Managing Risk in Your P2P Process: 10 Ways that Automation Can Help Mitigate Risk

Chris Doxey, CAPP, CCSA, CICA, CPC

President, Doxey, Inc.

chris@chrisdoxey.com

571-267-9107

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Agenda

- **Introduction to Risk Management**
  - How Risk Impacts the P2P Process
  - Examples of P2P Risk and Control Issues
- **Automating Your P2P Process to Mitigate Risk**
- **How 10 Top P2P Automation Solutions Can Mitigate Risk**
- **Measuring Success: The P2P Automation Scorecard**
- **A Case Study**
- **Q&A**

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Chris Doxey, CAPP, CCSA, CICA, CPC

- Chris spent most of her career implementing "top gun" leadership teams and processes in her quest to fight fraud and implement internal controls at Digital Equipment Corporation, Compaq Computer Corporation, and Hewlett Packard.

- She held senior finance and accounting positions which allowed her to develop and implement standards of internal control for all aspects of financial operations – focusing on the procure to pay (P2P) process. She was recruited to assist WorldCom (MCI) with the implementation of internal controls, policies, and corporate governance in 2003.

- Chris uses her background and passion as a management consultant and helps her clients implement internal controls and leading practices across all financial operations.

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Introduction to Risk Management

What is Risk Management?

- Risk management is an increasingly important business driver and stakeholders have become much more concerned about risk.

- Risk can a driver of strategic decisions in the P2P process.

- It may be a cause of uncertainty in the organization, or it may simply be embedded in the activities of the organization.

What are Risk Management Models?

A defined risk management model will allow your company to:

- Effectively achieve its key objectives

- Oversee the entire risk management process

- Ensure risks are managed proactively in specific areas and activities

- Gain assurance about the effectiveness of your company's risk management processes

- Successfully respond to change in a timely manner

Source: ISO Standard 31000

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How Risk Management Impacts the P2P Process

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The Procure to Pay (P2P)Process

Step	Description
1) Identify Need	Determine Business Requirement, ROI and Budget
2) Selection Process	Initiate RFP, RFQ or RFI Process
3) Select Supplier	Due Diligence
4) Initiate Contract	Establish Terms, Pricing and SLAs
5) Set up Supplier	Supplier Validation, Onboarding and Set-up (Supplier Master)
6) Purchase Order	Create Purchase Order (PO) to Reflect Contract
7) Initiate Purchase	Purchase Goods or Services
8) Receive	Receive Goods or Services
9) Invoice	Supplier Submits Invoice or eInvoice
10) Payment	Supplier is Paid (ACH, Check, P-Card, Wire)
11) Reconciliation and Controls	GL, Bank Accounts are Reconciled and Controls are Executed

Examples of P2P Cash Leakage "Red Flags"

General P2P "Red Flags":

- Buying too much of an item, or buying inappropriate items
- Continued acceptance of low quality or non-compliant goods or services
- Invoiced goods or services cannot be located in inventory or accounted for
- No receiving report for invoiced goods or services
- Questionable or no purchase order for invoiced goods or services
- Invoice prices, amounts, item descriptions or terms exceed or do not match:
  - Contract terms
  - Purchase order
  - Receiving records
  - Inventory or usage records
- Major discrepancies between invoice and supporting documents.
- Total payments to supplier exceed total purchase order or contract amounts
- Employees posing as suppliers
- Invoiced goods or services cannot be located or verified.
- Supplier address is a mail drop

Duplicate Invoices:
- In the same or similar amount to the same or related supplier:
  - For the same or similar goods or services
  - For the same description of goods or services
  - For the same amount, invoice number, and purchase order number

Segregation of Duties (SoD):
- The same employee can set up a supplier, order, receive and approve payment for goods or services

Delegation of Authority (DoA):
- Splitting purchases to avoid additional signatures required by policy
- Hiding a rogue or out of policy purchase

Automating Your P2P Function to Mitigate Risk

Automating Your P2P Function to Mitigate Risk

1. Supplier Portals
2. E- Procurement
3. E- Invoicing
4. PO to Invoice Conversion
5. Document Management, Invoice Scan and Data Capture
6. Automated Matching
7. Automated Workflow Approvals
8. E- Payment
9. System Access Verification Tools
10. Accounts Payable Self-Audit Tools

Enhanced P2P Controls

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Continuous Controls Monitoring (CCM) Controls Self Assessment (CSA) Continuous Auditing (CA)

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5. Set up a Supplier

1. Supplier Portals

Supplier Portals - Supplier Portals are used to validate supplier information before it is entered into the supplier master file. Companies can request additional records to validate the supplier and support the onboarding process.

Risks Mitigated and Process Impact

- Suppliers are automatically validated before they are entered into the supplier master file. "Scam" and "at risk" suppliers can be spotted with validation rules contained in Supplier Portals.

- Documentation supporting the validation of the supplier is obtained within the onboarding process.

- Besides tax forms, insurance forms, ePayment information and supplier profile information can be gathered in a single process.

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| 5. Purchase Order |
| 6. Initiate Purchase |

2. E-Procurement

E-Procurement - With an E-Procurement solution that is integrated with an ERP system, the master supplier master file, chart of accounts and other variables are used to support the three-way matching process within the accounting module.

E-Procurement facilitates greater accountability and reconciliation of orders, invoices and provides organizational and supplier spend visibility for accurate and timely decision making.

Risks Mitigated and Process Impact

- Requisitions and Purchase Orders are created electronically removing the risk of errors made in an manual data entry process.

- Direct integration with an ERP system supports the three-way matching process and removes the risk of any clearing account reconciliation issues.

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3. E-Invoicing

9. Invoice

E-Invoicing - Companies around the world are adopting eInvoicing to streamline their accounts payable operations. This eliminates waste and unlocks the working capital value of innovative payment strategies.

Risks Mitigated and Process Impact

- E-Invoicing eliminates the risk of processing a duplicate invoice, paying an incorrect amount, or paying the invoice to an incorrect supplier.

- Removes possible financial exposure for the company since invoices are paid more accurately and in a timely manner.

- Also reduces the risk of fraud and builds in Segregation of Duties (SoD) controls.

- Reduces paper and cost – enabling a more efficient process with less risk.

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4. PO to Invoice Conversion

5. Purchase Order
6. Initiate Purchase
9. Invoice

PO to Invoice Conversion - This technology allows a buying organization to send a purchase order electronically to a supplier and then allows the selling organization to convert the purchase order into an electronic invoice.

The seller can then submit the invoice immediately back to the accounts payable organization. The invoice will be a exact duplicate of the original purchase order.

Risks Mitigated and Process Impact

- Eliminates the risk of processing a duplicate invoice, paying an incorrect amount, or paying the invoice to an incorrect supplier.

- This automation solution also reduces the risk of fraud and builds in Segregation of Duties (SoD) controls.

- Speeds up the approval time and can improve working capital management since there are now more opportunities for early payment discount.

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5. Document Management, Invoice Scan and Data Capture

<div style="border:1px solid">9. Invoice</div>

Document Management, Invoice Scan and Data Capture - Many accounts payable automation solutions facilitate conversion of paper-based invoices through scan and data capture. Instead, your suppliers can submit invoices in paper format to a PO Box managed by a solution provider.

Risks Mitigated and Process Impact

- Eliminates the risk of processing a duplicate invoice, paying an incorrect amount, or paying the invoice to an incorrect supplier.

- This automation solution also reduces the risk of fraud and builds in Segregation of Duties (SoD) controls.

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6. Automated Matching

| 9. Invoice |
| 10. Payment |

Automated Matching - Automated three-way matching provides an immediate match of the invoice, purchase order, and receipt.

The user establishes specific business rules for the matching process and reviews resulting audit trails to ensure the process is working. The user is also responsible for resolving any exceptions that may occur to determine if business rules or controls need to be addressed.

Risks Mitigated and Process Impact

- Automated matching performs the three-way with no human intervention reducing the risk of error and improper matches.

- Reduces the risk of paying an erroneous or duplicate payment.

- Improves the invoice cycle time process and reduces processing costs.

- Provides data accuracy based on user defined matching rules.

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7. Automated Workflow Approvals

| 5. Purchase Order |
| 6. Initiate Purchase |
| 9. Invoice |
| 10. Payment |

Automated Workflow Approvals – In an automated workflow approval process, the invoice approval process is linked to your company's Delegation of Authority (DoA) policy.

The workflow determines if an invoice needs approval; who the appropriate approvers are; and in what order approvers should approve payment of the invoice. The workflow then sequentially asks each approver in the approval list to approve invoices online.

Risks Mitigated and Process Impact

- An automated workflow can be linked to the employee master file in which approval levels are automated updated when an approval moves to another department and is promoted.

- Escalation processes can be built into the workflow to link to the Delegation of Authority (DoA) policy and tables.

8. E-Payment

9. Invoice
10. Payment

E- Payment – If your company is paying more than 50% of invoices by check, it's way too many. Consider the cost of issuing the check, postage fees, resource fees, reconciliation costs, and the risk of check fraud.

Risks Mitigated and Process Impact

- The ePayment process reduces risk and enhances controls for the P2P process.

- The use of ePayment reduces check fraud, check reconciliation issues, and escheatment process challenges

- Besides obtaining significant rebates as more suppliers settle with P-Cards, one of the advantages to using a P-card is that the buyer is making a deferred payment.

- Accounts payable can pay their supplier using a P-Card at any point during the payment term and settle with the card issuer 30 to 60 days later.

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9. System Access Verification Tools

5. Purchase Order
6. Initiate Purchase
9. Invoice
10. Payment

System Access Verification Tools – Systems Access Verification tools can provide real-time monitoring and proactive enforcement to Segregation of Duties (SoD) policies.

These tools can anticipate a system access conflict before it arises and can even prevent an assignment of an role within an application that could comprise the P2P comprise or put the company at risk.

Risks Mitigated and Process Impact

- System Access Verification tools can prevent a fraudulent transaction from being processed within the P2P process. As an example, an individual cannot set up a supplier in the supplier master file, pay that supplier and void the transaction with proper system access controls in place. These are referred to as "intra" SoD controls.

- These tools can also catch an "extra" SoD conflict in which an employee from another department may attempt to process an unrelated transaction. An employee in accounts receivable may try to process a fraudulent accounts payable transaction.

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10. Accounts Payable Self-Audit Tools

Accounts Payable Self-Audit Tools - The goal of any accounts payable department is to pay a supplier "once and only once." Rather than have a third party or external audit firm identify a control weakness, many companies have worked with a solution provider to implement a self-assessment process that identifies a possible duplicate payment before the payment is initiated. This software considers "fuzzy" logic algorithms that flag a potential duplicate or erroneous payment.

11. Reconciliation and Controls

Risks Mitigated and Process Impact

- A self-audit tool can often be included in a company's internal control program as continuous control monitoring (CCM), controls self assessment (CSA) and continuous auditing (CA) initiatives.

- Duplicate and erroneous payments are prevented before the cash is disbursed improving the company's working capital and cash flow position.

- Process improvements and improvements to internal control programs as well as the P2P process can be made in a real-time environment.

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Example of and Accounts Payable Self-Audit Tool

1.Identifying Duplicates	2. Duplicate Reports	3.Claims Management	4. Workflow Reports

1.Identifying Duplicates
- Duplicate Payment Dashboard
- Claims Summary Report

2. Duplicate Reports
- Payments to Wrong Vendor
- Similar Invoice
- Altered Invoice Date
- Altered Invoice Number
- Altered Invoice and PO Number
- Altered Invoice Amount
- Exact Amounts on Same Date
- Exact Amounts for Same Vendor
- Same Invoice Cross Vendor

3.Claims Management
- Claims Summary
- Ready to Send
- Sent to Vendor
- Rejected
- Vendor Confirmed
- Ready to Bill
- Billed

4. Workflow Reports
- Investigation Dash
- Recovery Pipeline
- Recovery by User
- Workflow by Reason
- Workflow by Vendor
- Claims by Employee
- Items to Investigate

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Your P2P Automation Scorecard

Your P2P Automation Scorecard

Procurement
Numbers of Orders Processed Per FTE
Cycle Time for Requisition to Order (In Days)
Percentage of Manual Purchase Orders
Suppliers
Percentage of E-Invoice Enabled Suppliers
Percentage of Spend Under Management
Percentage of Discount Program Enabled Suppliers
Number of Supplier Onboarding Issues
Controls
Number of Self-Audits Performed
Number of Control Issues

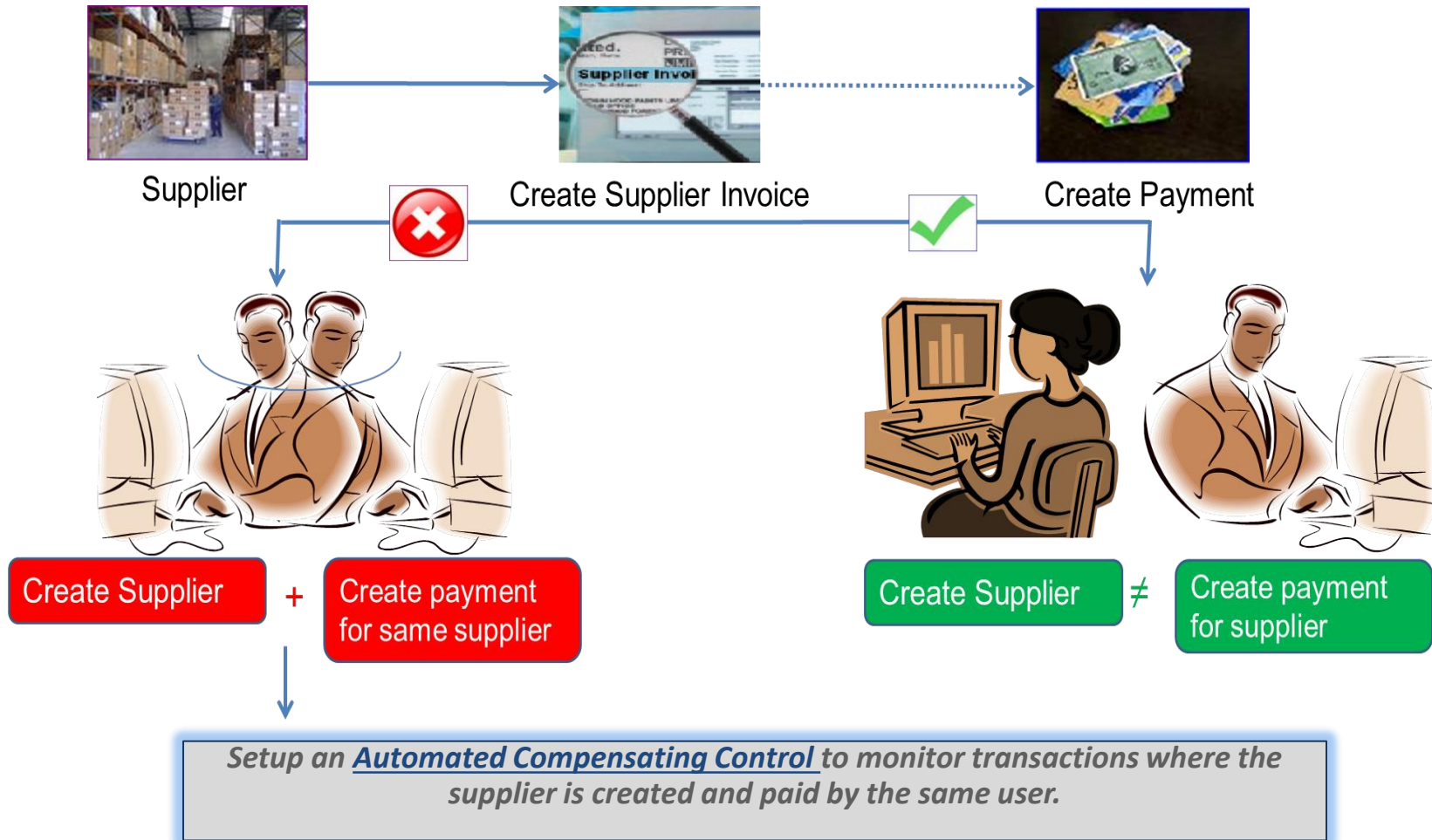| Accounts Payable |
| --- |
| Cost Per PO |
| Cost Per Invoice |
| Cost Per Invoice Line Item |
| Invoice Exception Rate (Match Rate) |
| Invoices Processed Per FTE |
| Cycle Time (In Days) |
| Percentage of On-Time Payment Performance |
| Days Payable Outstanding (DPO) |
| Percentage of E-Invoices vs. Manual Invoices |
| Percentage of Captured Discounts |
| Number of Manual Checks |
| Value/Percentage of Manual Checks |
| Number of Duplicate Payments |

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Case Study

Too Much Systems Access

- A large company enlisted a group of finance process subject matter experts to help test the installation of a new enterprise resource planning (ERP) system.

- In order to fully test the integration of transaction processing to the general ledger, the team was given full systems access to all the master files, transactional interfaces, and accounting functionality of the system.

- After the system was implemented, members of the team were sent to other departments as managers or senior financial analysts; however, the system access rights that they were granted for testing purposes was not removed.

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Too Much Systems Access (Cont.)

- One former accounts payable manager found that she still had the system access rights to set up a vendor, pay an invoice, and void the transaction – even though she was in another department.

- An internal audit found this significant issue and determined that the individual had embezzled nearly $300,000.00 in company funds.

- The employee was terminated and paid back the funds.

- The review of system access rights was immediately added to all audit and internal control programs.

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System Access Control

Supplier   Create Supplier Invoice   Create Payment

Create Supplier + **Create payment for same supplier**

Create Supplier ≠ **Create payment for supplier**

*Setup an **Automated Compensating Control** to monitor transactions where the supplier is created and paid by the same user.*

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Recap

- Introduction to Risk Management

- How Risk Impacts the P2P Process

- Examples of P2P Risk and Control Issues

- Automating Your P2P Process to Mitigate Risk

- How 10 Top P2P Automation Solutions Can Mitigate Risk

- Measuring Success: The P2P Automation Scorecard

- A Case Study

- Q&A

Wrap-Up and Q&A