide range of parameters – from size of staff to the technologies used to support their operations.

Our companion Top Gun Conferences offer clients an opportunity to meet firsthand with their peers from other companies so they can network, explore best practices, and discuss common issues and concerns.

Conclusion

Since moving to a new ERP platform requires a significant commitment of time and resources, it can be tempting to believe that investment will solve all your problems. But as an effective steward of your company’s financial resources, you need to be grounded in reality.

By exploring complementary best-in-class resources and taking a proactive approach to the prevention of fraud, duplicates and overpayments, you can make a positive contribution to your company’s bottom line and become a more visible and strategic player. Doing so can be good for your career and help your firm compete and win in even the most competitive marketplace.