

How Contractor Billing Validation Strategies Enhance Project Management



ROLE OF PROJECT MANAGEMENT

According to the Project Management Institute (PMI), project management is the use of specific knowledge, skills, tools, and techniques to deliver something of value to people. Various industries employ the tenets of project management to manage the many facets of significant projects, the standards, and principles of which are codified by the PMI in the “A Guide to the Project Management Body of Knowledge (PMBOK® Guide (2021) (PMG)¹. Up until now, the PMG provided standards based on processes and focused on deliverables to support the proper execution of projects. However, the newest edition of the PMG provides principles-based standards focused on the outcomes of a project rather than simply establishing metrics against which a project can be measured. In essence, PMI has moved from a more prescriptive process-based evaluation of projects to a more system-based framework for project management that recognizes that the landscape for project management has evolved and should incorporate new technologies and systems that, when effectively deployed, meet the needs of the project.

PROJECT CONTROLS WITHIN PROJECT MANAGEMENT

Quality Management is a critical element of the overall process of Project Management. The element of Quality Management usually includes the concept of cost control. This is often manifested within the project structure as a Project Control group dedicated to both defining the goal of the project, and the creation and maintenance of the records required to analyze progress of the project against budget and schedule parameters. Project Control groups typically measure and analyze financial and non-financial data against the expected values during the project to determine whether the project is within cost and schedule requirements. Project Control groups focus on reporting, visibility, and the provision of insights to the Project Management team. Since the success or failure of a project is directly affected by the work of the Project Controls team, the information provided by the team must be accurate and timely.

POTENTIAL GAPS IN PROJECT CONTROLS

Since the success of a project may depend on the accuracy of the information provided by the Project Controls team, it is imperative that the inputs to the team are accurate. Several of the analyses performed by the Project Controls team are based on financial cost data processed and housed in the organization’s Enterprise Resource Planning system (ERP), and that data is subject to the variety of errors associated with invoice processing. In all too many cases and for several reasons including those listed below, the Project Controls group is often not able to perform invoice validation in a consistent and effective way. Effective Project Management should recognize that the risks associated with invoice processing errors include an overbilling (and overpayment) of contractor charges.

Experience indicates that **1 in 12 invoices** received from contractors is incorrect. Further analysis indicates the approval and payment of the incorrect invoices leads to an avoidable cost overrun of approximately **4% of the spend** related to the project.

The following table represents actual Contractor Billing Validation details related to projects during the period of January 2019 through August 2022:

| Invoices Reviewed | Number of Defective Invoices | Percent of Defective Invoices | Value of Reviewed Invoices | Contractor Overbillings | Percent of Overbillings |
|-------------------|------------------------------|-------------------------------|----------------------------|-------------------------|-------------------------|
| 10,018 | 817 | 8% | \$495,940,416 | \$19,428,634 | 4% |

RISK FACTORS CONTRIBUTING TO OVERBILLINGS

Several factors contribute to the risk of receiving and paying incorrect contractor invoices:

1. **Bandwidth** – Project Controls may be tasked with many deliverables associated with a broader project portfolio not specific to a single project or have many deliverables associated with a single project. This broad application of Project Control resources to unrelated tasks precludes a deep dive into the accuracy of contractor invoices.
2. **Competencies** – Many Project Management groups do not have a fundamental understanding of contractor billing validation processes and systems. The review and correction of invoices requires discrete competencies either sparingly covered or not taught at all in traditional Project Management curriculum. Effective invoice reviews require a combination of business acumen, contracting knowledge, systems competencies, and attention to detail specifically applied to invoice reviews.
3. **Contracting** – In most cases, those tasked with developing the various contracts between owners and contractors fail to incorporate operations personnel when developing the contract. This lack of alignment can create gray areas in contracts, or areas of a contract that are not completely in alignment with the desires of the field. In some extreme cases, Project Controls personnel and approvers are not allowed access to the contract to enable validation of invoices.
4. **Functional Misalignment** – Many Project Control groups wrongly assume that the invoice payment process includes a step to ensure the accuracy of the invoice received. In most cases, the accounts payable processing system simply processes an invoice and sends that invoice to an approver for systematic approval. Each department assumes the other department is validating the invoice when, in fact, no one is truly validating the invoice.
5. **Reliance on Systems** – The invoice payment process is increasingly dependent on systematic matching of invoices to Work Breakdown Structures and/or Purchase Orders. These documents rarely actually prescribe the services to be purchased, but only prescribe an outcome. A thorough validation of an invoice to the underlying purchase documents can only be performed through comparison of the invoice to the related contract, not the purchase documents resulting from the contract. Also, some companies have an overreliance on contractor time management systems. Experience indicates that this overreliance results in overpayments to contractors. This occurs for several reasons, including the lack of identification of duplicate charges or charges not consistent with the terms of the contract being routed through the contractor time management system without a thorough review for contract compliance. Without appropriate controls, contractor time management systems often become a second invoice processing system.
6. **Company Culture** – Because the validation of contractor billings impacts several organizational streams, an organizational bias often exists that contributes to the avoidance of an issue rather than adoption of processes that may lead to the resolution. In many large company environments, the authority and responsibility for invoice review is either misplaced or not established. In such cases, the establishment of a rigorous invoice review process requires that high-level leaders in the organization understand the value of the process and require implementation of processes that reduce the risk of overpayments. Ideally, independent service providers or internal personnel not involved in project operations, contracting, or payment processes can be employed to mitigate the organizational biases that may exist.

ACTIONS TO AVOID OVERBILLINGS

The most effective method of avoiding overpayments to contractors is the implementation of a sophisticated, dedicated, and formal Contractor Billing Validation process. This process will identify discrepancies in contractor invoices, review those findings with appropriate staff, and monitor invoices for correction or repayment. In each case, the owner (or owner's representative) must have significant experience and knowledge around contracting methods and strategies, coupled with an ability to analyze whether proposed charges are congruent with the contract governing the payment of the invoice.



*Identify Discrepancies &
Review These Findings*

Contractor Billing Validation should be tailored to an organization's operating environment by employing one or more of the following methodologies:



Cost Summary Review



Active Invoice Review



Vendor Audit

- **Cost Summary Review** – This process occurs before an invoice is generated by the contractor and involves an iterative process whereby the contractor and owner (or owner's representative) identifies and resolves disputes around charges that will appear on a future invoice. Typically, this process is employed during large projects with low invoice volume pursuant to complex contracts. Since this process is largely iterative, the cycle time for issuance of an invoice is extended. However, this extension is partially offset by the efficiency gained in the payment process since the review of the invoice is eliminated.
- **Active Invoice Review** – This process occurs after an invoice not previously vetted by a Cost Summary Review process has been entered into a company's accounts payable processing system and before payment has been approved and executed. Invoices are identified using specific criteria and subjected to Contractor Billing Validation before the invoice is presented to an authorized approver within the owner company. Active Invoice Review is typically used for run and maintain expenses and small projects with non-complex contracts. This process is suited to high-volume environments and functions well when identification of the reviewable invoices is accomplished systematically. One of the many benefits of this process are that the correction of invoices occurs in near real-time by staff level employees following a standard protocol.
- **Vendor Audits** – Post-Payment Vendor Audits occur after payment has been made to a contractor. This process involves the owner company invoking audit rights contained in the various contracts, gathering the related invoices pursuant to those contracts, and comparing the terms of the contracts to the paid invoices to determine whether any discrepancies exist. If discrepancies are found, those discrepancies are catalogued and presented to the contractor for repayment to the owner company. Vendor Audits may require management intervention since it is likely that projects have been closed and accounted for and resolution of discrepancies typically involves a negotiation of the amount to be repaid.

These three methodologies are not mutually exclusive and should be implemented to suit the nature of the work to be performed. A single contractor may be providing services for run and maintain work as well as large project work. As such, the invoices should be identified and categorized properly, and the appropriate methodology should be applied.

Without regard to which methodology is employed, a properly implemented Contractor Billing Validation process should provide a feedback loop resulting in process improvements around contracting, time monitoring, pre-approval and change order processes, and other elements spanning the spectrum of the Procure-to-Pay process from contracting to payment.

An effective Contractor Billing Validation process should also consider and evaluate the effect of certain contract components leading to elevated risk of overpayment, previous experience with vendors indicating an increased risk of incorrect invoices being presented for payment, and the quality of the owner's ERP and AP processing systems and protocols.

It is also imperative that any Contractor Billing Validation process consider the impact of the process on the owner's relationship with the contractor since those relationships often affect ongoing services offered by the contractor. When properly executed, Contractor Billing Validation processes enhance the relationship between the owner and the contractor by providing real-time visibility to necessary adjustments to contracts and supports the mutual understanding around the need for accurate invoices from contractors.

CONCLUSION

The commercial risk associated with payment of defective invoices from contractors is both significant and avoidable. It is incumbent on the Project Management team to mitigate the risks associated with the overpayment of contractor invoices through the engagement of qualified and experienced personnel dedicated to ensuring that contractor invoices are paid only when pursuant to the terms of the contract. This mandate is consistent with the idea codified in the PMG that Project Management should evolve to a more systems-based approach and focus more on the project outcomes managed by Project Management and specifically Project Controls. The deployment of an effective Contractor Billing Validation process within the Project Management groups, and specifically Project Controls groups, enhances contractor relationships, reduces the overall cost of the project, and should be considered a best practice for Project Managers and owners.

How Can CPRS Help?

CPRS is a savvy team of accounting pros specializing in recovery, tax and contract compliance across the U.S. and Canada. We live and breathe to help companies like yours maximize payments with tailored—never canned—solutions. And unlike a lot of the “big guys,” the people you meet are the people you work with. No bait and switch. Just folks who genuinely love what they do; folks our clients tell us quickly become a natural and welcome extension of the team.

We engage an experienced, professional staff and can scale our services to fit individual client needs with minimal impact on your company’s staff and processes.

CPRS utilizes proprietary software that aids the identification and resolution of defective invoices and provides visibility to owners regarding the nature and volume of overbillings. This proprietary software provides the extensive transactional detail needed to manage and reduce future defective invoices and provides support for effective communication of findings with contractors.

References

¹ Project Management Institute. A Guide to the Project Management Body of Knowledge (PMBOK® Guide 2021). 7th ed., 1996.

About the Author:

Brian Barr is a Texas CPA with extensive experience in the design, development, and deployment of contractor billing validation processes at Tesoro / Andeavor Companies (acquired by Marathon Petroleum in 2018). He has held positions in Supply Chain Management, Business Planning & Analysis, and Marketing. Brian currently serves as Director of Special Projects for CPRS, Inc. which specializes in recovery, tax, and contract compliance services across the United States and Canada.



bbarr@cprs-inc.com



TENACITY PAYS

www.cprs-inc.com