White Paper

Detecting and preventing duplicate invoice payments

Executive summary

Duplicate invoice payments occur far more frequently than most organizations realize. On average, approximately 0.1% to 0.05% of invoices paid are typically duplicate payments—which for a medium-size organization with annual costs of $100 million over a three year period, could represent a loss of $300,000.

Within the public sector, this amount is far higher due to the typical size and volume of payments as can be seen from the results posted by the US Government Accountability Office (GAO) in their 2012 annual report, which indicates that the GAO helped to reduce "improper payments by about $1.4 billion for 22 federal programs." [1]

How control violations are performed

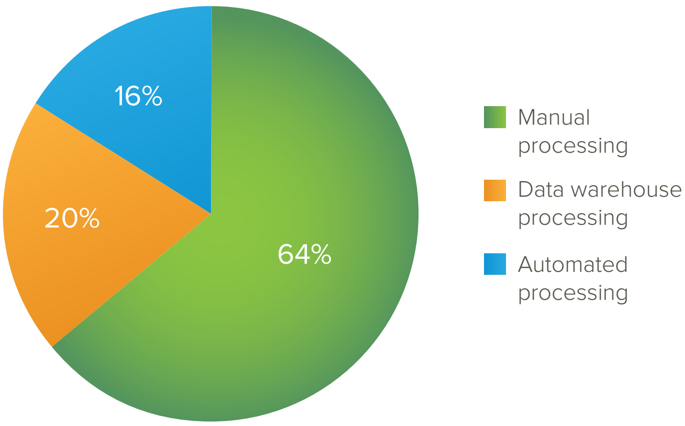

Figure 1. 64% of organizations rely on manual processing to detect duplicate invoice payments.[2]

While many duplicate invoice payments are recognized after high-integrity suppliers notice the mistake, many other duplicate payments require expensive recovery audits and/or intensive manual processes. Many are never identified or resolved. According to a 2012 KPMG poll, "64% of organizations still rely primarily on manual control testing to detect control violations such as duplicate invoice payments."[3]

1 US Government Accountability Office, Summary of GAO's Performance and Accountability Report Fiscal Year 2012; p. 8
2 Based on data published in: KPMG; Low Tech Approach to High Risk Challenges, KPMG Pulse Survey results from the 2012 RSA Archer GRC Summit; June 2012; p.1
3 KPMG, p. 1

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Under the Sarbanes-Oxley Act of 2002, companies are required to proactively prevent errors. This includes errors that are a result of duplicate payments. Section 302, Corporate Responsibility for Financial Reports, states that signing officers:

"(A) are responsible for establishing and maintaining internal controls; (B) have designed such internal controls to ensure that material information relating to the issuer and its consolidated subsidiaries is made known to such officers by others within those entities, particularly during the period in which the periodic reports are being prepared; (C) have evaluated the effectiveness of the issuer's internal controls as of a date within 90 days prior to the report"[4]

Whether governed by Sarbanes-Oxley or not, it's imperative that companies have processes in place to prevent future duplicate payments. A detection program should continuously run at least quarterly to detect duplicate payments that have slipped past the prevention controls of your financial systems.

What are the main causes of duplication?

In the past, the practice of issuing checks only after receiving an invoice made it easier to control duplicate payments. Today, there are a myriad of automated payment and invoice delivery options, payment options, which increases complexity and the likelihood that problems can result from:

- Different options for receipt and payment of invoices, including outsourcing
- Mergers, acquisitions, or siloed business processes that allow professionals in multiple accounts payable (AP) departments to make payments without rigid controls in place that are designed to avoid duplicates
- Unethical employees or vendors taking advantage of increased opportunities to hide duplicate payments to enrich themselves at the organization's expense

Most enterprise resource planning (ERP) applications provide the option to warn the payer if they attempt to enter an invoice with the same combination of company, vendor number, invoice number, invoice date, and dollar amount as a prior-paid invoice. Unfortunately, if there are slight variations in any of these five fields, most ERP applications are unable to identify duplicates and will allow invoices to be entered and paid.

Data-entry errors

There are many different possible causes for keying errors. In most cases, the errors are from unintentional data-entry mistakes made while entering hundreds of invoices per day—AP processors entering such a volume of invoices can easily suffer from loss of concentration or be overwhelmed by a lack of resources. The most common keying errors are:

- Misreading a number or letter (for example: 0 instead of O, or 5 instead of S)
- Transposing numbers (for example: 56 instead of 65)
- Mis-keying (or simply omitting) punctuation (such as hyphens and slashes)
- Omitting leading or trailing zeroes

In other cases, intentional errors are introduced when an AP processor bypasses controls established within the financial system by altering an invoice number by adding additional letters or numbers in order to push an invoice into the system.

4 "Section 302 of the Sarbanes-Oxley Act," SOX-Online (www.sox-online.com)

Extinguishing purchase orders (POs) and receivers

Duplicate payments can also result from the widespread adoption of Automated Clearing House (ACH) payments, along with placing the responsibility for making payments outside of AP departments. For most companies, it’s imperative that AP processors follow the same practices and standards associated with normal payables processing; however, most of the time this is ignored, which can result in duplicate payments occurring.

Vendor duplicates

The leading cause of duplicate payments is from duplicate vendors in an ERP system. Even despite thorough manual efforts, duplicates in the vendor master file are likely to occur. For example, when a vendor invoice is entered in an ERP system, a duplicate invoice will occur if a different vendor code is selected. This new vendor code is in fact the same vendor with the same or possibly different bank details, which will inhibit any duplicate checking options.

Vendor duplicates can occur when AP processors take shortcuts when creating vendor entries. Duplicate vendors can also occur as a result of external activities, such as mergers, acquisitions, and inbound interfaces from legacy systems.

Manual check requests

Duplicate payments can also result from manual check creation. Most organizations do not have numbered forms; check processors usually generate an invoice number, which creates the possibility of duplicate invoice numbers.

Paying from multiple source documents

When two different source documents are submitted for a single payment, a duplicate payment inevitably almost always occurs. When this happens, one of the source documents for the same transaction is usually in a different form than the other source document, such as a statement or quotation.

Duplicate payments can also occur when duplicate invoices are sent via alternative methods, such as fax or email. These duplicate invoices are usually submitted as a reminder to the payer that the vendor has not paid yet.

Duplicate payments can also occur when a vendor doesn’t provide the appropriate purchase order number on an invoice. When this happens, entry of the invoice into the ERP system is typically delayed due to the time needed to research the correct purchase order number. However, after not receiving payment yet, the vendor might submit a copy of the same invoice—only this time with the purchase order number. In this situation, it’s possible that both invoices might be processed and paid.

Travel and expense reimbursements and invoices

Some employees who request reimbursement through an expense report (after paying with cash or a personal credit card), might also request reimbursement by submitting invoices for payment. This type of fraudulent activity is difficult to monitor manually and control since the dollar amounts are usually small.

How to detect duplicate payments

The five most common ways that organizations detect duplicate payments are:

- A vendor returns a duplicate check. This is appreciated, but embarrassing.
- Budget holders notice multiple charges to their budget. This is embarrassing to the AP department and may result in additional audits and controls.
- The internal audit and AP departments spend a significant amount of labor-intensive hours looking for potential duplicates. This can become expensive, as common methods are deployed, such as:
  - Looking for invoices with the same or comparable dollar amounts
  - Looking for invoices with invoice numbers that closely match—this may be the result of data entry errors
  - Looking for invoices paid to the same vendor from multiple source documents
  - Looking for invoices paid to similar vendors with the same bank account, bank routing information, and physical address
  - Looking for invoices that may have matching invoice and vendor numbers, but have been paid from different accounts
- An external audit firm detects and collects duplicate payments. This has a recurring cost, which can be a significant percentage of the duplicate payments that are recovered.
- A continuous-monitoring tool is deployed to automate the process of detecting duplicate vendors and duplicate invoices.

Basic steps to reduce duplicate payments

Here are some good-practice management suggestions to adhere to:

- Review vendor master files on an ongoing basis.
- Limit manual check requests to only those circumstances when there is no true invoice. Check request forms can still be completed and submitted multiple times. End users should be coached to never submit the same check request twice.
- Establish a company-wide, standard policy for invoice numbering. This policy should establish definitive guidelines for entry of an invoice number when one already exists, as well as rules for capitalization and punctuation entry. If possible, you should enforce the policy within your financial system. The policy also needs to detail how an invoice number is generated when one does not exist.
- Adopt a vendor payment policy that requires an official invoice that includes an invoice number with reference to an order schedule or contract number.
- Implement a continuous-monitoring tool that checks for duplicate invoices prior to the processing of a check run.

The Infor answer

To improve your organization’s cash flow and reduce the labor, time, and cost associated with the detection of duplicate payments, you need a solution that automatically identifies, defines, and monitors for risks and controls. Infor™ Approva Continuous Monitoring automates testing, tracks results and trends, exposes exceptions and violations, and allows you to investigate and take swift action. With Infor Approva, you can execute repeatable and reliable processes to meet the control requirements of your organization.

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