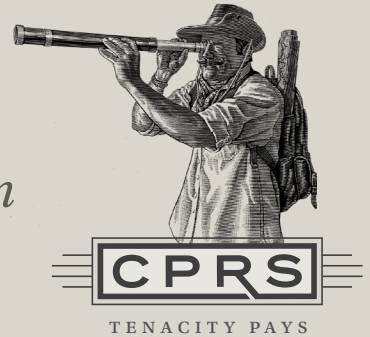

Active Invoice Review:

The New Frontier for Contractor Billing Validation



Contractor Billing Validation has been implemented for years to ensure cost accuracy of both projects and maintenance operations. Generally, owner companies lack the competencies, bandwidth, and technology to satisfactorily avoid overpayment of invoices from service providers, so an entire industry has been developed to service the need for Contractor Billing Validation. Until recently, Contractor Billing Validation consisted of **Post-Payment Invoice Review** almost exclusively. During Post-Payment Review, owner companies gather invoices from service providers paid within the term of the relevant audit clauses contained in applicable contracts for comparison to those contracts. Owner companies will determine if these invoices were correct, and attempt to recover from service providers any amounts deemed to be billed in error to the owner company.

Recent advances in technologies and process improvements have enabled a new method of reviewing invoices before they are paid, as opposed to several years after payment. This method is called **Active Invoice Review**.

This whitepaper will discuss:

- 1) A description of the Active Invoice Review process,
- 2) The advantages of Active Invoice Review vs Post-Payment Review, and
- 3) The requirements for successful implementation of an Active Invoice Review process.

IS OVERPAYMENT REALLY AN ISSUE?

Companies receiving invoices from service providers can expect that **1 in 15 invoices are incorrect** and that, unless invoices are reviewed and corrected, the overpayment of those defective invoices can be as much as **4% of the paid invoices** as represented by the data below from actual owner companies over the past several years.

Invoices Reviewed	Number of Defective Invoices	Percent of Defective Invoices	Value of Reviewed Invoices	Contractor Overbillings	Percent of Overbillings
33,668	2,290	7%	\$1,294,383,512	\$47,545,330	4%

The data suggests that the need for invoice review is significant and that companies should invest time and effort to ensure that the correct amounts are paid to service providers.

WHAT IS ACTIVE INVOICE REVIEW?

Active Invoice Review is the process of identifying, reviewing, correcting, and analyzing invoices received from service providers before the invoice is approved for payment by the owner company.

Active Invoice Review can be deployed for both Project and Maintenance work. It both reduces the resources needed in a Project Controls group and applies the appropriate (and typically non-existent) controls in the Maintenance space resulting in reduced costs in both areas.

The process is system-agnostic and is not dependent on the quality of the owner company's Enterprise Resource Planning System (ERP) or Procure-to-Pay (P2P) processes. However, the nature of the ERP and P2P processes can be leveraged to streamline Active Invoice Review and **increase efficiencies** during the process.

WHY IS ACTIVE INVOICE REVIEW MORE ADVANTAGEOUS THAN POST-PAYMENT REVIEW?

While both Active Invoice Review and Post-Payment Review processes result in some form of cost reduction, Active Invoice Review provides significant advantages as listed below:

- » Active Invoice Review results in a **higher recovery as a percentage of spend reviewed**. Companies can expect a stable rate of recovery of between **2% and 4%** after a higher initial rate of recovery immediately upon implementation. Post-Payment Invoice Review reviews typically result in an actual recovery of around 1%.
- » Active Invoice Review results in a **higher retention rate of the findings identified**. By nature, the Active Invoice Review process results in 100% of findings as value capture because companies are not actually paying an incorrect invoice. Post-Payment Invoice Review typically results in a negotiation between the service provider and the owner company and often results in a reduction of value capture approaching 50%.
- » Active Invoice Review results in the **allocation of capital in the appropriate period**, rather than years later. Not only is this beneficial to the cash flows of the owner company, but the risk also associated with incorrect asset recording by the owner company is minimized.
- » Active Invoice Review **improves the relationship between the owner company and the service provider**, while Post-Payment Invoice Review negatively affects both the service provider and the owner company. During Post-Payment Invoice Review processes, invoices under review have already been paid and typically bonuses have been paid to service provider personnel at the conclusion of a project or work task. Any adjustment or recovery of monies due to the owner company would necessitate a recalculation of those amounts. Also, unexpected negative cash flows may lead to stress on service providers.
- » Active Invoice Review **eliminates the risk associated with the incorrect settling of findings** resulting from a Post-Payment Invoice Review. Each negotiation of the findings resulting from Post-Payment Invoice Review requires that the findings be negotiated and legally settled by the service provider and the owner company. An overly broad settlement document can (and often does) preclude any other reviews related to non-commercial audits of contracts.
- » Active Invoice Review can and should **provide a continuous process improvement loop to identify problematic contract language and tenuous practices of the service provider**. The nature of defective invoices should be analyzed and reported, resulting in both behavior modifications and process improvements that reduce the frequency and severity of defective invoices. No process improvements can result from Post-Payment Invoice Review, since Post-Payment Invoice Review happens well after the work is complete and invoices are paid.
- » Active Invoice Review **occurs at the administrative level** rather than at the management level. Because invoices are rejected back to the service provider by auditors during the P2P process, the rejection of and subsequent correction of the invoice occurs seamlessly between the accounts receivable process of the owner company and the billing department of the service provider. Invoices are simply rejected, corrected, approved, resubmitted, and paid without management intervention. Post-Payment Invoice Review results in a significant investment of management resources to negotiate and settle any invoice deficiencies.



RECOVERING OVERBILLINGS
Times Millions

CONSIDERATIONS FOR SUCCESSFUL IMPLEMENTATION OF ACTIVE INVOICE REVIEW

- » **Executive sponsorship** is required to implement Active Invoice Review since the process is rarely encompassed within one work stream. Invoice reviews typically involve accounts payable, supply chain organizations, operating units, and often the owner company's internal audit staff. Proper alignment of goals and activities supported by an executive or executives that maintain authority for making the proper business process change decisions is imperative.
- » The success of any Contractor Billing Validation process requires that the body of work encompasses an **appropriate cross-section of service providers**. The initial body of service providers is usually based on risk quantified by raw spend data (higher spend indicating more criticality). Periodic optimization of this initial base of service providers is an important step in maintaining the ROI of the process by removing those providers that consistently perform well by offering correct invoices and replacing those providers with providers representing the next tranche of risk.
- » Active Invoice Review is both a commercial activity and a business process improvement methodology. As such, **consistent and periodic reporting** should focus on both the commercial results of the reviews and improvement opportunities identified by the reviews. Improvement opportunities usually include correction of unclear or missing contract language, involvement of operating groups during the contracting process, and communication of expectations to service providers.
- » **Adequate Budgeting** for Active Invoice Review is imperative to enable resource availability and the establishment of goals for the process overall. The budget should reside in the administrative group of an owner company that is responsible for the success of the project and should not affect the budgets or operating outcomes of the operating units, except to the extent that the operating units will receive the benefit of reduced costs.
- » Other company units (**Supply Chain, Accounts Payable, Operations, Internal Audit**) **should be consulted** and informed of any Contractor Billing Validation project. While ownership of the process should be retained in an autonomous group to support independence of the activity, it is important that other groups understand the need for and the value of the process. These groups should also provide the input needed to address the identified process improvement opportunities.
- » **Analysis of ERP and P2P systems** is critical to align the information flows to and from the owner company's ERP, P2P, and contract repository. By leveraging existing processes, cycle time for review of invoices can be minimized and proper invoice selection can be maintained.

Internal Invoice Review & Time Management Systems Help - But They Don't Solve The Problem

Many owner companies engage various groups (project controls, internal audit, accounts payable, etc.) who may attempt to engage in Contractor Billing Validation. In most cases, the groups within the owner company charged with ensuring that invoices are correct lack the bandwidth and technical competencies to perform the task. Engaging an independent invoice review group ensures adequate resources are dedicated solely to validating service provider invoices.

Owner companies often lack the sophisticated software required to identify many of the overbillings included in service provider invoices. Duplicate charges are a significant and pervasive form of overbillings by service providers, but standard AP and statement audits fail to identify many of them. A successful Active Invoice Review process requires that invoices are logged in summary and in detail to allow the identification of duplicate charges (often from third party providers) embedded in larger invoices received many months apart. Without proper decomposition and cataloging, most of these duplicates will not be identified.

Time and billing systems used for paying service providers do add efficiency and accuracy to the payment process. However, these systems often also support the payment of third-party charges that, absent the existence of a billing system, would be paid as any other invoice in the normal P2P process. This alternative invoice submission process often lacks the billing validation steps required to ensure the invoice is correct and may devolve into little more than a secondary invoice processing system without the proper controls.

CONCLUSION

The commercial value associated with all forms of Contractor Billing Validation is apparent. However, since Active Invoice Review provides several significant benefits to both the service provider and the owner company, it should be considered a best practice.

With limited owner company resources engaged in the process, the Active Invoice Review process enhances contractor relationships, and reduces the overall risk of overpayment of invoices.

How Can CPRS Help?

In short, CPRS brings expertise, scalability, and proprietary software to the table. 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.

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.



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