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Web-based transaction analysis tools

Duplicate Payments: Causes, Implications, and Solutions

Overview

Duplicate payments are an unnecessary evil affecting government organizations, publicly held companies and privately owned businesses of all sizes every year. Although many if not all accounting systems have controls to prevent paying the same invoice twice, the issue continues to defy these controls. Systems will not allow an invoice that matches an existing one with the same Vendor Number and Invoice Number to enter the system. However, there are a wide variety of scenarios that still lead to erroneously paid duplicate payments.

Industry studies have shown that the rate of duplicate payments can be as high as 3%.[1] In fact, 20% of the best performing companies, responding to the 2013 ePayables survey performed by Ardent Partners, had an average duplicate payment rate over 1%.

> "A general guideline is that a duplicate payment rate over 0.5% indicates that controls are lacking, or perhaps the master vendor file needs a good spring-cleaning".[2]

The Institute of Finance & Management (IOFM) concluded that a quarter of the respondents reported duplicate payment rates between .1% and .5%. Applying these rates to different purchase volumes suggests the following rate of duplicate payments may be generally applied across all organizations.

Rate of Duplicate Payments ($)			
Purchase Volume	0.1%	0.5%	1.0%
$10,000,000	10,000	50,000	100,000
$50,000,000	50,000	250,000	500,000
$100,000,000	100,000	500,000	1,000,000

Businesses continue to lose directly from their bottom line and if the company is public, shareholders are negatively affected. Governmental A/P leaks and inefficiencies continue as well. Duplicate payments are an indicator of the health of organizations and their payables management.

Accounts Payable managers, accountants, and auditors develop specialized practices for managing duplicate payments. Businesses can decide to install software to decrease risk associated with duplicate payments. Alternatively, outside 3rd party recovery firms can be contracted to recover erroneous payments on a contingent fee basis.

All of these are relevant solutions and are better than no effort to audit and manage the recovery of erroneously paid invoices.

The superior solution for an A/P audit is online software that allows a company to upload transaction data to a secure portal and run duplicate invoice reports all in a few simple steps. This solution requires no 3rd party auditors, contingent fees, software installations, or dedicated staff to develop and manage additional processes.

[1] *Ardent Partners – ePayables 2013: AP's New Dawn*
[2] *Institute of Finance & Management – 2013: AP Department Benchmarks and Analysis*

Causes

Invoice

If an extra character is added to an invoice number, or the invoice date is miskeyed, the invoice will slip through any accounting system resulting in a duplicate payment.

Invoice related causes of duplicate payments include the following:

- Multiple copies – original, email, fax
- Inexperienced temporary staff makes simple errors
- High volume of Invoices – human errors
- Delay in payment – multiple submissions of invoices
- Keying errors – transpositions and mistakes such as keying a zero as the letter O
- Fraudulent activity where duplicates are made to look like an accident
- New staff lacks a clear understanding of controls
- No purchase order process in place
- P-Cards are used to pay invoices
- Vendors initiating new methods of invoicing -- automatic, email, portals
- Check Requests submitted before receiving an invoice
- Scanned invoices and printed copies of scanned invoices

Vendor File

Duplicate vendors within a vendor file are considered to be the biggest cause of duplicate payments. Storing the same information multiple times goes against the fundamental principle of a relational database. Sometimes companies choose to have multiple listings for a legitimate reason. This should be done with caution and everyone that processes payments should be aware of the exception. Multiple vendor listings lead to the issue of an invoice being recorded more than once, resulting in payment to multiple instances of the same actual vendor.

Fraud

The threat of fraud exists everywhere and A/P departments are no exception. Employee fraud can happen at any company and, according to the IOMA, each instance of invoice fraud averages over $90,000.[3] This type of fraud is not only embarrassing, but also leads to lost profits.

Employees that process payments are in that position because they are trusted. Unfortunately, trust can be abused. Employees may process invoices for goods and services that were never received. They can also set up bogus vendors and send checks to a UPS mail box and possibly even their own residence.

At the risk of losing a partnership, vendors could "accidentally" submit invoices for goods or services never received, or transpose invoice values, or send multiple copies of invoices and claim payment was never made.

There are a variety of scenarios where fraud in Accounts Payable can directly affect the health of the organization.

[3] *IOMA Master Vendor File Maintenance, Audit & Control Best Practices*

Implications

Remedying payment problems in a timely manner is essential to a business's good standing, not only financially but also in terms of vendor relations. Contacting a vendor about a duplicate payment made 2 years prior can not only be embarrassing, but will cause additional vendor research effort to determine whether it has already been paid back. Overall, if not addressed A/P mistakes continue to eat away at profits, and leaks accumulate over time.

If an erroneous payment has been in limbo for too long it may never be recovered and will require additional sales to make up for lost profit. With a 5% return on sales a duplicate payment of $5,000 will require an additional $100,000 in sales to offset the duplicate payment.

Additionally, the reputation of the accounting department and existing financial controls are affected. Almost all companies rely on the Accounts Payable department to prevent duplicate payments. At times, people outside the A/P department have been found to approve the same invoice twice, both the original and a faxed or duplicate copy. However, the blame is usually aimed at A/P. It is unfair, yet it is all the more reason to put strong controls in place.

Some direct implications of duplicate payments:

- Lost revenue – drain on profits accumulates over time
- Embarrassment for lack of ability to establish effective safeguards
- Perceived inefficiency in handling volume of payables
- Surprise when ultimately uncovered – not a good one
- Inadequate controls and system weaknesses are evident
- Low employee moral within Accounts Payable Department

Many companies assume that vendors will return overpayments. This is rarely the case. The overpayment will result in a credit posted to accounts receivable, and with payroll and staffing tight in all businesses, existing staff will be forced to resolve unexplained debits much quicker than unexplained credits. Although most vendors are honest, a better solution is to implement regular audits to identify overpayments.

Solutions

What Are Businesses Doing?

According to a study released by KPMG, 64% of organizations still primarily rely on manual control testing to detect control violations such as duplicate invoice payments.[4] This means that 64% of companies have no audit routine in place.

According to a 2009 survey done by the Accounts Payable Network (APN), 93% of companies with fewer than 5,000 employees have not used the services of a 3rd party post audit firm in the last three years.[5]

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[4] *KPMG: Low Tech Approach to High Risk Challenges - 2012*

[5] *The Accounts Payable Network: Key Accounts Payable Benchmarks: Throughput, Cost, and Automation - 2009*

Additionally, a recent 2013 IOFM AP Benchmarks survey states that 38% of companies with more than 5,000 employees did use a 3rd party post audit firm in the last 3 years.[6] So from this data, it appears that outside 3rd party audits are more often utilized by larger companies, if used at all.

It is also possible that a company has good controls, good internal discipline, and overpayments are minimal, which is the objective. However, without confirmation by some type of audit, this fact is unknown. Understanding weaknesses and improving effectiveness of Accounts Payable happens only by proving it works correctly with the support of analytical tools. As Peter Drucker famously stated:

"If you can't measure it, you can't improve it." - Peter Drucker

What is Available?

There are ways to address the issue of duplicate payments. In addition to system controls and A/P policies, recovery audits can be performed with the objective of surfacing unidentified duplicate payments. These audits rely on algorithms that match on different transaction variables. Generally speaking, a duplicate invoice may have the same or a combination of the same:

- Vendor Number
- Invoice Number
- Invoice Date
- Invoice Amount

Do-It-Yourself or Outsource

Businesses have the option of developing computer routines that perform these algorithms themselves. However, the expense of doing so can be costly and involve unknown labor, time, dedicated staff, and maintenance.

Software is available that can be utilized to test for duplicate payments on a real time basis. The down side of this solution is the cost of implementation. In addition, there is a long term cost associated with ongoing software maintenance, as well as upgrading, and training staff.

Outside 3rd Party Audit Firms

Currently, 3rd party post audit firms operate on a contingent fee business model. From their website, Moody Associates states that 35% to 45% of their audit recovery is made up of duplicate payments. Some companies have found that paying contingent fees on smaller invoices doesn't present a problem, while those same fees on larger invoices can be hard to justify, and difficult to report to management.

Since recovery audit firms are compensated with contingent fees on amounts recovered, they might only invest their time in collecting the largest duplicate payments, while neglecting research into smaller and less profitable recoveries. This leaves money on the table. Additionally, when research into "false positives" and "true duplicates" is performed by outside firms, the underlying causes of some duplicates and process improvement insights may never be fully understood by the company.

[6] *Institute of Finance & Management – 2013: AP Department Benchmarks and Analysis*

SaaS

SaaS (Software as a Service) companies are beginning to offer transaction analysis tools, which can be used to remedy the unnecessary evil of duplicate payments. These reporting tools are simple to use and require no software installation or training. After a company uploads their transaction data to a secure portal they can create reports quickly, efficiently, and at a fixed cost.

Recently, there has been an increasing trend for companies to adopt SaaS as an integral part of business processes. Compared to purchasing software, subscribing to a SaaS solution offers many benefits. All software is hosted on an external server and the SaaS provider handles all upgrades and maintenance. Across industries SaaS is better positioned to deliver the most modern technology and unrivaled customer service. Due to the nature of SaaS, software companies are better structured to continuously improve their services across all users and to offer these services for a low fixed price.

Internal Audit vs. External Audit

By implementing an internal audit, companies can avoid unpredictable contingency fees. There are long term savings related to an internal audit. Having internal staff investigate potential duplicates is a fast and easy remedy for past weaknesses and a good safeguard for continuous improvement. Additional reporting capabilities can enable an improved understanding of business processes, which leads to enhanced decision making.

The benefits of having an internal audit, using a SaaS solution, are far greater than those options previously made available. With the added ability to use simple online software that requires no additional training, for a low fixed price, a tighter control over payables can be easily managed. Smaller erroneous payments, which would be unprofitable for an outside audit firm to recover, can be better understood and managed by the in-house team.

Conclusion

Many different scenarios resulting in duplicate payments continue to plague organizations today. The implications range from embarrassment to a direct loss for owners and investors. The solutions available can seem undesirable and may result in failure to perform an audit. Meanwhile, system inefficiencies remain overlooked.

With a majority of companies disenchanted by past methods of recovery auditing, SaaS transaction analysis solutions allow companies to efficiently perform their internal audits and pave the way to a brighter future for Accounts Payable.

Businesses don't want to pay a percentage of recoveries to outside 3rd party audit firms when low cost in-house solutions are available. They also don't want to bear the cost and maintenance of software installations. The rise of secure transaction analysis tools, available from SaaS providers, is changing how businesses audit.

Organizations seeking to find duplicate payments, or confirm that they do not have any, can benefit from implementing a routine assessment of their transaction history using a SaaS solution. SaaS solutions allow companies to save money on audit services, recover cash quickly and discretely, and stay on top of their A/P performance metrics while understanding the variety of unique situations occurring daily.

For more information on SaaS based transaction analysis tools visit www.Acculytic.com.