Avoid Overpaying Suppliers in 4 Simple Steps

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Councils are at Serious Risk of Overpaying Suppliers

Overview

The Accounts Payable departments within public sector organisations are responsible for processing thousands of supplier payments every month. Dealing with such high volumes requires a robust checking and audit process to reduce the risk of duplicate and overpayments to suppliers.

As a result, authorities are facing pressure to avoid:

- fraud
- reputational damage
- revenue losses

At Thornton Hope we have developed the solution to retrospectively audit the scenarios that result in Supplier Duplicate Payments and Overpayments. We utilised our solution to recover and prevent over £996K for our public sector client.

Rationale and Project Brief

Following our client's discovery of several high value payments made against duplicate supplier invoices, the council required a comprehensive and robust audit to identify any other instances that may have occurred over the previous 2 year period.

The plan was to initiate a dedicated project to conduct the retrospective audit and recover any lost revenue. In addition, our client needed to implement robust controls and procedures for dealing with the risk of duplicate and overpayment scenarios in the future.

Thornton Hope was asked to audit all supplier payments using our specialist audit software (IRRP) to identify all potential duplicate payments.

The project focused on 4 key areas:
• IDENTIFICATION • RECTIFICATION • RECOVERY • PREVENTION

IDENTIFICATION

To understand the scale of this issue and identify any past errors we ran a data-set of all payments made within the last 2 years. We used this data-set to apply our Identification Scenarios that search for potential supplier duplicate payments.

Our Identification Scenarios comprise of a complex set of ID rules, some examples include:

• Payments to different suppliers with the same bank account details (highlights potential duplicate suppliers within the master-data and potential fraud)
• Eliminates all non-numerical digits within an invoice reference (e.g. highlights where potential duplicate due to inclusion of non-numerical digits)
• Invoice Number/Invoice Date/Invoice Amount (highlights invoice numbers which have potentially been mis-keyed)

Eight separate ID rules were applied to the client's data-set to give us the best possible chance of identifying potential errors. The result was identification of 1425 potential duplicate payments with a value of £990,614 that had to be audited to establish validity.

RECTIFICATION

Our audit team got to work and systematically investigated all potential duplicate payments. This audit investigation resulted in us successfully separating actual duplicate payments from valid payments. Having identified the actual duplicate payments our team processed the corrections on the supplier accounts which allowed the recovery action to take place.

RECOVERY

Duplicate payments were recovered for the council using the most appropriate and quickest process:

• Suppliers with current balances - overpayments were netted against subsequent payment runs.
• Suppliers with no current balances – a tailored collection strategy using Thornton Hope's specialist collection system and experienced recovery team was implemented. This action resulted in quick recovery of the overpayments.

PREVENTION

We established 5 main reasons that duplicate invoice errors occurred within our client's Accounts Payable process and daily operations:

1. Operator input error
2. Duplicate supplier sites – (poor master-data conventions)
3. No standard supplier invoicing conventions in place
4. Lack of control and checking environment
5. Statement reconciliations not taking place

Several process improvement recommendations were made to the council to help them implement robust controls and best practice processes going forward, the most important short-term control process was the "Pre-payment Duplicate Checks".

Pre-Payment Duplicate Checks = Further £170K of Duplicate Payments Prevented

It was critical that we did everything possible to improve controls whilst our client worked on the up-stream process improvement initiatives. We implemented the Daily Pre-Payment Duplicate Check process, this involves the daily payment run being checked against the potential duplicate ID Scenarios software (IRRP) before payments are made. Within the last 6 months this has prevented £170K of further duplicate payments being processed by the council.

Results
The overall results of this exercise carried out over a 3 month period:

Outcome	Volume	Value
Identified as an actual duplicate – collected or netted	251	£826,441
Identified as a valid payment – no recovery action required	1174	£164,173
Identified as part of the pre-payment check process	79	£170,000
Total transactions identified and investigated	**1504**	**£1,160,614**
Total duplicate transactions recovered or prevented	**330**	**£996,441**

Next Actions

Success Story
Due to the enormous success of this duplicate payment project our client has decided to audit the 4 years previous (2011 to 2014) as this will cover the 6 year auditable period. It is very likely that this will also return significant revenue to the council in 2017/18.

Fraud Awareness
Our client is very aware of the unfortunate councils who have experienced fraud cases in their Accounts Payable process. One council lost £7M over 7 years due to fraudulent supplier payments and that's why we have built our next ID Scenarios that will help us identify fraud in the future. There are 5 key fraud scenarios:

1. **Round Value Invoices:** This is a recognised red flag of potentially fraudulent invoices.
2. **Transactions Processed Over Weekend:** Highlights transactions processed out of hours when there are potentially lower levels of supervision.
3. **Invoices in Sequence:** May point to phantom supplier accounts or supplier collusion.
4. **Transaction Spikes:** Identifies larger than normal invoice values against trend for supplier.
5. **Multiple Credit Notes:** Highlights areas for supplier improvement.

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The Key Aims, Outcomes and Activities
achieved as a result of the Overpayments Project

Aims

- Identify Duplicate/ Overpayment errors
- Recover revenues due to the council
- Prevent further occurrence of errors

Outcomes

- Circa £996K of revenue returned to the council
- Processes in place for future control
- Software and daily control process in place to identify and rectify potential errors
- Robust & efficient revenue collection process established to recover identified overpayments
- Improved financial controls
- Increased visibility for audit purposes

Activities

- Full audit conducted across last 2 years payment history
- Audit investigation conducted to establish potential duplicates validity
- Contacted suppliers to NET off overpayments against subsequent payment runs
- Devised collection strategy for supplier accounts that required collection activity
- Conducted collection activities to recover revenues from suppliers that overpayments could not be Netted
- Established control process within AP department
- Implemented daily pre-payment check process