



# How Continuous Monitoring Can transform Your Operations

By Jim Arnold

**C**ontinuous monitoring has become an increasingly common term around accounts payable shops. But if you ask 10 people what it means, you'll probably get 10 different answers.

One reason for the confusion is that continuous monitoring spans multiple functions. So if you've used it in just one arena, you might have a limited view of what it can mean to your business.

At the macro level, continuous monitoring is like a perpetual auditor looking at every transaction processed for errors and exceptions. The strategy involves the use of technology to scan data on a routine basis so you can uncover issues and measure performance. The results produced through monitoring help you manage more effectively, reduce your risks and protect your company's hard-earned revenues.

But where can continuous monitoring have the greatest impact? The greatest payoffs are found in the following three areas:

## Continuous Duplicate/ Overpayment Protection

An effective continuous monitoring solution can help you capture duplicate payments, paid credit memos, sales tax errors, missed cash discounts and pricing glitches. As a result, you'll be able to intervene and resolve issues right away, before payments are made.

If you're using an enterprise resource planning (ERP) solution, you may think you've got all the protection you need. But ERP systems are no magic bullet. The director of accounts payable for a global entertainment company reports that new continuous monitoring technology identified \$14 million in duplicate payments that escaped ERP controls in a single year.

Similarly, a large airline using continuous monitoring software uncovered enough duplicate payments missed by ERP controls

to pay for the investment fully within 30 days. It was the most rapid return on investment the company had ever realized for a software purchase.

Why do ERP systems fail to catch mistakes? Human error is the most common culprit. Because ERP systems scan for a precise match, a duplicate payment will escape detection if there is a simple typo in an invoice number or amount, an unexpected slash or dash, a difference in how the date is entered or a variation in the vendor name.

In addition, busy workers sometimes override ERP system alerts. That's particularly true in a production environment where employees are rewarded for the volume of work they process. They simply may fail to stop and research potential issues.

Vendors themselves can unintentionally trigger a duplicate payment by reissuing an invoice with a revised date or invoice number to indicate a change has been made. If the earlier invoice has been entered for payment, no match will be made when the revision is keyed. ERP systems also aren't set up to

catch missed discounts, tax miscalculations or other more complicated vendor-triggered errors.

Finally, process issues can lead to duplicate payments as well, especially if you have multiple instances of ERP. Invoices can be paid by multiple business units and no one will be the wiser. The risk is greatest during times of transition when systems are being merged and there is confusion about where invoices will be processed.

Continuous monitoring software can make all the difference. Sophisticated algorithms spot anomalies and rank risk areas that need your attention — despite process issues or errors by your staff or vendors.

## Continuous Fraud Protection

Fraud is a large and growing problem for today's businesses, especially during tough economic times. Fraudsters simply follow the money, and odds are a lot of it flows through your accounts payable shop.

The sheer volume of transactions that most AP teams handle is an important factor in why internal controls simply aren't enough. Most companies find it virtually impossible to manually screen each and every vendor or invoice for fraudulent trends and anomalies—especially in time to catch errors *before* dollars go out the door. So instead they rely on periodic sampling.

The sampling approach has serious limitations, though. Experience shows the greatest potential for fraud is at lower spending limits where businesses have the largest number of vendors and invoices. That means huge data sets are needed in order for sampling to be effective. Both the time and expense involved are simply beyond the reach of most organizations.

Compounding the issue is the chance of employee collusion. If someone on your payroll is involved, odds are they are familiar enough with your internal controls to know how to dodge them. According to the Association of Certified Fraud Examiner's *2008 Report to the Nation on Occupational Fraud & Abuse*, the most common fraud schemes are corruption, which occurred in 27 percent of all cases, followed by fraudulent billing schemes, which occurred in 24 percent of cases. The report also states that 50 percent of occupational frauds involved the accounting department or upper management.

But continuous monitoring can quickly uncover potential problems. A large retailer recently used monitoring software to analyze the 100,000 vendors in its database and rank the 100 most risky. Follow-up investigations confirmed that approximately half of the top 100 flagged by the software were indeed fraudulent, representing *tens of millions* in annual disbursements.

The sophisticated algorithms used in continuous detection software can help you take a proactive stance against two



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## Characteristics of an Effective Continuous Monitoring Solution

- 1 Compatible.** Select a solution that can process data from any ERP platform(s) you own and any homegrown systems you've designed. You'll want a single, comprehensive review of your operations.
- 2 Comprehensive.** Look for a solution that routinely reviews all your data globally, not just a sample.
- 3 Performance-oriented.** Make certain the solution can take data feeds from your systems without slowing your operations.
- 4 Ready to use.** Select an application that can analyze a wide range of vendor and invoice attributes right out of the box, without costly software development.
- 5 Actionable.** Above all, make certain to look for a solution that provides easily actionable results. You should be able to walk into the office each morning and look at a single, concise report that ranks potential issues and provides all the information you need to intervene.



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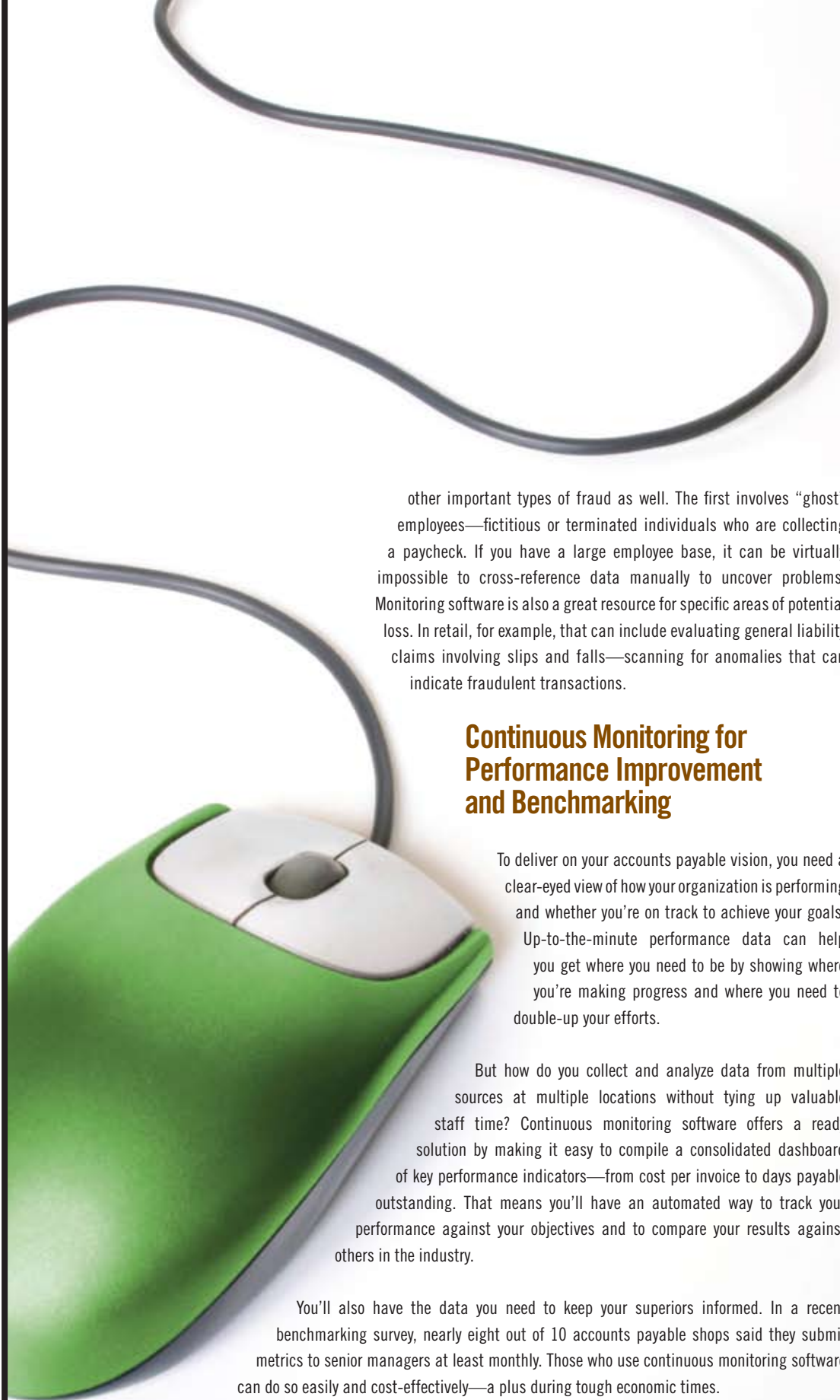
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other important types of fraud as well. The first involves “ghost” employees—fictitious or terminated individuals who are collecting a paycheck. If you have a large employee base, it can be virtually impossible to cross-reference data manually to uncover problems. Monitoring software is also a great resource for specific areas of potential loss. In retail, for example, that can include evaluating general liability claims involving slips and falls—scanning for anomalies that can indicate fraudulent transactions.

## Continuous Monitoring for Performance Improvement and Benchmarking

To deliver on your accounts payable vision, you need a clear-eyed view of how your organization is performing and whether you’re on track to achieve your goals.

Up-to-the-minute performance data can help you get where you need to be by showing where you’re making progress and where you need to double-up your efforts.

But how do you collect and analyze data from multiple sources at multiple locations without tying up valuable staff time? Continuous monitoring software offers a ready solution by making it easy to compile a consolidated dashboard of key performance indicators—from cost per invoice to days payable outstanding. That means you’ll have an automated way to track your performance against your objectives and to compare your results against others in the industry.

You’ll also have the data you need to keep your superiors informed. In a recent benchmarking survey, nearly eight out of 10 accounts payable shops said they submit metrics to senior managers at least monthly. Those who use continuous monitoring software can do so easily and cost-effectively—a plus during tough economic times.

Finally, tracking performance continuously can also help you uncover new opportunities to add strategic value to the business. You’ll have the chance to demonstrate the role your organization can play in compliance, strategic sourcing and a host of other areas that contribute to your company’s profitability. ●